OFFERING CIRCULAR

SUMITOMO METAL MINING CO., LTD.

(incorporated with limited liability under the laws of Japan)

¥ 30,000,000,000
Zero Coupon Convertible Bonds due 2023

The ¥30,000,000,000 Zero Coupon Convertible Bonds due 2023 (being 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) of Sumitomo Metal Mining Co., Ltd. (the "Company") will be issued in registered form in denominations of ¥10,000,000, each with a stock acquisition right (*shinkabu yoyakuken*) (a "Stock Acquisition Right", and collectively, the "Stock Acquisition Rights") exercisable on or after 2 April 2018 up to, and including, 1 March 2023 (unless the Bonds have been previously redeemed, acquired or purchased and cancelled or become due and repayable), and entitling the Bondholder (as defined in the terms and conditions of the Bonds (the "Conditions")) to acquire fully-paid and non-assessable shares of common stock of the Company (the "Shares") at an initial Conversion Price (as defined in the Conditions), subject to adjustment in certain events as set out in the Conditions, of ¥ 7,777 per Share. However, prior to (and including) 15 December 2022, the Stock Acquisition Rights may be exercised by the holder of a Bond during any particular calendar quarter (or, in respect of the calendar quarter commencing on 1 October 2022, until 15 December 2022) only if the Closing Price (as defined in the Conditions) of the Shares for 20 consecutive Trading Days (as defined in the Conditions) 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, (1) if a notice of redemption is given to the Bondholders, (2) if the Company is required to give notice of the specified Corporate Events (as defined in the Conditions) to the Bondholders, or (3) during any period in which any rating assigned by a specified rating agency to the Company's long-term issuer rating is below a specified level or certain other ratings events occur. The closing price of the Shares as reported on the Tokyo Stock Exchange, Inc. (the "Tokyo Stock Exchange") on 27 February 2018, was ¥5,083 per Share.

Unless previously redeemed, acquired or purchased and cancelled, the Bonds will be redeemed at 100 per cent. of their principal amount on 15 March 2023. On or after 15 November 2022, the Company may give notice to the Bondholders to acquire from them all the Bonds outstanding on the Acquisition Option Date (as defined in the Conditions). All such Bonds shall be so acquired by the Company in exchange for 100 per cent. of the principal amount of the Bonds plus the Acquisition Shares (as defined in the Conditions) to be determined in accordance with the Conditions. Further, if, at any time prior to the date of the giving of the notice of redemption, the outstanding principal amount of the Bonds as at the date of such notice is less than 10 per cent. of the aggregate principal amount of the Bonds as at the date of issue thereof, the Bonds may be redeemed in whole but not in part at 100 per cent. of their principal amount, at the option of the Company as set out in the Conditions. The Bonds may also be redeemed by the Company in whole but not in part in certain other limited events (including Corporate Events (as defined in the Conditions)), at the percentage of their principal amount specified in the Conditions, as set out in the Conditions.

Payments of principal, premium (if any) and any other amount due in respect of the Bonds will be made without withholding or deduction for or on account of Japanese taxes to the extent set out herein (see "Taxation—Japan" and Condition 9). If Japanese withholding taxes are imposed on payments in respect of the Bonds, and certain requirements are satisfied, the Company may redeem all of the Bonds at 100 per cent. of their principal amount, save that each Bondholder may have the right to elect that its Bonds not be redeemed as set out in the Conditions.

OFFER PRICE FOR THE BONDS: 103.0 PER CENT.

The Bonds will be represented by a global certificate (the "Global Certificate") evidencing the Bonds in registered form, which is expected to be deposited with and registered in the name of, or a nominee for, a common depositary for each of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg") on or about 15 March 2018 (the "Closing Date") for the accounts of their respective accountholders. The Joint Lead Managers (as defined in "Subscription and Sale") expect to deliver the Bonds through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date.

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

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 or benefit of, residents of Japan including corporations incorporated under the laws of Japan, unless otherwise provided under the FIEA. For a summary of certain restrictions on offers and sales of 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

SMBC Nikko **Daiwa Capital Markets Europe**

The date of this Offering Circular is 27 February 2018.

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

The Company, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Company, the Group (as defined below), the Bonds and the Shares which is material in the context of the issue and offering of the Bonds, (ii) the statements contained herein relating to the Company and the Group are in every material particular true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Circular with regard to the Company and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) 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 (v) all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to the "Group" are to the Company and its consolidated subsidiaries and its affiliates accounted for by the equity method taken as a whole, and references to "Shares" are to those shares of common stock of the Company issuable upon exercise of Stock Acquisition Rights or upon acquisition of the Bonds by the Company.

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

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or the Joint Lead Managers to subscribe for, or purchase, any of the Bonds or the Shares issued upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company. 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 offers and sales of Bonds and the Shares and distribution of this Offering Circular, see "Subscription and Sale".

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

No action is being taken to permit a public offering of the Bonds or the Shares 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, Singapore, the European Economic Area (including the United Kingdom) and Hong Kong and to persons connected therewith. See "Subscription and Sale".

The Bonds and the Shares have not been and will not be registered under the FIEA. Each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold, and shall not offer or sell, any Bonds in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable Japanese laws, regulations and governmental guidelines in Japan. As used in this paragraph, "resident of Japan" means any person residing in Japan, including any corporation or other entity organised under the laws of Japan.

The Bonds and the Shares have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Bonds and the Shares may not be offered or sold within the United States or to U.S. persons (as defined in Regulation S). The Bonds and the Shares are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. See "Subscription and Sale".

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

***MiFID II product governance/Professional investors and ECPs only target market**: Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is eligible counterparties ("ECPs") and professional clients only, each as defined in Directive 2014/65/EU (as amended, "MiFID II"); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a "distributor") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.*

***PRIIPs Regulation/ Prospectus Directive/Prohibition of sales to EEA retail investors**: The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the "Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the "Prospectus Directive"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.*

Disclosure of Demand and Allocation

Each prospective purchaser who places an order for the Bonds consents to the disclosure by the Joint Lead Managers to the Company of the prospective purchaser's identity, the details of such order and the actual amount purchased, if any.

IN CONNECTION WITH THE ISSUE OF THE BONDS, SMBC NIKKO CAPITAL MARKETS LIMITED (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE BONDS STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE BONDS STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise stated, references in this Offering Circular to "yen" and "¥" are to Japanese yen, references to "U.S. dollar", "U.S.$" and "$" are to the lawful currency of the United States of America, and references to "euro", "EUR" and "€" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended.

In this Offering Circular, "billion" means thousand million, and, unless otherwise specified, in respect of the financial statements and amounts reproduced directly therefrom, where financial information is presented in millions of yen, amounts of less than one million have been rounded up or down to the nearest one million (with half a million being rounded upwards), where financial information is presented in one hundred millions (one-tenth of a billion) of yen, amounts of less than one-tenth of a billion have been rounded up or down to the nearest one-tenth of a billion (with one-twentieth of a billion being rounded upwards), except that, in certain cases, the rounding has been adjusted to make the total of individual figures equal to the total figure representing the aggregate of those individual figures. All other figures and percentages, including operating data, have been rounded up or down (in the case of percentages, rounded up to the nearest 0.1 per cent. (with 0.05 per cent. being rounded up) or to the nearest 0.01 per cent. (with 0.005 per cent. being rounded up)), unless otherwise specified; however, certain percentages in tables may have been rounded otherwise than up or down to the nearest 0.1 per cent. or 0.01 per cent., as the case may be, to make the total of the relevant items equal to 100 per cent.

The Company's fiscal year end is 31 March. Where the abbreviation "FY" is used with respect to any fiscal year, the fiscal year indicated is the year ended on 31 March of the year immediately following the year indicated, i.e., "FY2016" means the fiscal year ended 31 March 2017.

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

This Offering Circular contains the audited consolidated financial statements of the Group, prepared and presented in accordance with Japanese GAAP, as of and for the fiscal years ended 31 March 2015, 2016 and 2017, and the audit reports with respect thereto included herein at pages F-3 and F-35.

This Offering Circular also contains the unaudited quarterly consolidated financial statements of the Company including the consolidated balance sheet as of 31 December 2017 (together with a consolidated balance sheet of the Company as of 31 March 2017), the related quarterly consolidated statements of operations and comprehensive income for each of the nine-month periods ended 31 December 2016 and 2017 and notes thereto, being an English translation of the unaudited quarterly consolidated financial statements contained in the quarterly securities report (*shihanki hokokusho*) of the Company filed on 14 February 2018 with the Director of the Kanto Local Finance Bureau of the Japanese Financial Services Agency ("DKLFB"). There are certain differences in classifications of line items in such unaudited quarterly consolidated financial statements as compared with the audited annual consolidated financial statements of the Group contained in pages F-3 to F-64. In particular, items which are presented as "other income/expenses" in the audited annual consolidated financial statements have been presented as "non-operating income/expenses" and "extraordinary income/losses" in such unaudited quarterly consolidated financial statements; further, the balance sheet figures as of 31 March 2017 contained in such unaudited quarterly consolidated financial statements are not prepared or presented on completely the same basis as the balance sheet figures as of 31 March 2017 contained in the audited annual consolidated financial statements. The unaudited quarterly consolidated financial statements contained in this Offering Circular have not been audited or reviewed, and are not wholly comparable with the audited annual consolidated financial statements contained in this Offering Circular and should not be so compared.

Per Segment Data

In this Offering Circular, unless otherwise specifically stated, net sales per segment and segment income (loss) comprise total sales and total income (loss) for such segment, without taking into account any inter-segment eliminations.

The reported segments of the Group refer to business units, for which separate financial information is available and that are subject to periodic reviews by the Board of Directors of the Company as the supreme, managerial decision-making body to determine the allocation of management resources and assess their respective operating results. The Company currently has three business divisions, namely, the Mineral Resources Division, the Non-Ferrous Metals Division, and the Materials Division, in the pursuit of effective business operations by products and services. These business divisions are classified as "business segments" of the Group. The Group has integrated these three business segments into three reported segments: "Mineral Resources", "Smelting & Refining" and "Materials" segments. The "Others" segment in the segment information refers to businesses other than those included in the reported segments and other profit-seeking business directly operated by head office divisions/departments.

Construction of Certain References

Under the Companies Act of Japan (Act No. 86 of 2005, as amended) (the "Companies Act"), the Company may issue new Shares to a Bondholder (as defined in the Conditions) and/or transfer Shares that it holds as treasury stock to a Bondholder, in each case upon exercise of a Stock Acquisition Right or upon acquisition of the Bonds by the Company. Accordingly, unless otherwise specified or the context requires, references in this Offering Circular to the issuance of Shares shall be read as including both the issuance of new Shares and the transfer of Shares held by the Company as treasury stock and the words "issue", "issued", "issuance" and "issuable" shall be construed accordingly. In addition, references to the word "acquired" used in conjunction with the Shares shall be read as including both the words "issued" and "transferred", and the word "acquisition" shall be construed accordingly (other than where the references are to the acquisition of the Bonds pursuant to the Company's option to acquire the Bonds under Condition 7.2).

FORWARD-LOOKING STATEMENTS

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

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SUMMARY INFORMATION

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

SUMITOMO METAL MINING CO., LTD.

The Group is one of the major non-ferrous metal businesses in the world, involved in the exploration, development and production of non-ferrous metal resources in Japan and overseas, the smelting and refining of copper, nickel and ferronickel as well as precious metals such as gold and silver, and the manufacturing, processing and sales of advanced materials such as battery materials, crystal materials and powder materials. Established in 1590 as a business engaged in copper smelting and refining, the Company is currently the second oldest listed company in Japan, and has direct control or interests in eight mines around the world, including the Hishikari Mine, the only gold mine in Japan that operates at a commercial scale, refineries and smelters in 10 locations around the world (including seven for nickel and two for copper), and offices in 15 countries and regions around the world.

The Group's operations are principally divided into the following three reporting segments:

- *Mineral Resources*. The Group uses the technology accumulated from having operated the Besshi Copper Mine (opened in 1691 and closed in 1973), and incorporates it in operations of the Hishikari Mine in Japan and the Pogo Gold Mine in Alaska. The Group also acts as a professional mine developer and operator seeking out superior resources in regions around the world, while participating in mining operations (such as the Morenci Copper Mine in Arizona and the Cerro Verde Copper Mine in Peru), pursuing exploration projects and proceeding with surveys to develop new mines. For the fiscal year ended 31 March 2017 and the nine-month period ended 31 December 2017, the Group's net sales in this segment amounted to ¥123.4 billion and ¥115.5 billion, respectively, or 14.3 per cent. and 15.5 per cent. of the total sales of the three reported segments (without including the Others segment or inter-segment adjustments) for the respective periods.

- *Smelting & Refining*. The Group smelts and refines raw materials procured from a variety of sources, mainly from mines where the Group has an interest, into such metals as copper, nickel and gold. The Group's flagship smelter and refinery, the Toyo Smelter & Refinery, produces copper cathode, copper sulphate, gold, silver shot and other materials, while other Group refineries and smelters produce products such as electrolytic nickel, electrolytic cobalt, nickel sulphate, nickel chloride, ferronickel shot and other materials. For the fiscal year ended 31 March 2017 and the nine-month period ended 31 December 2017, the Group's net sales in this segment amounted to ¥565.1 billion and ¥494.1 billion, respectively, or 65.5 per cent. and 66.4 per cent. of the total sales of the three reported segments (without including the Others segment or inter-segment adjustments) for the respective periods.

- *Materials*. The Group's Materials business is centred on advanced materials such as electric battery materials (such as lithium nickel oxide cathodes for secondary batteries) used in electric vehicles ("EVs"), hybrid vehicles and plug-in hybrid vehicles, and crystal materials (such as lithium tantalate substrate for Surface Acoustic Wave ("SAW") filter) used in smartphones and other communications devices. For the fiscal year ended 31 March 2017 and the nine-month period ended 31 December 2017, the Group's net sales in this segment amounted to ¥174.1 billion and ¥134.0 billion, respectively, or 20.2 per cent. and 18.0 per cent. of the total sales of the three reported segments (without including the Others segment or inter-segment adjustments) for the respective periods.

The Others segment, not comprised in the above-mentioned reporting segments, include real estate, technical engineering, designing, manufacturing and construction of environmental protection facilities and systems, construction, and the designing and manufacturing of machinery and equipment. For the fiscal year ended 31 March 2017 and the nine-month period ended 31 December 2017, the Group's net sales in this segment amounted to ¥10.3 billion and ¥7.8 billion, respectively.

As of 31 December 2017, the Company had 60 consolidated subsidiaries, 15 affiliates accounted for by the equity method and 3 non-consolidated subsidiaries. For the fiscal year ended 31 March 2017, the Group's net sales, operating income and net loss attributable to owners of the parent amounted to ¥786.1 billion, ¥76.4 billion and ¥18.5 billion, respectively. For the nine-month period ended 31 December 2017, the Group's net sales, operating income and net income attributable to owners of the parent amounted to ¥685.8 billion, ¥78.4 billion and ¥65.0 billion, respectively.

The Company is incorporated under Japanese law with limited liability as a joint stock corporation (*kabushiki kaisha*). The Company's registered office is located at 11-3, Shimbashi 5-chome, Minato-ku, Tokyo 105-8716, Japan. The Shares are listed on the First Section of the Tokyo Stock Exchange. The market capitalisation of the Company based on the closing price of the Shares on the Tokyo Stock Exchange on 27 February 2018 was approximately ¥1,478,208 million.

THE OFFERING

Issuer	Sumitomo Metal Mining Co., Ltd.
Securities Offered	¥30,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2023 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*).
Issue Price	100.5 per cent.
Offer Price	103.0 per cent.
Closing Date	On or about 15 March 2018.
Delivery	It is expected that the Global Certificate will be deposited with, and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg on or about the Closing Date.
Form	The Bonds will be issued in registered form, evidenced by a Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See "Summary of Provisions Relating to the Bonds While in Global Form".
Listing	Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as such Bonds are listed on the SGX-ST.
Lock-up	In connection with the issue and offering of the Bonds, the Company has agreed that it will not, and will procure that none of its directors or officers or any person acting on the direction of the Company will, for a period beginning on the date of the Subscription Agreement (as defined in "Subscription and Sale") and ending on the date 180 calendar days after the Closing Date: (i) issue, offer, pledge, lend, sell, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that constitutes the right to receive, Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for Shares; (ii) enter into a transaction (including a derivative transaction) that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale; (iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or

purchase Shares or any other capital stock of the Company) in any depositary receipt facility; or

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

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

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

(b) the sale of Shares by the Company 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;

(c) the issue of stock acquisition rights upon the decision by the Board of Directors of the Company to take certain countermeasures against large-scale acquisitions of Shares in accordance and in compliance with the Company's takeover defence measures approved by the shareholders at the annual general meeting held in June 2016, and the issue or transfer of Shares upon exercise of such stock acquisition rights;

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

(e) the sale by the Company of Shares held by unidentified shareholders; and

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

See "Subscription and Sale".

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

(i) approximately ¥25 billion on 15 March 2018 as part of the repayment of the entire outstanding amount of the Loan with Series 2 Stock Acquisition Rights (as defined in "Information Concerning the Shares—Loan with Series 2 Stock Acquisition Rights"); and

(ii) approximately ¥5 billion as funding for the repurchase of Shares by the Company expected to be undertaken on 28 February 2018 with a view to enabling improved conditions for the issuance of the Bonds through mitigating the potential short-term effect of the issuance of the Bonds on the market supply and demand of Shares. As such repurchase will take place prior to the Closing Date in respect of the Bonds using cash reserves, the Company intends to apply the amount referred to above in respect of the proceeds of the offering of the Bonds for the replenishment of such cash reserves. As the amount which the Company is able to repurchase its Shares is dependent on, amongst other things, market conditions, to the extent not all of the amount referred to above in respect of the proceeds of the offering of the Bonds is applied towards such repurchase, any balance will be applied towards repayment of further outstanding principal of the Loan with Series 2 Stock Acquisition Rights.

See "Use of Proceeds".

Repurchase by the Company of the Shares . . . . The Company has announced on 27 February 2018 that it intends to repurchase up to ¥5 billion worth of Shares or up to 1,300,000 Shares (such number of Shares amounting to approximately 0.47 per cent. of the issued Shares (excluding treasury stock) as at 31 December 2017) at 8:45 a.m. (Tokyo time) on 28 February 2018 at the closing price of the Shares on the Tokyo Stock Exchange on 27 February 2018, through the off-market hour trading system of the Tokyo Stock Exchange for repurchase of its own shares by issuers at the Tokyo Stock Exchange's prior-day closing prices (the "ToSTNeT-3 system"). The result of such repurchase will be announced by the Company in Japan on 28 February 2018. As the amount which the Company is able to repurchase through the ToSTNeT-3 system is completely 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 has decided to repurchase such Shares with a view to enabling improved conditions for the issuance of the Bonds through mitigating the potential short-term effect of the issuance of the Bonds on the market supply and demand of Shares.

Selling Restrictions . . . . The Bonds are being offered and sold outside the United States in reliance on Regulation S. For a description of these and certain further restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights, see "Subscription and Sale".

THE BONDS

Form and Denomination	The Bonds are issued in registered form in the denomination of ¥10,000,000 each.
Coupon	Zero.
Initial Conversion Price	¥7,777 per Share, subject to adjustment in certain events. See Condition 5.
Exercise of Stock Acquisition Rights	Subject to and upon compliance with the provisions of Condition 5, any holder of a Bond may exercise the Stock Acquisition Right, at any time on and after 2 April 2018 up to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 1 March 2023 (but in no event thereafter), to acquire fully-paid and non-assessable Shares. See Condition 5.
Condition to the Exercise of Stock Acquisition Rights	Prior to (and including) 15 December 2022, and subject to the Conditions, a Bondholder may exercise its Stock Acquisition Rights only if, as at the last Trading Day of any calendar quarter, the Closing Price (as defined in Condition 3.1) of the Shares for 20 consecutive Trading Days (as defined in Condition 3.1) ending on the last Trading Day of such calendar quarter is more than 130 per cent. (rounded down to the nearest yen) of the Conversion Price (as defined in Condition 5.1.3) in effect on the last Trading Day of such calendar quarter, as determined by the Principal Agent (as defined in the Conditions) 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 the holder of the Bonds may (subject to the Conditions) exercise the Stock Acquisition Rights relating to such Bonds on and after the first day of the following calendar quarter until the end of such quarter (or, in the case of the calendar quarter commencing on 1 October 2022, until 15 December 2022), provided the relevant Deposit Date (as defined in Condition 5.9.4) falls during the Exercise Period (as defined in Condition 5.1.4). The above conditions to the exercise of Stock Acquisition Rights shall not be applicable (i) if a notice of redemption is given pursuant to Condition 7.3, 7.4 (except in the case of any Bonds that relevant Bondholders elect not to have redeemed), 7.5, 7.6 or 7.7; or (ii) if specified corporate events occur as set out in Condition 6; or (iii) during any period in which (a) the long-term issuer rating assigned to the Company by JCR (as defined in Condition 5.1.7) is BBB– (or equivalent if the rating category is changed) or lower, (b) a long-term issuer rating is no longer assigned to the Company by JCR and/or (c) the long-term issuer rating assigned to the Company by JCR has been suspended or withdrawn. If, prior to such ratings no longer being assigned by JCR or being suspended or withdrawn by JCR, the Company has obtained an equivalent rating from one of alternative approved rating agents (being R&I (as defined in Condition 5.1.7) and Moody’s (as defined in Condition 5.1.7)), the disapplication of conditions to the exercise of the Stock Acquisition Rights set out in (b) and (c) above shall not apply, and the relevant ratings of such alternative approved rating

	agent shall apply in the same manner instead. See Conditions 5.1.6, 5.1.7, 5.1.8 and 5.1.9.
Status	The obligations of the Company in respect of the Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.
Negative Pledge	So long as any of the Bonds remains outstanding, the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined in Condition 2) unless the same security or such other security or guarantee as provided in Condition 2 is accorded to the Bonds. See Condition 2.
Redemption at Maturity	Unless the Bonds have previously been redeemed, acquired or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised, the Company will redeem the Bonds at 100 per cent. of their principal amount on 15 March 2023.
Acquisition of the Bonds at the Option of the Company	On or after 15 November 2022, the Company may (subject to certain conditions) give notice (which shall be irrevocable) to the Bondholders to acquire all, but not some only, of the Bonds outstanding on the Acquisition Option Date (as defined in Condition 7.2.1). All such Bonds shall be deemed to be so acquired by the Company (and each Bondholder will be bound to agree to such acquisition) in exchange for the following: (i) an amount equal to 100 per cent. of the principal amount of the Bonds payable on the Acquisition Option Date in cash, and (ii) the Acquisition Shares (as defined in Condition 7.2.1), if any, to be issued with effect as of the Acquisition Option Date. In order to effect delivery of any Acquisition Shares, Bondholders will be required to deliver a Share Settlement Notice (as defined in Condition 7.2.2) no later than the Determination Date (as defined in Condition 7.2.2). See Condition 7.2.
Early Redemption — Redemption at the Option of the Company upon Reduced Outstanding Amounts	The Company may, having given not less than 30 nor more than 60 days' prior irrevocable notice of redemption to the Bondholders in accordance with Condition 19, redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount if, at any time prior to the date of giving that notice, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds as at the date of issue thereof. See Condition 7.3.
Early Redemption — Redemption for Taxation Reasons	If the Company satisfies the Trustee, immediately prior to giving the notice to the Bondholders, that (i) the Company has or will become

obliged to pay any Additional Amounts (as defined in Condition 9) in accordance with Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 27 February 2018, and (ii) the Company is unable to avoid such obligation by taking reasonable measures available to it, the Company may, but shall not be bound to, having given not less than 30 nor more than 60 days' prior irrevocable notice to the Bondholders in accordance with Condition 19, redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount.

If, however, the outstanding principal amount of the Bonds at the time of such notice of redemption is 10 per cent. or more of the aggregate principal amount of the Bonds as at the date of issue thereof, each holders of the Bonds will have the right to elect that its Bonds should not be redeemed and that, in respect of payments on the Bonds to be made after that date, payments will be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges. See Condition 7.4.

Early Redemption — Corporate Events . . . . In the case of a Corporate Event, the Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of such Corporate Event and the anticipated effective date of such transaction and the provisions set out in Condition 6 shall apply. See Condition 6.

Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days' prior notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out in Condition 7.5 and in accordance with the provisions of Condition 7.5 on the Corporate Event Redemption Date (as defined in Condition 7.5) specified in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date (as defined in Condition 6.3) or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event) if any of the following conditions is satisfied:

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

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

(iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant

Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing (as defined in Condition 6.4.2) has been obtained for the shares of common stock of the New Obligor (as defined in Condition 6.1) and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or

(iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer (as defined in Condition 3.1) stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate.

See Condition 7.5.

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 7.6.1) where, *inter alia*, the Company expresses its opinion to support such offer, the Company or the Offeror publicly announces or admits that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange (as defined in Condition 3.1), and the Offeror acquires any Shares pursuant to the offer, then the Company shall redeem all, but not some only, of the Bonds then outstanding at the redemption price each calculated in the same manner as referred to in Condition 7.5, subject to the provisions of Condition 7.6. See Condition 7.6.

Early Redemption — Squeezeout Event . . . . Upon the occurrence of a Squeezeout Event (as defined in Condition 7.7.1), the Company shall redeem all, but not some only, of the Bonds then outstanding at the redemption price calculated in the same manner as referred to in Condition 7.5, subject to the provisions of Condition 7.7. See Condition 7.7.

Cross Default . . . . The Bonds are subject to a cross default in respect of indebtedness for borrowed money or any guarantee and/or indemnity thereof of the Company or of any Principal Subsidiary in respect of amounts of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies). See Conditions 10.3 and 10.4.

Taxes . . . . All payments by the Company in respect of the Bonds will be made without any deduction for withholding taxes of Japan, except to the extent described in Condition 9.

Governing Law . . . . English law.

Jurisdiction . . . . English courts.

International Securities Identification Number (“ISIN”) . . . . XS1782471152.

Common Code	178247115.
Legal Entity Identifier (LEI) for the Company	353800CF81IXL9974H84.
Trustee and Custodian	The Law Debenture Trust Corporation p.l.c.
Principal Agent and Registrar	Mizuho Trust & Banking (Luxembourg) S.A.
Custodian's Agent in Japan	Mizuho Bank, Ltd.
Sales Agent	Mizuho Bank (Switzerland) Ltd

GLOSSARY

Term	Explanation
Mineral Resources Business and Smelting & Refining Business	
Metal Trading	
LBMA	London Bullion Market Association.
London Metal Exchange ("LME")	The LME specialises in trading of non-ferrous metals such as copper, nickel, aluminium, lead and zinc. The LME trading prices for metals are used as the international pricing benchmarks for sales of refined metal and purchases of refining ores.
Treatment Charge ("TC") and Refining Charge ("RC")	These are commonly used in the terms of purchase for copper concentrate or nickel ore for refining. They are amounts designed to cover refining costs. For example, copper concentrate contracts may define a purchase price based on the LME price at a certain date, minus the TC or RC being used at the time.
Troy ounce ("toz")	The troy ounce, or toz, is the standard unit of weight for precious metals such as gold and silver, and equals approximately 31.1g.
Metal Refining	
Smelting and refining	Refining processes extract valuable metals from ores or other raw materials. They fall into two basic types: pyrometallurgical (dry) and hydrometallurgical (wet). At the Group's Toyo Smelter & Refinery (Saijo, Ehime Prefecture) copper concentrate pre-processing (treatment processes) is pyrometallurgical, while the Niihama Nickel Refinery (Niihama, Ehime Prefecture) makes use of hydrometallurgical processes throughout. The term "smelting" is used for the extraction of metal from ores using melting and heating (pyrometallurgy). The term "refining" refers to any process that increases the grade or purity of a metal.
Pyrometallurgical refining	The precursor ore is melted at high temperature in a furnace, and refining techniques are applied to separate the metal in a molten state. While this technique allows large-volume ore processing, it also requires periodic furnace maintenance.
Hydrometallurgical refining	The ore and impurities are dissolved in a solution, and chemical reactions are used to separate out the metal. This refining method is stable and allows for continuous refining, but the solutions required are costly.
Metal Ores	
Sulphide ores	These ores contain copper, nickel or other metals chemically bonded to sulphur. Since the application of heat breaks these bonds, releasing the sulphur, such ores are generally refined using pyrometallurgical techniques.
Oxide ores	These ores contain metals in oxidised forms. Unlike sulphide ores, oxides need much more energy to achieve melting. For this reason, the hydrometallurgical approach is generally used to refine these ores.
Copper concentrates	Used as raw materials in copper smelting, copper concentrates have a copper content of about 30 per cent. by weight. The remainder consists mostly of sulphur and iron.

Term	Explanation
	Copper concentrates are made mostly from sulphide ores. Ores extracted from overseas mines have a typical grade of about 1 per cent. The ores are then "dressed" at the mine to increase the purity and produce concentrate. Most of the copper ores imported by the Group for smelting in Japan are concentrates.
Nickel oxide ores	Whilst the higher-grade sulphide ores are used predominantly in nickel refining, nickel oxide ores are more prevalent than nickel sulphide. The sulphide-oxide ratio in current nickel reserves is believed to be about 3:7. High refining costs and technical issues have limited use of oxide ores in nickel refining to date, but the Group has succeeded in refining nickel from low-grade oxide ores based on HPAL technology.
Mixed sulphide ("MS") ores	CBNC and Taganito HPAL Nickel Corporation produce a mixed nickel-cobalt sulphide intermediate containing about 55–60 per cent. nickel by weight. This is used as a raw material in electrolytic nickel production.
Matte	A matte is another term for metal sulphides. For raw material, electrolytic nickel production at the Group also uses a nickel matte (of about 75–80 per cent. purity) sourced from PT Vale Indonesia Tbk.
Resource Reserves	
Feasibility study	Preliminary survey to evaluate project feasibility from a number of perspectives.
Gold — Canadian Standard	
Reserve	Amount of ore evaluated to have purity at or above the level indicated in the pre-feasibility study that is judged to be economically recoverable.
Resource	Ore of purity or quality that is estimated to be economically extractable.
Gold — Japanese Standard (JIS)	
Recoverable ore	Amount of ore expected to be recovered, consisting of actually recoverable ore plus slag.
Nickel Production Process	
Coral Bay Nickel Corporation ("CBNC")	Based in the Philippines, this subsidiary of the Company produces mixed nickel-cobalt sulphides using HPAL technology and exports the raw materials to the Group's nickel refining facilities in Niihama, Ehime Prefecture.
Taganito HPAL Nickel Corporation ("THPAL")	Based in the Philippines, this subsidiary of the Company was established following the success of CBNC's HPAL commercial production.
High Pressure Acid Leach ("HPAL")	HPAL technology enables the recovery of nickel from low-grade nickel oxide ores that traditionally were difficult to process. The Company was the first company in the world to apply it successfully on a commercial scale. The oxide

Term	Explanation
	ores are subjected to high temperature and pressure and reacted under stable conditions with sulfuric acid to produce a nickel-rich refining intermediate.
Matte Chlorine Leach Electrowinning ("MCLE")	MCLE is the technology used in the manufacturing process at the Group's nickel refinery. The matte and MS ores are dissolved in chlorine at high temperature to produce high-grade nickel using electrolysis. MCLE is competitive in cost terms, but poses significant operational challenges, and only two other producers besides the Group have commercialised it, using similar technology.
Main Applications for Metals	
Copper	Copper is fabricated into wires, pipes and other forms. Besides power cables, copper is used widely in consumer applications such as wiring in vehicles or houses, and in air conditioning systems.
Electrolytic nickel	This form of nickel, which has a purity of at least 99.99 per cent., is used in specialty steels, electronics materials and electroplating, among other applications. The Company is the only producer of electrolytic nickel in Japan.
Ferronickel	Ferronickel is an alloy containing nickel (about 20 per cent.) and iron. Its main use is in the manufacture of stainless steel, which is about 10 per cent. nickel by weight. Based in Hyuga, Miyazaki Prefecture, the Group company Hyuga Smelting Co., Ltd. produces ferronickel.
Gold	Gold is in demand worldwide for investment and decorative purposes. Gold is widely used in Japanese industry within the electronics sector because of its high malleability and ductility.
Materials Business	
Lead frames	Lead frames are electronic packaging materials used to form connections in semiconductor chips and printed circuit boards. They contain thin strips of a metal alloy containing mostly nickel or copper.
Secondary batteries	Secondary batteries are ones that can be recharged and used again. The Group supplies battery materials that are used in the cathodes of nickel metal hydride batteries and lithium-ion rechargeable batteries, which supply power for EVs, hybrid vehicles, plug-in hybrid vehicles or notebook computers, among other consumer applications.

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's Business

Price volatility of non-ferrous metals

Non-ferrous metals such as copper, nickel and gold are internationally traded commodities and are traded on the LME and other international markets (prices of such metals in such exchanges/markets being the "LME and other market prices"). LME and other market prices are affected by the worldwide balance of demand and supply and various international macroeconomic and political conditions, including those of China, which is an important driver of global demand and pricing of commodities worldwide. LME and other market prices are also sometimes influenced significantly by numerous other factors, including speculative actions and the competitiveness of substitute materials. Many of these factors are beyond the Group's control. A sustained and uninterrupted period of unusually low LME and other market prices could materially adversely affect the Group's results of operations and financial condition.

Foreign exchange

Both prices of raw materials (copper concentrate, nickel matte or other raw materials) procured by the Group and the sales prices of non-ferrous metals sold by the Group in Japan, are determined based on the LME and other market prices in U.S. dollars. As such, the margins that the Group obtains from its smelting business are effectively denominated in U.S. dollars. Further, the Group's revenues obtained from its investments into overseas mining projects and materials businesses, as well as the net sales from the exports by such projects and business of their products, are also denominated in foreign currencies. The Group's investments in overseas projects and overseas assets are also denominated in foreign currencies. However, as the Group's financial statements are presented in Japanese yen, and as certain of the Group's costs are denominated in Japanese yen, fluctuations in foreign currency exchange rates may affect the Japanese yen value of such margins, revenues, sales and assets. As a result, a material and prolonged strengthening of the Japanese yen, particularly against the U.S. dollar, may have a material adverse effect on the Group's results of operations and financial condition.

Japanese and world economic conditions

The Group's operations are affected by domestic economic conditions. Unclear indicators in Japan have recently shown mixed signs, and the future of the Japanese economy is currently uncertain. In recent years, the Bank of Japan has implemented quantitative and qualitative monetary easing measures, with the goal of ending deflation, and the Japanese government has implemented measures designed to stimulate the economy, including postponing a planned increase in the consumption tax rate (from 8 per cent. to 10 per cent.) from April 2017 to October 2019 due to the negative effect a prior consumption tax rate increase in April 2014 (from 5 per cent. to 8 per cent.) had on the Japanese economy. However, it is unclear whether these measures will succeed in ending deflation and stimulating economic growth and increased corporate capital expenditure. It is difficult to estimate the level of growth or contraction of the economy, and there can be no assurance that economic conditions in Japan will improve further or that any such improvement will increase corporate spending, consumer demand or production levels of the Group's customers.

World economic conditions may also have a significant impact on the Group's results of operations. The immediate outlook for the world economy is uncertain, making it difficult to predict the economic conditions in which the Group operates. The effect to the global economy of various political and social developments, including potential changes in, and consequences of, U.S. governmental and fiscal policies (including trade and tax policies), is uncertain. The Group's business, financial conditions and results of operations would be adversely affected if overseas demand for the Group's products decreases due to adverse economic conditions or political developments in any of the regions (particularly in East Asia (other than Japan), Southeast Asia and North America) where the Group sells its products.

Competition

The global non-ferrous metals market is highly competitive, and the Group's competitors include global integrated mining and resources companies as well as local smelters. Factors affecting competition in the Mineral Resources business include the availability or otherwise of cost-effective, reliable and high-grade ore supplies, while those in the Smelting & Refining business include the level of production costs, which may be affected by technological advancements and development of new production processes. The Group has numerous competitors worldwide, some of which have substantially more resources and a greater global scale in terms of exploration, development and marketing than the Group. If the Group is unable to compete successfully for participations in attractive mines, or if its smelting and refining processes were to be less cost-effective than those of its competitors, then the Group's results of operation and financial condition may be materially adversely affected.

The markets for many of the Group's products in its Materials business are characterised by short life cycle, rapidly evolving market needs and sudden changes in requirements based on technological advances and customer specifications, and require continuous advances in quality and performance. The Group is required to develop and supply products that meet market requirements on a timely basis in order to stay competitive. If market requirements shift in a manner that the Group did not anticipate, or if the Group is otherwise not able to provide products that meet market needs on a timely basis and in a cost-competitive manner, the Group's market share and profitability may be materially 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. Any of these factors may materially adversely affect the Group's results of operations and financial condition.

Uncertainty inherent in mining investment and development

The Group invests, and intends to continue to invest, in overseas mining projects with a view to obtaining stable raw material supplies. However, mining projects are generally inherently uncertain in nature, and expected returns on investment may not be achieved in accordance with the Group's plans due to various factors, such as there being differences in actual mining reserves and/or mining costs from those assumed by the Group, or where such differences develop in the future. Actual cash operating costs, capital investments, production and investment returns may differ significantly from those anticipated or estimated by feasibility studies; and geological assumptions that were valid at the time of estimation may change significantly when new information becomes available. Further, the landscape regarding resource development and mining operations has been becoming increasingly challenging, with operations becoming more difficult due to location (with mines being located in higher altitudes and more remote locations), declining grade of ore of existing and new mines, intensifying environmental regulations and greater scrutiny by regulators and governments of resource development projects; all of such factors have generally been leading to increasing investment and operating costs. In the case of mining development, commencement of production may be delayed or suspended for a variety of reasons, including environmental and regulatory procedures (including in relation to licences, permits and authorisations) or the occurrence of unexpected incidents, and such delays or suspensions may increase the Group's costs of development or make it difficult for the Group to obtain any returns. In addition, given the long-term nature of mining development projects, the Group, or its joint venture partners, may fail to develop and manage mining developments and projects as effectively as it or they initially anticipated where unforeseen challenges emerge, for example if there were to be adverse developments in metal prices or other operating or regulatory environment during the course of development; in such circumstances, the returns from such projects received by the Group may turn out to be smaller than anticipated, or (such as in the case of the Group's divestment of its interest in the Goro Nickel Cobalt Project in New Caledonia in 2016 and the Group's withdrawal from the nickel exploration project in the Solomon Islands (the "Solomon Nickel Exploration Project") in 2017), the Group may decide to cease its participation in such projects, and may not be able to recover the investments it had made until such time. Any additional investments required or increase in mining costs due to any of these factors, or a failure in any of the mining development projects of the Group or its investees, may materially adversely affect the Group's results of operations and financial condition.

Joint ventures, strategic alliances, capital participations and investments

Most of the Group's investments in mining projects, as well as some of its investments in smelting and refining projects, are controlled by joint venture or alliance partners, or have separate and independent management. The Group is also continuing to seek opportunities for engaging in further or new joint ventures, strategic alliances, capital participations and investments.

Although the Group has various structures in place which seek to protect its position where it does not exercise control over the projects or investments, the Group's ability in such cases to be involved in major decision-making of such projects or investees may be limited, and its joint venture or alliance partners or co-investors may have economic or business interests or goals that are different from those of the Group, exercise veto rights or take voting decisions so as to block actions that the Group believes to be in the best interest of all participants, take actions contrary to the Group's policies or objectives with respect to its investments or commercial arrangements, or, as a result of financial or other difficulties, be unable or unwilling to fulfil their obligations under any joint venture or other agreement, such as contributing capital to expansion or maintenance projects. The Group may also encounter difficulties if its joint venture or alliance partners no longer consider such ventures or alliances attractive, and for such or other reasons, were to terminate or seek to materially alter their relationships with the Group. Further, the investees or joint venture or alliance partners may not always fully comply with the Group's standards, controls and procedures, including its health, safety, environment and community standards. Actions by the Group's investees contrary to the Group's interest or objectives, or the failure by any of the Group's investees or joint ventures or alliance partners to adopt adequate standards, controls and procedures, could lead to reduced or delayed production, higher costs, environmental, health and safety incidents or accidents, or litigation and regulatory action being suffered by such parties, which could materially adversely affect the Group's reputation, results of operations and financial condition. Moreover, while the Group carefully considers the merits and risks of each project prior to making an investment or entering into joint ventures or strategic alliances, the performance of such projects are generally inherently uncertain in nature and there can be no assurance that they will achieve the results expected by the Group or that the Group will not terminate or withdraw from such arrangements. In addition, even if the Company desires to terminate or withdraw from such arrangements, the Company may not be able to do so in a timely manner due to the restrictions under the relevant arrangements and other factors.

Considerations relating to international operations

The Group's business operations are international, with manufacturing sites and sales markets located overseas. These overseas activities are subject to certain political and economic risks, including but not limited to:

- political instability and civil strife;
- expropriation or nationalisation of property and resource nationalism;
- exposure to wide-ranging and differing governmental regulations (including environmental and safety regulations, labour, tax and tariffs, exchange controls, import, export, pricing and trade regulations, repatriation of income and foreign investment) and unexpected changes therein;
- changes in social, political and economic conditions, or the relationship between Japan and the relevant countries and regions (including any anti-Japan sentiment resulting from political or other tensions);
- possibilities of unfavourable taxation treatment, or impositions or increases of withholding and other taxes on remittances and other payments by subsidiaries and affiliates;
- transportation delays or disturbances, infrastructure failures, power and other utility shutdowns or shortages;
- restrictions on currency convertibility or remittance to Japan;
- limitations on the supply of skilled labour and changes in local labour conditions, including wage levels, work disruption and stoppages, industrial action and labour strikes;
- difficulties associated with managing local personnel and operations, including supervision, monitoring and management control, due to, among other factors, cultural differences;

- difficulties in monitoring and maintaining the Group's standard of quality of its products;
- relatively longer receivables collection periods;
- limitations on protection or insufficient enforcement of intellectual property or other legal rights; and
- terrorist incidents, riots, war, major accidents, natural disasters, adverse weather conditions and epidemics.

With increased trends towards national and local governmental intervention in, and increased taxation of, resource-related business against a background of increases in non-ferrous metal prices, as well as increased requirements from various parties with regard to environmental measures, if any of such risks were to materialise, the Group may not be able to achieve a return on its investments, and its business, results of operations and financial condition may be materially adversely affected.

Government actions, political, community or social issues and judicial or community activism

There are varying degrees of political, judicial and commercial stability and activism in the locations in which the Group does business. Risks in the locations in which the Group operates could include terrorism, civil unrest, judicial activism, community challenge or opposition, nationalisation, protectionism, renegotiations, regulatory investigation, imposts, controls or prohibitions on the production, use or sales of certain products, restrictions on repatriation of earnings or capital and other unforeseeable risks. Further, the natural resources industry continues to be regarded as a source of tax revenue, which can lead to periodic challenges by and disagreements with tax authorities and legal proceedings relating to fiscal matters, and can also be adversely affected by broader fiscal measures applying to businesses generally. If any of the Group's operations or investments are affected by one or more of these risks, it could have a material adverse effect on the Group's business, results of operations and financial condition.

Considerations relating to the Materials business

The markets for the products in the Group's Materials business are characterised by rapidly changing technology, changes in customers' requirements and short life cycles of products. On the other hand, the process of developing new products can be lengthy and costly and may also require the Group to commit a significant amount of capital and resources in advance of any sales. In addition, if the Group's competitors bring products to the market more quickly than the Group, if the Group's products were to become uncompetitive due to advancements in technology ahead of the Group's technology, or if the Group is unable to keep up with changing customer requirements, investments in the development of such products may not provide adequate returns. The Group's success in the Materials business will depend in part on its ability to: (i) enhance existing products; (ii) address increasingly sophisticated customer requirements; (iii) develop and produce new products in a timely and cost-efficient manner; (iv) sustain adequate levels of research and development expenditure; (v) successfully receive orders for products to cover up-front costs for the development of such products; (vi) utilise or adjust to new technologies; (vii) attract and retain highly capable technical and engineering personnel; and (viii) accurately estimate the demand for, and market acceptance of, the Group's new and existing products. Failure to anticipate or respond rapidly to advances or changes in technology and to adapt the Group's products to customer requirements and the introduction of new products could adversely affect the Group's business, results of operations and financial condition.

Sales of the Group's products in the Materials business are dependent on the production levels of its customers in the automobile industry (such as manufacturers of EVs, hybrid vehicles and plug-in hybrid vehicles) and the electronics industry (such as manufacturers of smartphones), which in turn are affected by a variety of factors such as seasonal or cyclical changes in demand for such products, advancement of technology and general economic conditions, which affect sales of such products. If due to supressed demand for the customers' products or other factors, new product development and sales of existing products in the Group's Materials business were not to progress according to the Group's plans, this may materially adversely affect the Group's business, results of operations and financial condition.

Supply of raw materials

Although the Group has been making investments in overseas mining projects and has been involved in overseas mining development with a view to obtaining stable raw material supplies, the Group still purchases a part of its raw materials for non-ferrous metals (such as copper concentrate and nickel matte) from third party vendors (in whom the Group has no investment interest), generally under long-term supply contracts. The purchase terms of such long-term supply contracts are generally subject to review and negotiation every year, but due to a variety of market factors, including demand by competitors and circumstances affecting production at the relevant mines, it may not always be possible for the Group to obtain sufficient raw materials at a reasonable cost. Further, as prices of the Group's products are determined principally on factors such as demand and supply of the non-ferrous metals themselves, it may be difficult for the Group to adjust its product prices to recover increases in the costs of such raw materials. Moreover, the Group may be required to continue to purchase raw materials pursuant to the terms of its long-term supply contracts with suppliers, even where the demand for the Group's products using such raw materials were to decline due to changes in the requirements of the Group's customers.

In addition, the Group's raw material supplies may be delayed or suspended due to factors beyond the Group's control, such as adverse weather conditions, major earthquakes, and accidents or labour disputes suffered by the suppliers. Any such delay or suspension may limit the Group's production activities, which may materially adversely affect the Group's results of operations and financial condition.

Costs of operations

The Group's business activities are generally energy intensive and as a result, the Group's costs could be materially and adversely affected by rising energy costs (such as electricity or fuel prices) or supply interruptions. These could include the unavailability of energy or fuel due to a variety of reasons, including adverse weather conditions, accidents or other causes, or increases in prices due to changes in governmental energy or fuel policies. Further, personnel costs and transportation costs in certain jurisdictions in which the Group operates have recently been showing tendencies to increase. These factors could materially adversely affect the Group's results of operations and financial condition.

Implementation of the Group's strategies

The Group is currently pursuing its 2015 Three-Year Business Plan, which covers the three fiscal years ending 31 March 2019, based upon its Long-Term Vision (see "Business—Strategy"). The success of the implementation of any of the Group's strategies and aims is subject to various internal and external factors, including general economic and market conditions in which the Group operates, the level of commodity prices, fluctuations in exchange rates, the successful progress of development or expansion of mines or production facilities, the successful acquisition of new mining interests, the level of demand for the products for which the Group's products in the Materials business are used and the level of competition, as well as the risks and uncertainty set out in "—Forward-looking statements" below. There can be no assurance that the Group's strategies will be implemented successfully, that the implementation of such strategies will have its intended effect, that the assumptions underlying the strategies and plans will not differ materially from actual circumstances, that targets (whether quantitative or qualitative) set in any such strategy will be met in time or at all, or that such targets and aims will not be changed in the future by the Company's management. In particular, targets set out in the Long-Term Vision and business plan are aims and not commitments, and are forward-looking statements representing the management's operational goals and not projections of future performance by the Group. In addition, in preparing its Long-Term Vision and business plans, and the targets set out therein, the Company's management has made various assumptions, including as to applicable foreign exchange rates and prices of raw materials and commodities. Prospective investors should not put undue reliance on targets, goals and aims set out in such Long-Term Vision and strategies.

Mergers, acquisitions and capital expenditures

The Group has participated in, and may from time to time consider, mergers, acquisitions and capital expenditures as opportunities are presented, in order to achieve desired growth levels or for other strategic reasons. In considering such activities, the Group takes into account various factors such as the associated risks, strategic rationale, return on investment and intra-Group synergies. However, the results of such capital expenditures and the performance of any such mergers and acquisitions or other arrangements can be uncertain and the outcome may not be consistent with expectations, due to factors such as unforeseen market changes and sudden changes in the operating environment. There can be no assurance that capital expenditure projects, mergers and acquisitions or other arrangements entered into by the Group will achieve the desired results and/or be successfully integrated into the Group, that the Group will be able to recoup the value of the investments made by the Group, or that contingent liabilities or other problems will not arise in respect of such arrangements.

Further, there can be no assurance that the Group will not divest its interests in any acquired businesses or capital expenditure projects. Any such factors may have a material adverse effect on the Group's results of operations and financial condition.

Impairment and valuation losses

The Group reviews and tests the carrying value of its assets when events or change in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, in order to determine if the Group needs to recognise an impairment loss, the Group prepares estimates of expected future cash flows for each group of assets. Expected future cash flows are inherently uncertain, and could materially change over time. They are significantly affected by reserve and production estimates, together with economic factors such as spot and forward commodity prices, discount rates, currency exchange rates, estimates of production costs and future capital expenditure. For example, in the fiscal years ended 31 March 2016 and 2017, the Group recognised large amounts of equity in losses of affiliated companies, due to the impairment loss booked in each such year principally as a result of a decrease in copper prices and delayed progress in the Sierra Gorda Copper Mine development project in Chile. Assets may also be impaired if the Group decides to withdraw from the businesses related to those assets; for example, the Group recorded impairment of fixed assets in the fiscal year ended 31 March 2017 relating to, among others, its withdrawal from the lead frames business. If any of the uncertainties such as those referred to above were to occur, either alone or in combination, or if the Group were to decide to shrink or withdraw from the businesses related to its existing assets, this could require the Group to recognise an impairment, or record losses in respect of its investments, which could materially adversely affect the Group's results of operations or financial condition.

The Group may experience valuation losses with regard to its inventory, for example where the prices of metals were to fluctuate between the time of the Group obtaining supply of ores and the time at which its products are sold. Further, in the Group's Materials business, although the Group generally manufactures custom-made products for its customers, there may also at times be a risk of inventory obsolescence should the customers' demand change rapidly. Any material valuation losses suffered on the Group's inventory may materially adversely affect the Group's results of operations and financial condition.

The Group may also experience valuation losses or impairment with regard to its other assets, such as its listed equity securities portfolio, most of which comprises minority investments in certain customers and financial institutions to enhance long-term relationships with such parties. As of 31 March 2017, the Group had ¥128 billion in equity securities with available fair values, most of which were held for the above purpose. Decline in the market values of such securities may adversely affect the Group's results of operations (in the case of impairment losses) and/or its shareholders' equity (in the case of valuation losses which do not result in impairment).

Natural disasters, uncontrollable events and accidents

The Group chooses the location of its facilities from the point of view of factors such as relationships with its customers, the procurement of raw materials, collaboration among companies within the Group and efficient use of resources. If any of the regions in which its facilities are located were to experience large-scale natural disasters such as earthquakes, tsunamis, volcanic eruptions, typhoons, cyclones, hurricanes and other extreme weather conditions, floods, landslides, fires, explosions, infectious diseases or epidemics, the Group's production activities at such location may be materially adversely affected, and the Group may suffer significant damages. In addition, other events outside the Group's control (such as terrorism and sabotage), disruption of public and private infrastructure, power outages or accidents (whether due to human or equipment error), and whether at the Group's facilities or otherwise, could damage, cause operational interruptions or otherwise adversely affect any of the Group's mines, production or other facilities, and may result in personal injury or death, environmental damage, monetary losses and legal liability.

Smelters are particularly vulnerable to interruptions, particularly where events cause a stoppage which necessitates a shutdown in operations. Stoppages in smelting, even if lasting a relatively short time, can cause the contents of furnaces to solidify, resulting in a plant closure for a significant period and necessitating expensive repairs, any of which could adversely affect the Group's business, results of operations and financial condition.

Moreover, the Group depends upon seaborne and other transport systems to receive raw materials and deliver its commodities to the market. Disruption of these services due to the impact of terrorism, piracy, climate change, weather related issues, infrastructure failures, strikes, social unrest or other events could temporarily adversely affect the Group's ability to conduct business in a timely manner.

The Group currently has certain insurance coverage for such operating risks, but such insurance may not always be adequate to cover all such risks. Should the Group suffer a major uninsured loss, future earnings could be materially adversely affected.

Environmental and regulatory compliance

The Group's business (in particular, the mining business and the non-ferrous metals smelting and refining business) is subject to extensive laws, regulations and standards governing a wide range of issues including health and safety, environmental conservation, measures for preventing mine damage and pollution, disposal of mining and industrial waste, management of hazardous and toxic substances, controls on imports and exports, and environmental and community impacts. Such laws may require relevant operators such as the Group to pay for remedial action or pay damages regardless of fault in instances of breach, and may also require mine operators to continue to administer abandoned mines. New costs and liabilities may arise due to the introduction of new environmental and other regulations and other factors; further, mining, smelting and refining businesses are also subject to risks and liabilities associated with pollution of the environment and disposal of mining and industrial waste occurring as a result of mineral exploration and production. Environmental laws also often impose liability with respect to divested or terminated operations, even if the operations were terminated or divested many years ago. Compliance with these laws, regulations and standards imposes substantial costs on the Group and subjects it to significant potential liabilities. If any of the risks were to materialise due to unforeseen circumstances, the Group's costs and liabilities to remedy any breach may be substantially above the Group's expectations. Costs associated with environmental liabilities and regulatory compliance have increased over time, and the Group expects these costs to continue to increase in the future. In addition, the costs of environmental obligations may exceed the reserves the Group have established for such liabilities.

New or evolving laws, regulations and international standards are complex, difficult to predict and outside the Group's control. Potential compliance costs, regulatory delays, rehabilitation expenses, litigation expense and operational impacts and costs arising from government action, regulatory change and evolving standards may materially adversely affect the Group's business, results of operations and financial condition.

Intellectual property, technologies and know-how

The Group regards the development, protection and enforcement of its intellectual property rights, as well as protection of its technology, expertise and knowhow, as an important factor of its operation. The Group has taken, or has endeavoured to take, steps to establish and protect certain proprietary rights under applicable intellectual property laws and contractual restrictions. However, it may not always be possible for the Group to protect its intellectual property rights, technologies and knowhow appropriately; further, such steps to protect the Group's intellectual property, technologies and knowhow may not prove sufficient to prevent disputes with third parties or misappropriation of its technologies and knowhow, or to deter independent third-party development or acquisition of similar technologies or knowhow. Any intellectual property or technology-related disputes, or misappropriation of the Group's technology and third-party development of similar technologies, may make it difficult for the Group to take advantage of the results of its research and development activities, and may materially adversely affect the Group's business, results of operations and financial condition.

Legal proceedings

As with any major business, the Group and its investee companies face risks of disputes or litigation in the locations in which they do business, whether with or without merit, in the course of their business. Such litigation and proceedings may relate, among others, to products, environmental liabilities, royalties, health and safety, personal injury and intellectual property issues. The Group or its investee companies could also become the target of governmental proceedings, administrative measures or other action, particularly as the businesses relating to mineral resource exploration, development and operation generally involve national and local governmental intervention, whether in terms of licensing, tax or trade. For example, in August 2017, the Group decided to withdraw from the Solomon Nickel Exploration Project following the judgement given in the legal proceedings (which lasted six years) between the Group and Axiom KB Limited ("Axiom") and others, pursuant to which neither the Group nor Axiom was granted its prospecting rights in certain areas in the Solomon Islands; in another example, in October 2017, Sociedad Minera Cerro Verde S.A.A. ("Cerro Verde"), an equity-method affiliate of the Company, lost its appeal to the Peruvian governmental agencies regarding its claims for exemption from the payment of royalties, resulting in such company recording a total of U.S.$377 million for royalties, penalties and interest on overdue royalties, with the consequence that the Group reported

¥8,859 million, which is allocable to the Company's interests, as the share of the loss of entities accounted for by the equity method in the nine-month period ended 31 December 2017. See "Business—Legal Proceedings" for further details.

Due to the inherent uncertainty of litigation and legal proceedings, it is not possible to predict when and whether any significant litigation and legal proceedings will be brought against the Group or its investee companies and whether it will prevail. If any significant litigation or legal or administrative proceedings were to occur, the Group or its investee companies may need to spend significant management time and attention as well as costs to deal with such matters, and this, as well as any unfavourable outcomes in respect of such proceedings or lawsuits, may negatively affect the Group's reputation, business, results of operations and financial condition.

Risk management, compliance and internal control

Given the international network of its businesses, the Group is faced with the need to comply with anti-corruption and other applicable laws and regulations across a wide range of jurisdictions. Such laws and regulations, and their application and enforcement, are of varying degrees of complexity and strictness in different jurisdictions, and sometimes not only require compliance by the Group but also by parties acting on its behalf (including agents and dealers). If the Group were to become the target of any material regulatory investigations and were found to be non-compliant, it could be subject to fines, penalties or other disciplinary actions (as well as civil and/or criminal charges). The Group has established risk management, compliance and internal control systems and procedures. However, certain areas within the risk management, compliance and internal control systems may require constant monitoring, maintenance and continual improvements by the Group's senior management and staff. If the efforts to maintain these systems are found to be ineffective or inadequate, the Group may be subjected to inappropriate activities such as fraudulent acts or corruptive practice (whether by its employees or third parties), or be found not to be in compliance with laws and regulations, which may in turn subject the Group to sanctions or penalties (which can, depending on culpability, be substantial), and its business and reputation, as well as its results of operations and financial condition, may be materially adversely affected. The internal control system, no matter how sophisticated in design, still contains inherent limitations caused by misjudgement or fault, or deliberate acts of misconduct or fraud. As such, there can be no assurance that the risk management, compliance and internal control systems of the Group are always adequate or effective notwithstanding the Group's efforts, and any failure to address any internal control matters and other deficiencies could result in investigations and/or disciplinary actions or prosecution being taken against the Group and/or its employees, disruption to the risk management and/or compliance systems, and a material adverse effect on the Group's reputation, results of operations and financial condition.

Hiring and retention of talented personnel

The Group's success largely depends on its ability to attract and retain highly skilled employees, including engineers, research and development staff and other technical personnel with advanced knowledge and skills in the Group's business fields. The Group also requires talented management personnel with the ability to manage the Group's business competitively in world markets. Competition to hire highly skilled personnel is intense, in particular as the Group is not a consumer-facing business easily recognisable by graduates, and competition to retain such personnel is also becoming intense. There can be no assurance that the Group can successfully and consistently meet its personnel recruitment and retention goals, or that the loss of certain important personnel, or a group of them, will not adversely affect the Group's business. Further, the Group's ability to meet its labour needs, including its ability to find qualified personnel to fill positions that become vacant while 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 adversely affected. In addition, if the Group's employees were to leave the Group to join its competitors, the Group's know-how and technology may be leaked to such competitors even if the Group has attempted to protect such know-how and technology through confidentiality agreements. Any such incidents may adversely affect the Group's business, results of operations and financial condition.

Information systems

The Group maintains and increasingly relies on information technology systems, consisting of digital infrastructure, applications and networks to support its business activities. These systems may be subject to security breaches (for example through cyber-attacks, viruses or hacking) or other incidents (for example through human error) that can result in leakage of commercially sensitive or personal information, misappropriation of funds, disruption to the Group's business and assets, environmental damage, increased health and safety risks to people, loss of intellectual property, legal or regulatory breaches and liability, other costs and reputational damage. Any such incident may materially adversely affect the Group's business, results of operations and financial condition.

Funding, interest rate and counterparty risk

The Group works to maintain a sound financial standing. However, fluctuations in commodity prices and any prolonged global economic volatility could materially and adversely affect the Group's future cash flows and ability to access capital from financial markets at acceptable pricing. Global credit markets have also experienced severe constraints in the past. If the Group is at any point unable to obtain sufficient funding at what it considers to be appropriate cost, either due to banking and capital market conditions generally, or due to factors specific to the Group's business, its financing activities may be limited, its interest rate costs on borrowed debt may rise, and its ability to fund current and future major capital projects could be adversely affected. Any of these factors could materially and adversely affect the Group's results of operations and financial condition.

The Group is also exposed to counterparty risk from customers and financial institutions (including derivative counterparties) that could result in financial losses should those counterparties become unable to meet their obligations to the Group. Furthermore, the treasury operations of the Group's affiliates accounted for by the equity record are independently managed and may expose the Group to liquidity, counterparty and other financial risks. Should the Group's counterparties be unable to meet their obligations to it, or should the affiliates of the Group incur losses, the Group's operating results, cash flows and financial condition could be materially and adversely affected.

Risks related to the Group's nuclear fuel reprocessing facility

Following a critical accident which occurred in 1999, the Company's consolidated subsidiary JCO Co., Ltd. ("JCO"), which had been involved in the nuclear fuel reprocessing business, ceased operations and is preparing for the decommissioning by dismantlement and decontamination of its facilities. In the fiscal year ended 31 March 2017, JCO concluded a long-term agreement with a specialised overseas company to recycle a part of uranium and metals from uranium-containing materials stored at JCO, and the costs for the recycling to be incurred in the future pursuant to such long-term agreement, to the extent such costs can be reasonably estimated, were booked during such fiscal year as an extraordinary loss. However, whenever JCO incurs additional costs or expenses in connection with such recycling, disposition or other handling of uranium and metals from uranium-containing materials stored at JCO including pursuant to such long-term agreement, JCO will provide for such costs or expenses, which may adversely affect the Group's results of operations and financial condition.

Considerations Relating to the Group's Financial Statements

Differences in generally accepted accounting principles

The Company's consolidated and non-consolidated financial statements are prepared and presented in accordance with Japanese GAAP, which differs in certain respects from IFRS and generally accepted accounting principles and financial reporting standards in other countries. The Group's financial statements may therefore differ from those prepared for companies outside Japan in those and other respects. This Offering Circular does not include a reconciliation of the Company's or the Group's financial statements to IFRS or to any other generally accepted accounting principles or reporting standards in other countries. However, the Company is currently considering adopting IFRS in the near future. If the Company were to apply IFRS or any other generally accepted accounting principles for its financial reporting in future periods, the reported financial results of the Company and/or the Group may differ materially from prior years' financial results prepared under Japanese GAAP.

Unaudited financial statements

This Offering Circular contains unaudited quarterly consolidated financial statements of the Group as of 31 December 2017 and for the nine-month periods ended 31 December 2016 and 2017, which are not required to be, and have not been, audited by the Company's independent auditors, and which consists of an English translation of the unaudited quarterly consolidated financial statements contained in the quarterly securities report (*shihanki hokokusho*) of the Group. There are certain differences in classifications of line items in such unaudited quarterly consolidated financial statements as compared with the audited annual consolidated financial statements of the Group contained elsewhere in this Offering Circular. See "Presentation of Financial and Other Information".

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

Considerations Relating to the Bonds and the Shares

Limitations on the timing of exercise of Stock Acquisition Rights

Since the coming into effect of the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended) (including regulations promulgated thereunder, the "Book-Entry Act") in January 2009, under the current rules and practices of the Japan Securities Depository Center, Inc. ("JASDEC"), delivery of the Shares to the Bondholders after the Stock Acquisition Date will take at least three business days. In order to avoid any JASDEC system processing errors around the record dates, the Stock Acquisition Rights have been designed under Condition 5.1.4 so that they may not be exercised during such period whereby the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period. Bondholders should therefore note in particular that exercises of Stock Acquisition Rights are restricted in the period around any record date in respect of Shares set by the Company (under the Company's Articles of Incorporation as at the date of this Offering Circular, 31 March and 30 September in each year).

No cash amounts in respect of Non-unit Shares

Since the coming into effect of the Book-Entry Act, making it possible for listed shares of Japanese companies comprising less than one whole unit to be delivered through the JASDEC book-entry transfer system, JASDEC has given guidance to the effect that stock acquisition rights of Japanese companies issued since then should be structured so that exercising holders should have shares not constituting one whole unit delivered to their accounts, instead of automatically selling back such shares to the issuer of such stock acquisition rights and receiving cash amounts in respect of them. Bondholders exercising their Stock Acquisition Rights will therefore not be receiving cash amounts in respect of the Shares of less than one whole unit which would have been issuable upon such exercise, which had been paid, in the practice before the Book-Entry Act came into effect, but will be receiving those Shares themselves. Currently, the Company's Articles of Incorporation provide that one unit comprises of 100 Shares. Accordingly, the holders of Shares constituting less than one unit will need to request the Company to purchase them in accordance with the Companies Act, the rules of the JASDEC book-entry transfer system, the Company's Articles of Incorporation and the Company's Share Handling Regulations if they would like the Company to do so, or to request the Company to sell to such holder such number of Shares constituting less than one unit which, when added to the Shares held by such holder, shall constitute one full unit. The rights of holders of Shares not constituting one whole unit are limited under the Company's Articles of Incorporation, and may not be tradable on the stock exchanges on which they are listed. See "Description of the Shares and Certain Regulations—Unit Share System".

Limitations on anti-dilution protection for Bondholders

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

Trading market for the Bonds

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

Market price of the Bonds

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

Rights of shareholders under Japanese law

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

Takeover defense measures

The Company has in place a plan outlining rules to be followed by those intending an acquisition of 20 per cent. or more of the Shares. These rules aim to provide the necessary information and time to the Company and its shareholders for the consideration of proposals, as well as providing countermeasures that may be taken against potential acquirers under certain circumstances (see "Information Concerning the Shares—Takeover Defense Measures"). Although these measures are intended to be for the purpose of ensuring and enhancing the corporate value of the Company and the common interest of the shareholders of the Company as a whole, they could discourage, delay or prevent an unsolicited acquisition or change in control of the Company, in which shareholders of the Company might receive a premium for their Shares over prevailing market prices.

Future changes in Japanese law

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

Proposed repurchase of Shares by the Company

The Company has announced on 27 February 2018 that it intends to repurchase up to ¥5 billion worth of Shares or up to 1,300,000 Shares (such number of Shares amounting to approximately 0.47 per cent. of the issued Shares (excluding treasury stock) as at 31 December 2017) at 8:45 a.m. (Tokyo time) on 28 February 2018 at the closing price of the Shares on the Tokyo Stock Exchange on 27 February 2018, through the ToSTNeT-3 system. The result of such repurchase will be announced by the Company in Japan on 28 February 2018. As the amount which the Company is able to repurchase through the ToSTNeT-3 system is completely 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. See "Information Concerning the Shares—Proposed Share Repurchase by the Company". 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.

Forward-looking Statements

Statements in this Offering Circular with respect to the Group's plans, strategies, projected financial results and beliefs, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties. These statements are based on assumptions and beliefs derived from information currently available to the Group, and as such actual results may differ, in some cases significantly, from these forward-looking statements. The Group does not undertake to release the results of any revision of forward-looking statements which may be made to reflect future events or circumstances. Important factors that could cause actual results to differ materially from such statements include, but are not limited to, volatility of non-ferrous metal prices and foreign exchange rates, changes in the global economic conditions, uncertainties relating to mining investment and development, changes and introduction of new environmental and other regulations, the level of competition and the ability of the Group to keep pace with technological advancements, governmental actions, results of legal proceedings, and natural disasters, uncontrollable events and accidents. 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 Group or persons acting on the Group's behalf are qualified in their entirety by these cautionary statements.

TERMS AND CONDITIONS OF THE BONDS

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

The ¥30,000,000,000 Zero Coupon Convertible Bonds due 2023 (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) issued by Sumitomo Metal Mining Co., Ltd. (the "Company") are constituted by a trust deed (the "Trust Deed") dated 15 March 2018 made between the Company and The Law Debenture Trust Corporation p.l.c. (the "Trustee", which expression shall include all persons for the time being 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 of the agency agreement (the "Agency Agreement") dated 15 March 2018 relating to the Bonds among, *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 written request during normal business hours at the specified office for the time being of the Trustee, being at the date of issue of the Bonds at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, and at the specified office(s) of each of the Principal Agent and the Agents (as defined below). References herein to the "Agents" shall, unless the context otherwise requires, include the Principal Agent and any other or further agent(s) appointed by the Company in connection with the Bonds for the purpose of making payments and transfers and acceptance of notices of the exercise of the Stock Acquisition Rights from time to time (but excluding the Registrar and the Sales Agent).

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

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

1.1 ***Form, Denomination and Issue Price***

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

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

1.2 ***Title***

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

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

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

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

1.3 ***Status***

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

1.4 ***Transfers of Bonds***

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

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

1.4.2 *Transfers*: A Bond may be transferred upon the surrender (at the specified office(s) of the 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 by the Principal Agent or the Registrar during its respective normal business hours to any Bondholder upon prior written request.

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

1.4.3 *Delivery of New Certificates*: Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within five Transfer Business Days of receipt of the duly completed and signed form of transfer, and surrender of the original Certificate for exchange and any other evidence as the relevant Agent or the Registrar (as the case may be) may require. 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 the 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 Agents, 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); (ii) the Registrar being satisfied in its absolute discretion with the documents of title and/or the identity of the person making the application; and (iii) the Company and the Registrar or the relevant Agent being satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer*: No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven days ending on (and including) the date for redemption pursuant to Condition 7.1, 7.5, 7.6 or 7.7, (ii) during the period from and including the Determination Date (as defined in Condition 3.1) or, if earlier, the time at which a Share Settlement Notice (as defined in Condition 3.1) in respect of such Bond has been given pursuant to Condition 7.2, up to but excluding the Acquisition Option Date (as defined in Condition 3.1), (iii) 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 (iv) after a notice of redemption has been given pursuant to Condition 7.3 or 7.4 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.4).

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

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

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

2. **Negative Pledge**

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

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

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

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

3. Definitions and Construction of References

3.1 *Definitions*

In these Conditions (unless the context otherwise requires):

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

"Acquisition Notice" has the meaning provided in Condition 7.2.1;

"Acquisition Option Date" has the meaning provided in Condition 7.2.1;

"Acquisition Shares" has the meaning provided in Condition 7.2.1;

"Acquisition Share Value" has the meaning provided in Condition 7.2.1;

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

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

"Alternative Rating Agent" has the meaning provided in Condition 5.1.7;

"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;

"Approved Rating Agents" has the meaning provided in Condition 5.1.7;

"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);

"Average VWAP per Share" has the meaning provided in Condition 7.2.1;

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

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

"Board of Directors", in respect of any company, means the board of directors of such company within the meaning of the Companies Act; provided that, if any individual Director is authorised by such board of directors to make any decision in accordance with the Companies Act and such company's articles of incorporation and other internal regulations, any relevant reference to the Board of Directors of such company shall be deemed to mean such Director, and any reference to the relevant resolution or approval at a meeting of such Board of Directors shall be deemed to mean the relevant decision of such Director;

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

"Bonds without Share Settlement Notice" has the meaning provided in Condition 7.2.3;

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

"Business Day" in respect of any place means a day, other than a Saturday or Sunday, on which banks are open for business in such place;

"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 7.3;

"Closed Period" has the meaning provided in Condition 7.10;

"Closing Date" means 15 March 2018;

"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) and approved in writing by the Trustee for such purpose;

"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 above 90 per cent. as provided in the Articles of Incorporation) or more of the Company's voting rights as calculated in accordance with the Companies Act;

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

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

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

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

"Corporate Event Redemption Date" has the meaning provided in Condition 7.5;

"Corporate Event Redemption Price" has the meaning provided in Condition 7.5;

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

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

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

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

"Custodian" means The Law Debenture Trust Corporation p.l.c. at its specified office at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom 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 Mizuho Bank, Ltd. at its specified office at 15-1, Konan 2-chome, Minato-ku, Tokyo 108-6009, 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 7.6.1;

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

"Determination Date" has the meaning provided in Condition 7.2.2;

"Director", in respect of any company, means a director of such company within the meaning of the Companies Act;

"Dividend Adjustment Amount" has the meaning provided in Condition 7.2.1;

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

"Ex-Dividend Date" has the meaning provided in Condition 7.2.1;

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

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

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

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

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

"Fiscal Period" means, as the context may require, (i) a period commencing on 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, accounting firm or consultancy firm of established repute appointed by the Company at its own expense and notified to the Trustee in writing 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;

"JCR" has the meaning provided in Condition 5.1.7;

"Last Day Conversion Price" shall have the meaning provided in Condition 7.2.1;

"Listing" has the meaning provided in Condition 6.4.2;

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

"Merger Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not 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);

"Moody's" has the meaning provided in Condition 5.1.7;

"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 7.6.1;

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

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

"Proceedings" has the meaning provided in Condition 21.2;

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

"Reference Parity" has the meanings provided in Conditions 7.5, 7.6 and 7.7;

"Register" has the meaning provided in Condition 1.1;

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

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

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

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

"Relevant Period" has the meaning provided in Condition 5.2.15;

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

"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;

"Relevant VWAP Period" has the meaning provided in Condition 7.2.1;

"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;

"R&I" has the meaning provided in Condition 5.1.7;

"Sales Agent" means Mizuho Bank (Switzerland) Ltd at its specified office at Löwenstrasse 32, 8021 Zurich, Switzerland or such other sales agent as may from time to time be designated, by and 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;

"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;

"Share Settlement Notice" has the meaning provided in Condition 7.2.2;

"Squeezeout Effective Date" has the meaning provided in Condition 7.7.1;

"Squeezeout Event" has the meaning provided in Condition 7.7.1;

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

"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 7.4;

"Tax Redemption Notice" has the meaning provided in Condition 7.4;

"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 of the Shares or the shares of common stock of the New Obligor (as the case may be) is furnished as provided in the definition of Closing Price;

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

"VWAP" has the meaning provided in Condition 7.2.1; 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 (other than where the references are to the acquisition of the Bonds pursuant to Condition 7.2). 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, Incorporated. 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 *Stock Acquisition Rights and the Contribution of the Bond*: Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition Right incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which has been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond as of the Stock Acquisition Date.

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

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

As at the date of this Offering Circular, the Articles of Incorporation specify that one unit of Shares is comprised of 100 Shares.

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 ¥7,777 per Share, subject to adjustment in the manner provided in Condition 5.2.

5.1.4 *Exercise Period*: Each Stock Acquisition Right may be exercised at any time in accordance with and pursuant to the other provisions of these Conditions during the period from, and including, 2 April 2018 to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 1 March 2023, or:

(i) if the relevant Bond shall have been called for redemption pursuant to Condition 7.3 or 7.4 or if the Bonds shall become due to be redeemed pursuant to Condition 7.5, 7.6 or 7.7, 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 7.4, the relevant Bondholder has elected that such Bond shall not be redeemed); or

(ii) if the relevant Bond shall have been acquired by the Company pursuant to Condition 7.2 and cancelled by the Company pursuant to Condition 7.2.1, then up to the time when such Bond is so cancelled; or

(iii) if the relevant Bond shall have been purchased by the Company or a Subsidiary and cancelled by the Company pursuant to Condition 7.8, 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 1 March 2023;

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

(c) in the case of acquisition pursuant to Condition 7.2, the Stock Acquisition Rights may not be exercised for the period from but excluding the date of the Acquisition Notice to and including the Acquisition Option Date; and

(d) the Stock Acquisition Rights may not be exercised during such period whereby the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period; 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(d) 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 and (unless the Trustee is also the Principal Agent) the Principal Agent 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 and (unless the Trustee is also the Principal Agent) the Principal Agent 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 three Tokyo Business Days prior to the commencement of such Shareholder Determination Date Restriction Period, provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect.

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

As at 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 30 September 2018, 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) 26 September 2018 to (and including) 1 October 2018.

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 purposes.

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

5.1.6 *Condition to Conversion*: Prior to (and including) 15 December 2022, a Bondholder may exercise its Stock Acquisition Rights only if, as at the last Trading Day of any calendar quarter, the Closing Price of the Shares for 20 consecutive Trading Days ending on such date is more than 130 per cent. (rounded down to the nearest yen) of the Conversion Price in effect on the last Trading Day of such calendar quarter, as determined by the Principal Agent and notified by the Principal Agent on behalf of the Company to the Trustee in writing and 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 (or, in the case of the calendar quarter commencing on 1 October 2022, until 15 December 2022), 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 5.1.6 is not applicable by virtue of Condition 5.1.7, 5.1.8 or 5.1.9, the Stock Acquisition Rights shall not be exercisable after the expiration of the Exercise Period.

5.1.7 *Conditions to Conversion – Ratings Requirements*:

(i) The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.6 shall not be applicable during any period in which:

(a) 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) a long-term issuer rating is no longer assigned to the Company by JCR; and/or

(c) the long-term issuer rating assigned to the Company by JCR has been suspended or withdrawn,

Subject as set forth in (ii) below.

(ii) Upon the occurrence of any of the events set out in (i)(a), (i)(b) or (i)(c) 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.

(iii) If prior to the Company's long-term issuer rating becoming no longer assigned by JCR, or the Company's long-term issuer rating by JCR being suspended or withdrawn by JCR (each such event being a "Rating Cessation Event"), the Company has, at its request, obtained a long-term issuer rating (or an equivalent type of rating) (and where such rating is not available, an issue rating) from an Alternative Rating Agent (as defined below), then:

(A) (i)(b) or (i)(c) above, as the case may be, shall not constitute a Rating Cessation Event;

(B) in respect of (i)(a) above, the phrase "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" shall be replaced by the phrase "the long-term issuer rating assigned to the Company by the Alternative Rating Agent is (if the Alternative Rating Agent is Rating and Investment Information, Inc. or its successors (together, "R&I") BBB– (or equivalent if the rating category is changed) or lower, or (if the Alternative Rating Agent is Moody's Japan K.K. or its successors (together, "Moody's")) Baa3 (or equivalent if the rating category is changed) or lower);

(C) in respect of (i)(b) and (i)(c) above, the phrase "JCR" shall be replaced by the phrase "the Alternative Rating Agent", and the phrase "long-term issuer rating" shall be replaced by the phrase "long-term issuer rating (or equivalent type of rating); and

(D) the above provisions of this paragraph (iii) shall apply in the same way to any subsequent Rating Cessation Event relating to the rating of such Alternative Rating Agent, as if such Alternative Rating Agent were JCR for the purposes of paragraph (i) above.

In these Conditions:

"Alternative Rating Agent" means any one of the Approved Rating Agents (other than the one to which the relevant Rating Cessation Event relates) from which the Company has, at the relevant time, at its request, obtained a long-term issuer rating (or an equivalent type of rating) (or, where such rating is not available, an issue rating); and

"Approved Rating Agents" means R&I, JCR and Moody's.

5.1.8 *Conditions to Conversion – Redemption Events*: If a notice of redemption is given pursuant to Condition 7.3, 7.4, 7.5, 7.6 or 7.7, the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.6 shall not be applicable on and after the date of notice of such redemption except in the case of the Stock Acquisition Rights in respect of any Bonds elected by the relevant Bondholders not to be redeemed pursuant to Condition 7.4 which in such case, shall continue to apply.

5.1.9 *Conditions to Conversion – 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 5.1.6 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.

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

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

5.2.1 *Stock Split and Consolidation of Shares*: if the Company shall (a) make a Stock Split, (b) consolidate its outstanding Shares into a smaller number of shares, or

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

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

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

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

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

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

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

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

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

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration, then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

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

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

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

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

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

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

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

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

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

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration, then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

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

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

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

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

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

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

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

5.2.4 *Distribution to Shareholders of Assets (including Extraordinary Dividends)*: if the Company shall distribute to the holders of Shares (i) evidences of its indebtedness (such as bonds), (ii) shares of capital stock of the Company (other than 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) other than Extraordinary Dividends, then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

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

where:

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

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

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

Annual Fiscal Period ending on 31 March	**Percentage**
2018	100
2019	120
2020	144
2021	173
2022	207
2023	249

"Base Dividend" means ¥119,505.

The Base Dividend is the amount obtained by multiplying the Relevant Number of Shares (calculated at the initial Conversion Price) by ¥93.

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

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

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

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

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

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

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

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

5.2.6 *Issue of Shares*: if the Company shall issue or transfer any Shares (other than Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted, issued or offered by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted, issued or offered by the Company, (iii) to the extent permitted by the Articles of Incorporation, to any holder of Non-unit Shares for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute a full one unit, (iv) in any of the circumstances described in Conditions 5.2.1, 5.2.2 and 5.2.3, (v) to shareholders of any corporation which merges into the Company upon such merger or which becomes a wholly-owned subsidiary of the Company by a share exchange (*kabushiki-kokan*), in proportion to their shareholding in such corporation immediately prior to such merger or such exchange or (vi) to any corporation or to shareholders of any corporation which transfers its business to the Company following the split of such corporation's business (*kyushu bunkatsu*)), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

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

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

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

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

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

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

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

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

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

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

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

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

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

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

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

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.2.15 *Adjustment during the Relevant Period*: for the purposes of Condition 5.1.6, if the Conversion Price in effect on the last Trading Day of the period of 20 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 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, unless otherwise expressly specified herein, 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. None of the Trustee, the Registrar, the Principal Agent, the Sales Agent, the other Agents or the Custodian shall be under any duty to determine, calculate or verify the adjusted Conversion Price or to monitor or make enquiries as to whether any adjustment is required to be made and will not be responsible or liable in any respect to Bondholders for any loss arising from any failure by it to do so.

5.8 ***Notification of Adjustments***

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

5.9 ***Procedure for Conversion***

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

5.9.2 *Custodian and Custodian's Agent*: The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time with at least 30 days' written notice 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 Mizuho Bank, 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 pursuant to this Condition 5.9.3 (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 (if any) together with an amount sufficient to pay the expenses of delivery pursuant to Condition 5.9.5(ii). The Agent will not be bound to make any payments until the Agent has received the full amount of such taxes and duties due and payable in respect of the Bonds, the Stock Acquisition Rights in respect of which are being exercised, or other arrangements satisfactory to the Agent have been made. 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 such Agent must pay moneys received from the Bondholder for payment of taxes and duties. The payment of such moneys received from the Bondholders to the relevant tax authority will be made at the risk and expense of the Bondholder exercising the relevant Stock Acquisition Rights and such Bondholder will be required to submit any necessary duly completed and signed documents that may be required by the Agent in order to effect the payment of such moneys. The Agent shall be entitled to assume without duty to enquire and without liability that any information provided by the Bondholder exercising the relevant Stock Acquisition Rights in connection with any such amounts payable and as to the details of the relevant tax authorities to which the Agent must pay moneys received in settlement of the taxes and duties payable pursuant to this Condition 5.9.3 is true, accurate and complete. The Bondholders (and, if applicable, the person other than the Bondholders to whom the Shares are to be delivered) shall, upon exercising the relevant Stock Acquisition Rights, be deemed to have consented to the Agent disclosing otherwise confidential information for the purposes of the Agent's carrying out the duties herein. Such Agent is under no obligation to determine whether a Bondholder is liable to pay any taxes, 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 (including all costs, charges and expenses incurred by any delegate).

5.9.4 *Deposit Date and Stock Acquisition Date*: The date on which the Certificate evidencing any Bond and the Conversion Notice relating thereto are deposited with an Agent, or on which all conditions precedent to the exercise of the relevant Stock Acquisition Right are fulfilled, whichever shall be later, is hereinafter referred to as the "Deposit Date" applicable to such Bond. The request for exercise of the Stock Acquisition Right shall be deemed to have been made, and accordingly the exercise of the Stock Acquisition Right and the delivery of the Certificate will become effective, at 23:59 hours (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Japan on which such time in London falls, is herein referred to as the "Stock Acquisition Date" applicable to such Bond). A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Company.

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

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

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

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

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

(ii) as soon as practicable, the Company shall deliver to the Custodian's Agent, 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 (the passing of any such resolution 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 and (unless the Trustee is also the Principal Agent) the Principal Agent 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 and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 of that fact, the Company's proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its "Corporate Event Effective Date".

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

6.4.1 *Transfer*: If a Corporate Event occurs and

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

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

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

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

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

6.4.3 *Condition*: The obligations of the Company pursuant to this Condition 6.4 shall not apply if the Company delivers a certificate to the Trustee pursuant to Condition 7.5(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, and the exercise of the New Stock Acquisition Rights shall be subject to conditions substantially the same as those described in Conditions 5.1.6 to 5.1.9;

6.5.7 *Acquisition at the Option of the New Obligor*: The New Stock Acquisition Rights together with the Bonds may be acquired by the New Obligor substantially in the same manner as described in Condition 7.2;

6.5.8 *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

6.5.9 *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, Acquisition, Purchase and Cancellation

7.1 ***Final Maturity***

Unless the Bonds have previously been redeemed, acquired or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised (in each case as provided in these Conditions), the Company will redeem the Bonds at 100 per cent. of their principal amount on 15 March 2023. The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

7.2 ***Acquisition at the Option of the Company***

7.2.1 *Acquisition Notice*: On or after 15 November 2022, and subject to the Shares being listed on the Relevant Stock Exchange, the Company may, but shall not be bound to, give notice (the "Acquisition Notice") 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 (which notice shall be irrevocable) to acquire from the Bondholders all, but not some only, of the Bonds outstanding on the date (the "Acquisition Option Date") fixed for such acquisition in the Acquisition Notice (being not less than 60 and not more than 75 days after the date of the Acquisition Notice) and all such Bonds shall be deemed to be so acquired by the Company on the Acquisition Option Date (which, in the context of the Companies Act, is based on Item (vii) of Paragraph 1 of Article 236 of the Companies Act). Each Bondholder by accepting or acquiring any Bond agrees that such Bond shall be so acquired by the Company on the Acquisition Option Date (whether or not a Share Settlement Notice is delivered as required by Condition 7.2.2). Subject to Conditions 7.2.2 and 7.2.3, the Company shall, as consideration for the Bonds (including the Stock Acquisition Rights) acquired by the Company:

(i) pay in the same manner as provided in Condition 8 in cash, an amount equal to 100 per cent. of the principal amount of the Bonds on the Acquisition Option Date; and

(ii) issue and deliver the Acquisition Shares in accordance with Condition 7.2.2, if any, registered in the name of the Custodian or its nominee, with effect as of the Acquisition Option Date.

Any expenses or taxes incurred in connection with the acquisition of the Bonds by the Company and the delivery of the Acquisition Shares, pursuant to this Condition 7.2, shall be borne by the Company.

Bonds that have been so acquired by the Company shall be cancelled upon acquisition in accordance with these Conditions, and all Certificates in respect of Bonds so cancelled shall be promptly forwarded to the Principal Agent for cancellation.

In these Conditions:

"Acquisition Shares" means such number of Shares per Bond, if any, calculated by dividing (i) the amount by which the Acquisition Share Value exceeds the principal amount of each Bond by (ii) the Average VWAP per Share, provided that fractions of a Share shall be disregarded and no adjustment or cash payment will be made in respect thereof, provided further that, if during the period from but excluding the last day of the Relevant VWAP Period to but excluding the Acquisition Option Date any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the Acquisition Option Date) to the Conversion Price under the provisions of Condition 5.2, the Acquisition Shares, as determined above, shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser);

"Acquisition Share Value" means the yen amount per Bond calculated in accordance with the formula below:

$$\frac{\text{Principal Amount of the Bond}}{\text{Last Day Conversion Price}} \times \text{Average VWAP per Share}$$

"Average VWAP per Share" means the average of the Volume Weighted Average Prices ("VWAP") of the Shares reported by the Relevant Stock Exchange on each of the Trading Days during the Relevant VWAP Period, provided that:

(i) if an Ex-Dividend Date falls, or will fall, within the period from but excluding the first day of the Relevant VWAP Period to and including the Acquisition Option Date, the Average VWAP per Share used as the denominator in the formula for calculating the Acquisition Shares (as set out in the definition of "Acquisition Shares") shall be adjusted by subtracting the Dividend Adjustment Amount from the VWAP of the Shares on each Trading Day during the period from and including the first day of the Relevant VWAP Period to and including the earlier of (x) the Trading Day immediately prior to the Ex-Dividend Date, and (y) the last day of the Relevant VWAP Period;

(ii) if an Ex-Dividend Date falls within the period from and including the second Tokyo Business Day after the date of the Acquisition Notice to and including the last day of the Relevant VWAP Period, the Average VWAP per Share for the purpose of calculating Acquisition Share Value (as contained in the definition of "Acquisition Share Value") shall be adjusted by adding the Dividend Adjustment Amount to the VWAP of the Shares on each Trading Day during the period from and including the later of (x) the Ex-Dividend Date and (y) the first day of the Relevant VWAP Period, to and including the last day of the Relevant VWAP Period;

(iii) if on any Trading Day within the Relevant VWAP Period, VWAP of the Shares is not reported by, nor otherwise available from, the Relevant Stock Exchange, or VWAP reported by the Relevant Stock Exchange is manifestly incorrect, the average trading prices of the Shares using a volume weighted method on the Relevant Stock Exchange on such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company in its sole discretion (acting in a commercially reasonable manner) shall be deemed to be the VWAP on such Trading Day (but subject to adjustment pursuant to (i) or (ii) above, if required); and

(iv) if during the Relevant VWAP Period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after the last day of the Relevant VWAP Period) to the Conversion Price under the provisions of Condition 5.2, the Average VWAP 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 shall consider appropriate and fair (taking fully into account the advice of such Independent Financial Adviser) in order to compensate for the effect of such event.

As a consequence of the adjustments identified in (i) and (ii) above, the Average VWAP per Share for the purposes of calculating the Acquisition Shares may differ from the Average VWAP per Share used for the purposes of calculating the Acquisition Share Value.

"Dividend Adjustment Amount" for the purposes of the calculation of an adjustment to the Average VWAP per Share means the amount determined by the Company as of the last day of the Relevant VWAP Period, which shall be:

(i) the expected cash dividend per Share most recently publicly announced by the Company with respect to the Record Date relating to the relevant Ex-Dividend Date; or

(ii) if no public announcement has been made as to an expected cash dividend per Share as set out in (i) above, the actual cash dividend per Share in respect of the corresponding Record Date one year prior to the relevant Record Date; or

(iii) if, in the opinion of the Company, neither the expected nor the actual cash dividend as set out in (i) or (ii) above (as the case may be) provides a reasonable basis for adjustment of the Average VWAP per Share, the amount determined by the Company in its sole discretion as being appropriate and fair to give effect to the impact of the Ex-Dividend Date on the relevant VWAP.

For the purposes of this Condition 7.2.1, a "dividend" means a "distribution of surplus", within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act.

For the purposes of this Condition 7.2.1, "Ex-Dividend Date" means the second Tokyo Business Day immediately prior to any Record Date for a dividend declared or to be declared by the Company (provided that if such Record Date falls on a date that is not a Tokyo Business Day, then the Ex-Dividend Date means the third Tokyo Business Day immediately prior to such Record Date); provided further that if, in the opinion of the Company, there has been a change to the mandatory provisions of Japanese law, regulation or practice which affects the timing or application of ex-dividend dates, such Ex-Dividend Date may be amended by the Company, and/or the Company may make such other changes to this Condition 7.2.1 as it shall consider appropriate and fair, in each case, to the extent permitted by applicable law and 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.

"Last Day Conversion Price" means the Conversion Price in effect on the last day of the Relevant VWAP Period; and

"Relevant VWAP Period" means the 20 consecutive Trading Days beginning on, and including, the 5th Trading Day from, but excluding, the date on which the Company first gives the Acquisition Notice to the Bondholders in accordance with Condition 19.

All calculations with respect to the Acquisition Share Value and the Average VWAP per Share 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.

7.2.2 *Share Settlement Notice*: In order to obtain delivery of the Acquisition Shares (if any) pursuant to this Condition 7.2, each Bondholder must deliver to the specified office of an Agent, no later than the Determination Date, a duly completed share settlement notice substantially in the form set out in the Agency Agreement (a "Share Settlement Notice", a copy of which may be obtained from the specified office of any Agent) with respect to the Bonds held by such Bondholder, together with the relevant Certificates for the relevant Bonds held by it and to which the Share Settlement Notice relates. A Share Settlement Notice shall be irrevocable once delivered.

Delivery of the Acquisition Shares by or on behalf of the Company pursuant to this Condition 7.2 will be made on or as soon as practicable after the Acquisition Option

Date in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, 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 will transfer the relevant Acquisition Shares to or to the order of the relevant Bondholders at such account maintained with an Account Management Institution in Japan as specified in the relevant Share Settlement 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 relevant Bondholder in the relevant Share Settlement Notice is inaccurate, incomplete or insufficient for the purposes of such transfer). The provisions of Condition 5.1.5 shall apply with any necessary changes to the Acquisition Shares with references to the Stock Acquisition Date therein being construed as references to the Acquisition Option Date.

Any determination as to whether a Share Settlement Notice has been properly completed and delivered as provided in these Conditions shall be made by the Principal Agent in its sole discretion and shall be conclusive and binding on the relevant Bondholders, the Company and the Trustee.

A Share Settlement Notice may be delivered by a holder with respect to one or more Bonds. To the extent that a Share Settlement Notice is delivered with respect to more than one Bond, the number of Acquisition Shares to be delivered pursuant to this Condition 7.2 shall be calculated on the basis of the aggregate number of Bonds referred to in such Share Settlement Notice.

In these Conditions, "Determination Date" means the date falling 14 calendar days prior to the Acquisition Option Date.

7.2.3 *Sale of Shares*: If, on the day immediately following the Determination Date, there are any Bonds ("Bonds without Share Settlement Notice") in respect of which a duly completed Share Settlement Notice has not been received by an Agent on or prior to the Determination Date, the following provisions shall apply in respect of such Bonds without Share Settlement Notice:

(i) the Company shall deliver or cause to be delivered, in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, all the Acquisition Shares deliverable with respect to all such Bonds without Share Settlement Notice, to the Sales Agent or its nominee at the account maintained with the Custodian's Agent (as an Account Management Institution) on or as soon as practicable after the Acquisition Option Date whereupon all such Acquisition Shares shall be deemed to be delivered and paid to the relevant Bondholders. None of the Trustee, the Custodian, the Custodian's Agent, the Sales Agent, the Registrar of any Agent shall have any liability to any Bondholder for the failure by the Company to deliver such Acquisition Shares;

(ii) all the Acquisition Shares so delivered to the Sales Agent pursuant to Condition 7.2.3(i) shall be sold (whether in one or more lots) by the Sales Agent (subject to any limitations then imposed by Japanese law and/or, if applicable, the law of the jurisdiction of the Sales Agent, and any necessary consents being obtained), and (subject to the deduction by the Custodian's Agent of any amount which shall be payable in respect of any liability of the Custodian or the Sales Agent to taxation and the payment of any capital, stamp, issue or registration duties (if any) and any fees or costs incurred by the Custodian, the Custodian's Agent or the Sales Agent in connection with the allotment and sale thereof) the net proceeds thereof shall be paid by the Sales Agent to the Principal Agent (or any other Agent if so instructed by the Principal Agent) for distribution to holders of the Bonds without Share Settlement Notice in the same manner as provided in Condition 8 (save that no presentation and surrender of the relevant Certificates are required) in proportion to the numbers of the Bonds without Share Settlement Notice held by them.

In undertaking the sale of any Acquisition Shares pursuant to this Condition 7.2.3, the Sales Agent may, following consultation with the Company, appoint an independent investment bank, securities company, financial institution, broker, accountancy firm or consultancy firm of established repute to advise the Sales Agent as to the manner and/or timing of any such sale (or on such other matters as the Sales Agent shall deem appropriate in connection therewith) and shall be entitled to act, without liability to anyone, on the advice thereof. The fees of any such appointment and advice shall be paid by the Company.

None of the Company, the Trustee, the Custodian, the Custodian's Agent, the Sales Agent, the Registrar or any Agent shall have any liability to any Bondholder for the timing and/or manner of any such sale (including if no such sale can be made), the price at which the Acquisition Shares are sold, or for any loss suffered by any Bondholder as a result of the same. None of the Company, the Trustee, the Custodian, the Custodian's Agent, the Sales Agent, the Registrar or any Agent shall have any liability to any Bondholder (i) for any loss suffered by Bondholders as a result of any failure by the Custodian's Agent or the Sales Agent to effect any such sale or to pay over the net proceeds of the sale to the Custodian (or any Agent if instructed by the Custodian), and for distribution to holders of Bonds without Share Settlement Notice or (ii) for monitoring or supervising the performance by the Custodian's Agent or the Sales Agent of their respective functions pursuant to this Condition 7.2. The Contracts (Rights of Third Parties) Act 1999 shall apply in favour of the Custodian, the Custodian's Agent and the Sales Agent in relation to Condition 7.2.

The payment of the net proceeds of the sale of any Acquisition Shares shall satisfy the obligation with respect to the delivery of the Acquisition Shares. Each Bondholder by accepting or acquiring any Bond shall be deemed to agree to any such sale and manner of sale thereof by the Sales Agent, and such sale and transfer shall be binding on all Bondholders.

7.2.4 *Acquisition Notice Void*: Notwithstanding the provisions of Condition 7.2.1, if the Shares are not listed on the Relevant Stock Exchange on the Acquisition Option Date, the Acquisition Notice shall be treated as null and void and the relevant Bonds will be redeemed, subject as provided herein, for cash in accordance with the provisions of Condition 7 other than this Condition 7.2 and payment in respect thereof shall be made in accordance with Condition 8.

If the Company becomes aware, after the Acquisition Notice having been given, that the Shares will not be listed on the Relevant Stock Exchange on the Acquisition Option Date (other than in the circumstances set out in Condition 7.6 in which case the provisions of Condition 7.6 shall apply), the Company shall give notice of the nullification of the Acquisition Notice to the Bondholders in accordance with Condition 19 forthwith upon becoming so aware.

7.2.5 *Exercise of Stock Acquisition Rights*: The Company's right to acquire the Bonds in the manner set forth in this Condition 7.2 does not affect a Bondholder's right to exercise its Stock Acquisition Rights hereunder during the Exercise Period. For the avoidance of doubt, the Stock Acquisition Rights may not be exercised for the period from but excluding the date of the Acquisition Notice to and including the Acquisition Option Date.

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

The Company may (subject to Condition 7.11), but shall not be bound to, having given not less than 30 nor more than 60 days' prior notice (the "Clean-up Redemption Notice") to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, if at any time prior to the date upon which the Clean-up Redemption Notice is given, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds as at the date of issue thereof.

7.4 ***Redemption for Taxation Reasons***

The Company may (subject to Condition 7.11), but shall not be bound to, at any time, having given not less than 30 nor more than 60 days' prior notice (the "Tax Redemption Notice") to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the "Tax Redemption Date"), if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice (i) that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 27 February 2018, and (ii) that such obligation cannot be avoided by the Company taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Trustee a certificate signed by a Representative Director or an Authorised Officer, stating that the Company has or will become obliged to pay Additional Amounts as a result of such change or amendment and that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders. 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 at 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.

7.5 ***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 Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and 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 7.5 (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 or application 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 entitled to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.5.

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 even if (in the case of Condition 7.5(iii) or 7.5(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 1 March 2023, 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**
15 March 2018	99.61	101.56	104.39	108.11	112.70	118.08	124.20	130.95	138.27	146.07	154.29	162.87	171.75	180.92	190.34	200.00
15 March 2019	99.36	100.95	103.41	106.82	111.16	116.39	122.43	129.18	136.56	144.48	152.86	161.64	170.77	180.22	190.00	200.00
15 March 2020	99.19	100.32	102.32	105.31	109.35	114.40	120.38	127.19	134.71	142.85	151.51	160.63	170.12	180.00	190.00	200.00
15 March 2021	99.18	99.75	101.07	103.43	107.01	111.83	117.80	124.80	132.67	141.26	150.42	160.01	170.00	180.00	190.00	200.00
15 March 2022	99.48	99.53	99.85	100.96	103.46	107.76	113.85	121.44	130.22	140.00	150.00	160.00	170.00	180.00	190.00	200.00
1 March 2023	100.00	100.00	100.00	100.00	100.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00

In the above table:

"Reference Parity" means:

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

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

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

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

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

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

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

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

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

If the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, 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 7.5, is more than 200.00 per cent, the Corporate Event Redemption Price shall be 200.00 per cent.

If the Corporate Event Redemption Date falls during the period from (and including) 2 March 2023 to (and including) 14 March 2023, the Corporate Event Redemption Price shall be 100.00 per cent.

7.6 ***Redemption on Delisting of the Shares***

7.6.1 *Offers and Redemption*: If:

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

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

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

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

then the Company shall (subject to Condition 7.11) give notice 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, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the "Delisting Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice). The Trustee may assume until it has received actual written notice from the Company to the contrary that the Offeror has not so acquired any Shares.

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

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply to the above redemption price without any adjustment.

7.6.3 *Offer Followed by Corporate Event or Squeezeout Event*: Notwithstanding the above provisions of this Condition 7.6, 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 a 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 7.6 shall not apply (but, for the avoidance of doubt, the provisions of Condition 6 and Condition 7.5 or 7.7, 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 Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the last day of such 60-day period, to redeem all, but not some only, of the Bonds then outstanding at the redemption price set out in

Condition 7.6.2 (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 7.6.1 without being subject to the provisions of this Condition 7.6.3), 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).

7.6.4 *Irrevocable Notice*: Any notice of redemption given under this Condition 7.6 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

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

(a) any of the events set out in (i) through (iv) of Condition 7.6.1; or

(b) any of the events set out in Condition 7.6.3 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 and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19.

7.6.6 *Condition*: If the Company becomes obliged to redeem the Bonds pursuant to both this Condition 7.6 and either Condition 7.5 or 7.7, as the case may be, the procedure pursuant to Condition 7.5 or 7.7, as the case may be, shall apply.

7.7 ***Squeezeout Redemption***

7.7.1 *Redemption*: Upon the occurrence of a Squeezeout Event, the Company shall (subject to Condition 7.11) give notice 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, as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the "Squeezeout Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date (the "Squeezeout Effective Date") of the acquisition or consolidation of the Shares with respect to the Squeezeout Event, 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 (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, such as for the purpose of making the Company a wholly-owned subsidiary of another corporation, (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 a consolidation of Shares (*kabushiki no heigo*) after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing.

7.7.2 *Redemption Price*: The redemption price applicable to the redemption under this Condition 7.7 shall be calculated in the same manner as provided in Condition 7.5, except that references to the Corporate Event Redemption Date shall be replaced by the Squeezeout Redemption Date and the Reference Parity shall mean, if the assets to be delivered to the holders of Shares consist of cash only (or if the holders of Shares which are being squeezed out are to effectively receive cash only in respect of such Shares), the cash amount which the holder of a Share would receive in exchange for Shares to be transferred as a result of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the date of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment becoming effective during such period, where the event requiring such Retroactive Adjustment takes place after such period) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.5 shall apply to the above redemption price without any adjustment.

7.8 ***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.

7.9 ***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 7.8 shall be forwarded to the Principal Agent for cancellation.

7.10 ***Notice of Redemption***

All notices to Bondholders given by or on behalf of the Company pursuant to this Condition 7 will specify the Conversion Price as at the date of the relevant notice, the Closing Price of the Shares as at 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 at the latest practicable date prior to the publication of the relevant notice. No notice of redemption given under Condition 7.3 or 7.4 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.

7.11 ***Priorities Among Redemption and Acquisition Provisions***

If any notice of redemption or acquisition is given by the Company pursuant to any of Condition 7.2, 7.3, 7.4, 7.5, 7.6 or 7.7, no other notice may be, or as the case may be, is required to be, given pursuant to any other of such Conditions, subject as provided in Condition 7.6.3 and except for such Bonds so elected by the relevant Bondholder not to be redeemed pursuant to Condition 7.4 and subject to Condition 7.2.4.

If (a) the Company becomes obliged to give notice of redemption pursuant to Condition 7.5 or 7.7, or (b) the events set out in (i) to (iv) of Condition 7.6.1 occur, then a notice pursuant to Condition 7.2, 7.3 or 7.4 may not subsequently be given.

7.12 ***Calculations***

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

8. Payments

8.1 ***Method of Payment***

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

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

8.2 ***Agents and Registrar***

The initial Principal Agent and the initial Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time with at least 30 days' written notice to vary or terminate the appointment of the Principal Agent, the Registrar or any other Agent and to appoint other or further Agents or Registrar (as the case may be), provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; 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 Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19.

8.3 ***Payments on Payment Business Days***

If the due date for payment of any amount in respect of any Bond is not a Payment Business Day (as defined below), then the holder of such Bond shall not be entitled to payment of the amount due until the next following Payment 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. "Payment 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 7.4, 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 at 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 7.4.

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

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

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

10. Events of Default

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

10.1 *Non-payment*

The Company defaults in the payment of the principal of any of the Bonds under Condition 7.4 as and when the same shall become due and payable, and such default is not remedied within 14 days; or

10.2 *Breach of Obligations*

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

10.3 *Cross Default on Indebtedness*

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

10.4 *Cross Default on Guarantee/Indemnity*

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

10.5 *Initiation of Insolvency Proceedings*

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

10.6 *Decree of Insolvency/Dissolution*

A final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the

Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or any material (in the opinion of the Trustee) part of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or

10.7 ***Resolution for Dissolution***

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

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

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

(b) the Bonds will be redeemed pursuant to Condition 7.5, 7.6 or 7.7 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, the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or

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

10.8 ***Institution of Insolvency Proceedings***

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

10.9 ***Stop Payment***

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

10.10 ***Cessation of Business***

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

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

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

(b) the Bonds will be redeemed pursuant to Condition 7.5, 7.6 or 7.7 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, the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or

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

10.11 ***Encumbrancer***

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

and, in the case of any of the events described in Conditions 10.2, 10.3, 10.4 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 10.5, 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders. The Trustee in forming such an opinion, or making any determination under this Condition 10, may exercise all or any of its rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining and relying on such directions from the Bondholders and/or expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned for so doing.

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

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

11. Undertakings

11.1 ***Undertakings with Respect to the Stock Acquisition Rights***

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

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

11.1.2 *Transfers*: not close its register of shareholders or take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of

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

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

11.1.4 *Listing*: use its best endeavours to obtain and maintain the listing, quotation or dealing in on the Relevant Stock Exchange for the Shares or, if it is unable to do so having used such best endeavours, use its best endeavours to obtain and maintain the listing, quotation or dealing in of the Shares on such other stock exchange or securities market in Japan as the Company with the prior written approval of the Trustee 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 7.5 or Condition 7.6 (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 7.5(iv), or (y) taking any action provided in items (ii) and (iii) of Condition 7.6.1); and

(iii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.7 (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 a consolidation of Shares (*kabushiki no heigo*) after which the Shares are expected to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing, 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 after the acquisition or consolidation of Shares pursuant to a Squeezeout Event, as the case may be);

11.1.5 *Other Securities*: procure that no securities of the Company convertible into, or exchangeable for, by their terms, Shares are, without the prior written consent of the

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

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

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

11.1.8 *Corporate Event*: if a Corporate Event occurs, use its best endeavours to obtain all consents which may be necessary or appropriate under Japanese law to enable the relevant company to give effect to the relevant arrangement, and to take all other action, as required by Condition 6 in a timely manner (unless, for the avoidance of doubt, the Bonds will be redeemed pursuant to Condition 7.5 or 7.6); and

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

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

11.2 ***Charges***

Except as otherwise provided in Condition 5.9, the Company will pay all charges of the Trustee, the Principal Agent, the other Agents, the Registrar, the Custodian, the Custodian's Agent and the Sales Agent properly incurred by them (including the cost of SWIFT message, fax or telex notices by the Trustee or the Agents to the Principal Agent, the Company, the Registrar, the Custodian's Agent or the Sales Agent and by the Custodian to the Company, the Custodian's Agent or the Sales 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, among other things, (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 12.1, whether a circumstance is materially prejudicial to the interests of the Bondholders, the Trustee may exercise all or any of its rights, powers and directions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining and relying on such directions from the Bondholders and/or expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned for so doing.

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

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

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

(i) under such supplemental trust deed, the New Obligor agrees, in form, manner and substance 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 or an Authorised Officer of the Company that, as of the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's long-term, unsecured and unsubordinated debt is unlikely to be lower than the rating then currently assigned to the Company's long-term, unsecured and unsubordinated debt. In making this determination, the Company shall consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;

(iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "New Territory") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the "Company's Territory"), the New Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company's Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.4 in relation to payment of Additional Amounts by the New Obligor (and/ or the guarantor, if any);

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

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

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

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

12.3 ***Release of Obligations***

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

12.4 ***Deemed Amendment***

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

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

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

13. **Prescription**

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

14. **Replacement of Certificates**

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Registrar 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 or an Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. **Meetings of Bondholders; Modification and Waiver**

15.1 ***Meetings of Bondholders***

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

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

15.2 ***Modification and Waiver***

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

If there is a change to the mandatory provisions of (i) Japanese law which in the reasonable opinion of the Company after obtaining advice from legal advisers (evidenced by (a) a certificate of a Representative Director or an Authorised Officer, and (b) an opinion addressed to the Company and the Trustee of legal advisers of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Conditions 1.1, 1.5, 5, 6, 7.5 and/or 7.7 or (ii) the Financial Instruments and Exchange Act which in the reasonable opinion of the Company (evidenced by (a) a certificate of a Representative Director or an Authorised Officer, and (b) an opinion addressed to the Company and the Trustee of legal advisers of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.6, 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 (i) being indemnified and/or secured and/or prefunded by the Company to its satisfaction, and (ii) having received (a) a certificate of a Representative Director or an Authorised Officer, and (b) an opinion addressed to the Company and the Trustee of legal advisers of recognised standing to the effect that such change has occurred) to enter into such supplemental trust deed (in a form satisfactory to it) to effect such change (even if, in the opinion of the Trustee, that change may be materially prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing. The Trustee in forming any such opinion or making any determination may exercise all or any of its rights, powers and directions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining and relying on such expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned 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 or so requested in writing by holders of at least one-quarter in principal amount of Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction, and shall incur no liability in taking or refraining from taking such action. The Trustee shall not take any action on behalf of a Bondholder in respect of the statutory rights referred to in Condition 6.6, such rights having been irrevocably waived by the Bondholder to the fullest extent permitted by applicable law.

16. **Enforcement**

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

17. **Indemnification of the Trustee**

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

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

18. Independent Financial Adviser

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

If the Company shall fail to appoint an Independent Financial Adviser when required to do so and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser, the Trustee shall have the power, but shall not be obliged, 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 English language newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

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

20. Contracts (Rights of Third Parties) Act 1999

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

21. Governing Law and Submission to Jurisdiction

21.1 *Governing Law*

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

21.2 *Jurisdiction*

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

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

The Company has irrevocably appointed Law Debenture Corporate Services Limited, whose office is at present at Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom, as its agent in England to receive service of process in any Proceedings in England. If for any reason Law Debenture Corporate Services Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

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

Meetings

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

Exercise of Stock Acquisition Rights

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

Payments

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

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

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

Notices

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

Transfers

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

Prescription

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

Trustee's Powers

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

Cancellation

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

Acquisition of Bonds at the Option of the Company

If the Company exercises its option to acquire Bonds under Condition 7.2, subject to the requirements of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System, a Share Settlement Notice may be duly completed by, or on behalf of, an accountholder in such system with an entitlement to the relevant Bonds. Deposit of the Global Certificate with the Principal Agent shall not be required.

Early Redemption or Acquisition of Bonds by the Company

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

Election by the Bondholders

The election option of the Bondholders provided for in Condition 7.4 may be exercised by the holder of the Bonds evidenced by the Global Certificate by giving notice to the Principal Agent within the time limits relating thereto set out in that Condition and otherwise in accordance with the procedures of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System (as the case may be) in the form acceptable thereto from time to time.

Shareholder Determination Date Restriction Period

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

Electronic Consent

While the Bonds evidenced by the Global Certificate is registered in the name of any nominee for, or a nominee for any common depositary for, Euroclear, Clearstream, Luxembourg or any Alternative Clearing System (as the case may be), 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(s) 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 in relation to Reserved Matters (as defined in the

Trust Deed)), 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 such entitlement directly with the accountholder or via one or more intermediaries.

Enforcement

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

USE OF PROCEEDS

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

(i) approximately ¥25 billion on 15 March 2018 as part of the repayment of the entire outstanding amount of the Loan with Series 2 Stock Acquisition Rights; and

(ii) approximately ¥5 billion as funding for the repurchase of Shares by the Company expected to be undertaken on 28 February 2018 with a view to enabling improved conditions for the issuance of the Bonds through mitigating the potential short-term effect of the issuance of the Bonds on the market supply and demand of Shares. As such repurchase will take place prior to the Closing Date in respect of the Bonds using cash reserves, the Company intends to apply the amount referred to above in respect of the proceeds of the offering of the Bonds for the replenishment of such cash reserves. As the amount which the Company is able to repurchase its Shares is dependent on, amongst other things, market conditions, to the extent not all of the amount referred to above in respect of the proceeds of the offering of the Bonds is applied towards such repurchase, any balance will be applied towards repayment of further outstanding principal of the Loan with Series 2 Stock Acquisition Rights.

As mentioned in (i) above, the Company intends to repay the entire outstanding principal amount (being ¥100 billion as of the date hereof) of the Loan with Series 2 Stock Acquisition Rights on 15 March 2018, and intends to apply ¥25 billion of the proceeds of the issue of the Bonds towards such repayment, while the balance of the funds required for such repayment are expected to be sourced from cash in hand, which the Company intends to replenish shortly after such repayment through approximately ¥30 billion of additional long-term borrowings. Upon repayment of the entire outstanding principal amount of the Loan with Series 2 Stock Acquisition Rights, the stock acquisition rights in respect thereof will be cancelled in their entirety.

The Group is one of the major non-ferrous metal businesses in the world, involved in the exploration, development and production of non-ferrous metal resources in Japan and overseas, the smelting and refining of copper, nickel and ferronickel as well as precious metals such as gold and silver, and the manufacturing, processing and sales of advanced materials such as battery materials, crystal materials and powder materials. Established in 1590 as a business engaged in copper smelting and refining, the Company is currently the second oldest listed company in Japan, and has direct control or interests in eight mines around the world, including the Hishikari Mine, the only gold mine in Japan that operates at a commercial scale, refineries and smelters in 10 locations around the world (including seven for nickel and two for copper), and offices in 15 countries and regions around the world.

The Group's operations are principally divided into the following three reporting segments:

- *Mineral Resources*. The Group uses the technology accumulated from having operated the Besshi Copper Mine (opened in 1691 and closed in 1973), and incorporates it in operations of the Hishikari Mine in Japan and the Pogo Gold Mine in Alaska. The Group also acts as a professional mine developer and operator seeking out superior resources in regions around the world, while participating in mining operations (such as the Morenci Copper Mine in Arizona and the Cerro Verde Copper Mine in Peru), pursuing exploration projects and proceeding with surveys to develop new mines.

- *Smelting & Refining*. The Group smelts and refines raw materials procured from a variety of sources, mainly from mines where the Group has an interest, into such metals as copper, nickel and gold. The Group's flagship smelter and refinery, the Toyo Smelter & Refinery, produces copper cathode, copper sulphate, gold, silver and other materials, while other Group refineries and smelters produce products such as electrolytic nickel, electrolytic cobalt, nickel sulphate, nickel chloride, ferronickel shot and other materials.

- *Materials*. The Group's Materials business is centred on advanced materials such as electric battery materials (such as lithium nickel oxide cathodes for secondary batteries) used in EVs, hybrid vehicles and plug-in hybrid vehicles, and crystal materials (such as lithium tantalate substrate for SAW filter) used in smartphones and other communications devices.

The Others segment, not comprised in the above-mentioned reporting segments, include real estate, technical engineering, designing, manufacturing and construction of environmental protection facilities and systems, construction, and the designing and manufacturing of machinery and equipment.

As of 31 December 2017, the Company had 60 consolidated subsidiaries, 15 affiliates accounted for by the equity method and 3 non-consolidated subsidiaries.

Selected Consolidated Financial Information

The following selected consolidated financial information should be read in conjunction with the Group's audited annual consolidated financial statements and related notes, the Group's unaudited quarterly consolidated financial statements and related notes, and "Recent Business" included elsewhere in this Offering Circular. The consolidated statements of operations data and cash flow data for the fiscal years ended 31 March 2017, 2016 and 2015 and the consolidated balance sheet data as at 31 March 2017, 2016 and 2015 have been extracted without material adjustment from the audited annual consolidated financial statements of the Group included elsewhere in this Offering Circular. The consolidated statement of operations data for the nine-month periods ended 31 December 2017 and 2016 and the consolidated balance sheet data as of 31 December 2017 have been extracted without material adjustment from the unaudited quarterly consolidated financial statements of the Group included elsewhere in this Offering Circular, which, being an English translation of published results, have not been audited or reviewed, and include some differences in the basis of preparation and presentation from the audited annual consolidated financial statements (see "Presentation of Financial and Other Information"). The consolidated balance sheet data as of 31 December 2016 have been extracted from the unaudited quarterly consolidated financial statements of the Group as of 31 December 2016.

The Group's consolidated financial statements have been prepared and presented in accordance with Japanese GAAP, which differ in certain respects from IFRS or generally accepted accounting principles in other jurisdictions. Further, the historical results are not necessarily indicative of results to be expected for future periods.

	As of and for the Fiscal Year Ended 31 March			As of and for the Nine-Month Period Ended 31 December(1)	
	2015	2016	2017(1)	2016	2017
	(Millions of yen, except per share data and ratios)				
Results for the period:					
Net sales	¥ 921,334	¥ 855,407	¥ 786,146	¥ 564,460	¥ 685,841
Gross profit	174,257	113,862	122,296	82,339	113,084
Operating income	125,779	59,720	76,390	47,998	78,425
Equity in earnings (losses) of affiliated companies	23,943	(73,223)	(85,972)	(85,275)	6,026
Income (loss) before income taxes	123,261	559	(5,999)	(28,511)	89,211
Net income (loss) attributable to owners of the parent	91,113	(309)	(18,540)	(32,829)	64,981
Capital expenditures	55,232	51,013	125,950	—	—
Depreciation	38,125	46,141	44,232	—	—
Net interest expenses(2)	6,250	8,927	10,546	—	—
Net cash flows from operating activities	120,003	119,704	43,796	—	—
Net cash flows from investing activities	(105,024)	(92,876)	(143,219)	—	—
Net cash flows from financing activities	(39,047)	(4,003)	70,392	—	—
Free cash flows(3)	14,979	26,828	(99,423)	—	—
Financial position at period-end:					
Total assets	¥1,740,246	¥1,630,800	¥1,685,018	¥1,617,409	¥1,727,224
Net assets	1,158,945	1,075,995	1,024,121	954,895	1,106,884
Shareholders' equity(4)	1,051,224	982,958	961,690	885,545	1,020,243
Long-term loans due after one year	245,000	248,036	358,564	353,665	340,776
Interest-bearing debt(5)	394,094	400,559	495,504	492,306	439,751
Working capital(6)	307,436	313,812	382,810	360,590	399,724
Amounts per share(7):					
Net income (loss):					
Basic	¥ 165.11	¥ (0.56)	¥ (33.61)	¥ (119.03)	¥ 235.62
Diluted(8)	149.44	—	—	—	211.70
Shareholders' equity(4)	1,905.50	1,781.91	1,743.46	3,210.75	3,699.48
Cash dividends	48.0	31.0	11.0	—	—
Key ratios:					
Return on assets(9) (per cent.)	5.50	(0.02)	(1.12)	(2.02)	3.81
Return on equity(10) (per cent.)	9.28	(0.03)	(1.93)	(3.51)	6.56
Equity ratio(11) (per cent.)	60.4	60.3	57.1	54.8	59.1
Interest-bearing debt to total asset ratio (per cent.)	22.6	24.6	29.4	30.4	25.5
Debt-to-equity ratio(12) (times)	0.37	0.41	0.52	0.56	0.43
Current ratio(13) (times)	2.29	2.39	2.82	2.70	2.89

Notes:

(1) See "Presentation of Financial and Other Information" in relation to the difference in presentation of the unaudited quarterly consolidated financial statement data and the audited annual consolidated financial statement data, in particular as regards the balance sheet data as of 31 March 2017.

(2) Net interest expenses = Interest and dividend income - Interest expenses

(3) Free cash flows is calculated as Net cash provided by operating activities less Net cash used in investing activities.

(4) Shareholders' equity in the above table and in the notes below are defined as follows:
Shareholders' equity = Total shareholders' equity + Accumulated other comprehensive income

(5) Interest-bearing debt consists of bank loans and long-term debt including corporate bonds.

(6) Working capital is calculated as Total current assets less Total current liabilities.

(7) Per share amounts as of and for the nine-month periods ended 31 December 2016 and 2017 have been calculated on the basis as if the one-for-two stock consolidation which took effect on 1 October 2017 had taken effect on 1 April 2016, while the per share amounts as of and for the fiscal years ended 31 March 2015, 2016 and 2017 have not been restated to take account of such stock consolidation.

(8) Diluted net income per share has not been shown in respect of periods in which a net loss was recorded.

(9) Return on assets is calculated as Net income (loss) attributable to owners of the parent as a percentage of the average of Total assets at the beginning and at the end of the period.

(10) Return on equity is calculated as Net income (loss) attributable to owners of the parent as a percentage of the average of Shareholders' equity (as defined above) at the beginning and at the end of the period.

(11) Equity ratio is calculated as Shareholders' equity (as defined above) as a percentage of total assets.
(12) Debt-to-equity ratio is the ratio of Interest-bearing debt to Shareholders' equity (as defined above).
(13) Current ratio is the ratio of Total current assets to Total current liabilities.

RECENT BUSINESS

The following discussion and analysis of the Group's financial condition and results of operations should be read with "Sumitomo Metal Mining Co., Ltd.—Selected Consolidated Financial Information" and the audited consolidated financial statements as of and for the fiscal years ended 31 March 2017, 2016 and 2015 included in pages F-4 to F-64 and the unaudited quarterly consolidated financial statements as of 31 December 2017 and for the nine-month periods ended 31 December 2017 and 2016 included in pages Q-2 to Q-15, as well as the notes to such consolidated financial statements appearing elsewhere in this Offering Circular. The audited consolidated financial statements and the unaudited quarterly consolidated financial statements have been prepared and presented in accordance with Japanese GAAP.

Overview

The Group is one of the major non-ferrous metal businesses in the world. The Group's operations are divided into three reportable segments: (i) Mineral Resources, principal products of which include gold and silver ore, copper concentrates, copper and gold, (ii) Smelting & Refining, principal products of which include copper, gold, silver, electrolytic nickel, ferronickel and chemical products, and (iii) Materials, principal products of which include electric battery materials, thick film materials, crystal materials, thin film materials, magnetic materials, package materials, oil refining catalysts, automotive catalysts, autoclaved lightweight concrete and lubricants. The Group's other businesses not included in the reportable segments are reported as "Others".

As of 31 December 2017, the Company had 60 consolidated subsidiaries (of which 21 were in the Mineral Resources business, 10 were in the Smelting & Refining business, 21 were in the Materials business and eight were in the Others business), 15 affiliates accounted for by the equity method (of which five were in the Mineral Resources business, seven were in the Smelting & Refining business and three were in the Materials business) and 3 non-consolidated subsidiaries.

Significant Accounting Policies

See the notes to the audited consolidated financial statements of the Group as of and for the fiscal years ended 31 March 2017 and 2016 and as of and for the fiscal years ended 31 March 2016 and 2015 for details relating to the significant accounting policies applied in preparing the Company's consolidated financial statements.

Consolidated Results for the Fiscal Year Ended 31 March 2017 Compared to the Fiscal Year Ended 31 March 2016

Overview

The global economy during the fiscal year ended 31 March 2017 generally continued on a gradual path to recovery without any significant slowdowns, despite the outlook becoming more unclear with uncertainty over the new U.S. administration's policies and their effectiveness and the United Kingdom's exit from the European Union. The slowing-down of the Chinese economy under its structural reform was a concern, but eventually signs were seen of it having bottomed out. In Europe, gradual economic recovery continued, driven primarily by personal consumption despite stagnant exports. In the U.S., personal consumption remained firm against a backdrop of fundamentally strong employment. In Japan, compensation of employees continued to recover, backed by improvement in the employment situation, and personal consumption also showed signs of recovery. As for exchange rates, the yen appreciated in the fiscal year ended 31 March 2017 as compared to the previous fiscal year on average against the U.S. dollar, although it depreciated temporarily following the U.S. presidential election.

Results

Net Sales

Consolidated net sales in the fiscal year ended 31 March 2017 decreased by ¥69.3 billion, or 8.1 per cent., as compared to the previous fiscal year to ¥786.1 billion, due principally to the drops in the nickel and copper prices and the appreciation of the yen against the U.S. dollar, despite the higher sales volume of copper cathode.

Cost of Sales

Consolidated cost of sales for the fiscal year ended 31 March 2017 amounted to ¥663.9 billion, a decrease of ¥77.7 billion, or 10.5 per cent., compared to the previous fiscal year principally reflecting a fall in the price of nickel and copper and a decrease in raw material costs as a result of appreciation of the yen.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses for the fiscal year ended 31 March 2017 amounted to ¥45.9 billion, a decrease of ¥8.2 billion, or 15.2 per cent., compared to the previous fiscal year principally reflecting a decrease in transportation costs and general expenses.

Operating Income

Consolidated operating income for the fiscal year ended 31 March 2017 amounted to ¥76.4 billion, an increase of ¥16.7 billion, or 27.9 per cent., compared to the previous fiscal year principally due to depreciation of the yen against the U.S. dollar towards the end of the fiscal year ended 31 March 2017 and an upturn in the inventory valuation due to the recovery of gold price, as well as the contribution from the acquisition of additional interest in the Morenci Copper Mine.

Other Income (Expenses)

Other expenses (net of other income) for the fiscal year ended 31 March 2017 amounted to ¥82.4 billion, an increase of ¥23.2 billion, or 39.3 per cent., compared to the previous fiscal year, principally reflecting the increase in equity in losses of affiliated companies from ¥73.2 billion in the fiscal year ended 31 March 2016 to ¥86.0 billion in the fiscal year ended 31 March 2017, due to the impairment loss recorded at Sierra Gorda S.C.M. principally as a result of a decrease in copper prices and delayed progress in the Sierra Gorda Copper Mine development project in Chile, as well as the recording of a provision for discontinued operations recorded in respect of the Company’s consolidated subsidiary, JCO, a nuclear fuel processing facility which is preparing for decommissioning by dismantlement and decontamination of its facilities following the conclusion of a long-term agreement with a specialised overseas company to handle the disposal of highly concentrated uranium residue it stores, as well as a lack of its reversal for allowance for losses on investments, which was recorded in the previous fiscal year. These factors more than offset the gain on liquidation of investment securities of ¥5.9 billion recorded in the fiscal year ended 31 March 2017 resulting from the dissolution of Nusa Tenggara Mining Corporation, which held interests in the Batu Hijau Mine.

Income (loss) Before Income Taxes

As a result of the above, loss before income taxes for the fiscal year ended 31 March 2017 amounted to ¥6.0 billion, compared to income before income taxes of ¥0.6 billion recorded in the fiscal year ended 31 March 2016.

Net Loss Attributable to Owners of the Parent

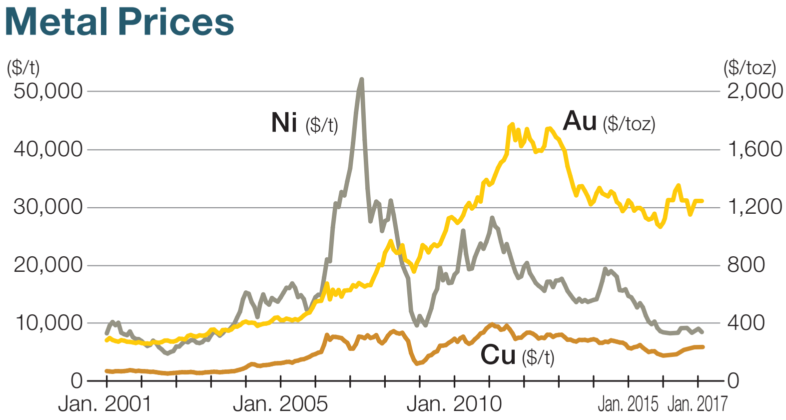
Total income taxes for the fiscal year ended 31 March 2017 amounted to ¥23.0 billion, an increase of ¥2.7 billion, or 13.2 per cent., compared to the previous fiscal year, while net loss attributable to non-controlling interests for the fiscal year ended 31 March 2017 amounted to ¥10.5 billion, a decrease of ¥9.0 billion, or 46.1 per cent., compared to the previous fiscal year. As a result of the above, net loss attributable to owners of parent in the fiscal year ended 31 March 2017 increased by ¥18.2 billion as compared to the previous fiscal year, to ¥18.5 billion.

Results by Reportable Segment

In the below analysis of results by reportable segment, figures for net sales per segment and segment income (loss) comprise total sales and total income (loss) for such segment, without taking into account any inter-segment eliminations.

In the fiscal year ended 31 March 2017, in the non-ferrous metals industry, while gold prices rose, nickel and copper prices fell as compared to the previous fiscal year due to factors such as concerns over the slowing-down of the Chinese economy. Although it saw some temporary rises, the higher levels of nickel prices were suppressed. The higher levels of copper prices were also generally suppressed, although it saw some rises towards the end of the fiscal year ended 31 March 2017.

The following diagram sets out the trends in metal prices for gold, copper and nickel for the periods indicated:



Source: LME (copper and nickel), LBMA gold.
Note: Cu = copper, Ni = nickel, Au = gold.

Mineral Resources

In the fiscal year ended 31 March 2017, the Hishikari Mine continued operating according to plan, with the output of gold and silver ores in the fiscal year ended 31 March 2017 amounting to 149,959 tonnes (the gold content was 6,269 kg). Production levels and sales volume at the Pogo Gold Mine in Alaska declined compared to the previous fiscal year due to a decline in the gold ore grade. Production levels and sales volume at the Morenci Copper Mine in Arizona were nearly unchanged from the previous fiscal year, but the production levels and sales volume included in consolidated performance for the fiscal year ended 31 March 2017 grew because of the increase of the Group's interest in the mine from 15 per cent. to 28 per cent. At the Sierra Gorda Copper Mine, where both operations and performance are low, efforts were made to achieve stable operation and improve efficiency, with the result that processing volume was at a level close to full-scale operations in the second half of the fiscal year ended 31 March 2017, and full year copper production volume was at 94 thousand tonnes.

Net sales in the Mineral Resources segment for the fiscal year ended 31 March 2017 amounted to ¥123.4 billion, an increase of ¥3.6 billion, or 3.0 per cent., compared to the previous fiscal year. Segment loss for the fiscal year ended 31 March 2017 amounted to ¥53.6 billion, an increase of ¥9.3 billion, or 20.9 per cent., compared to a segment loss of ¥44.3 billion in the previous fiscal year. Segment loss for the fiscal year ended 31 March 2017 principally reflected the impairment loss in Sierra Gorda S.C.M. and lower copper prices.

Smelting & Refining

Regarding the business environment for the Smelting & Refining segment in the fiscal year ended 31 March 2017, although there were some changes to be concerned about, such as increased protectionism and anti-foreignism, primarily in the U.S., the prices of non-ferrous metals were generally firm overall. One notable change was the relaxation of export restrictions on unprocessed ores, such as nickel, in Indonesia in January 2017.

Production levels and sales volume of copper increased in the fiscal year ended 31 March 2017 as compared to the previous fiscal year. However, with regard to nickel and gold, there was a decrease in production and sales as compared to the previous fiscal year. In relation to nickel, there was reduced production of intermediate at both Coral Bay Nickel Corporation and Taganito HPAL Nickel Corporation ("THPAL"), and moreover, the accounting period for Coral Bay Nickel Corporation and THPAL for the fiscal year ended 31 March 2016 had covered a 15-month period (as the fiscal year was changed to match the consolidated fiscal year-end for the Company (31 March)), and the normalisation of the length of the fiscal year in the fiscal year ended 31 March 2017 also contributed to the lower production and sales volume being recorded.

As for major initiatives, copper smelting and refining at the Toyo Smelter & Refinery reached an all-time high of 450,000 tonnes for the fiscal year ended 31 March 2017. Further, as part of the Group's attempts to strengthen competitiveness, the Group is also working to recover copper and nickel from secondary materials such as metal scrap. At the Harima Refinery, the Group proceeded with the transitioning of operations and built a 45,000-tonne nickel sulphate production structure. Aiming to enhance the competitiveness of HPAL, the Group also started building a new scandium production structure. As a result of these initiatives, the Smelting & Refining segment's net sales were ¥565.1 billion, a decrease of ¥76.9 billion, or 12.0 per cent., compared to the previous fiscal year. Segment income was ¥33.3 billion for the fiscal year ended 31 March 2017, an increase of ¥8.0 billion, or 31.7 per cent., compared to the previous fiscal year, principally reflecting cost reductions at Coral Bay Nickel Corporation and THPAL, despite the impact of the drop in nickel prices, lower nickel sales volume and other factors.

Materials

In the Materials segment, the fiscal year ended 31 March 2017 saw a generally strong environment surrounding the electronics materials industry. Demand grew for EV battery components, an area which the Group is focusing on, alongside the expansion of the EV market. Furthermore, although demand for SAW filters used in smartphones expanded due to the growth of multiband, high-speed communications, a decrease in smartphone production in China and other countries had an impact on the market. Demand for components for devices such as personal computers ("PCs") and liquid crystal display ("LCD") television sets also fell.

In the fiscal year ended 31 March 2017, the Group invested in increasing the production of battery materials at the Isoura Plant and Harima Refinery in response to growing demand, building a 1,850-tonne monthly production structure. The Group also invested in increasing the production of crystal materials in a similar way, realising a 300,000-piece monthly production structure. However, the sales volume of packaging materials decreased following a fall in demand for components used in PCs and LCD television sets. Further, as part of further structural reform focused on market growth potential, the Group also decided to withdraw from the lead frames business. As a result of these initiatives, the Materials segment's net sales for the fiscal year ended 31 March 2017 amounted to ¥174.1 billion, an increase of ¥2.5 billion, or 1.4 per cent., compared to the previous fiscal year. Segment income for the fiscal year ended 31 March 2017 was ¥12.1 billion, an increase of ¥6.1 billion, or 102.0 per cent., compared to the previous fiscal year, as a result of investments on expansions.

Consolidated Results for the Nine-Month Period Ended 31 December 2017 Compared to the Nine-Month Period Ended 31 December 2016

Overview

In the nine-month period ended 31 December 2017, despite concerns such as a slowdown in economic growth in China due to structural reforms and increased geopolitical risks over North Korea and the Middle East, the economy as a whole showed an expanding trend, with global stock prices continuing to increase against a background of improving corporate results. Corporate results and personal consumption continued to be strong in the U.S. China continued to see a high economic growth rate, led by infrastructure investments and the real estate, automotive and service industries. Europe continued to see some economic growth led by domestic demand, although the rate of growth in private consumption has been flattening through inflationary trends. The Japanese economy continued to see a balanced growth among both domestic and overseas demand, with inbound and export demand both picking up.

Foreign exchange markets generally saw the yen depreciate in the nine-month period ended 31 December 2017 as compared to the same period in the previous fiscal year which had seen a rapid appreciation of the yen due to the effects of the United Kingdom deciding to withdraw from the European Union. Further, although the nine-month period ended 31 December 2016 saw a rapid temporary depreciation of the yen towards the end of that period due to expectations relating to large-scale tax cuts and infrastructure investment policies which had been put forward by the new administration during the U.S. presidential campaign, the nine-month period ended 31 December 2017 did not see such major fluctuations.

In the industries relevant to the Group's Materials business, demand for EV battery components continued to grow, and while some components used in smartphones continued to see some inventory adjustment, the sales environment generally continued to be steady. In the non-ferrous metals market, both nickel and copper prices continued to show a rising trend, due to factors such as abating concerns of deceleration of the Chinese economy, and were higher in the nine-month period ended 31 December 2017 than in the same period in the previous fiscal year.

Results

Net Sales

Consolidated net sales in the nine-month period ended 31 December 2017 increased by ¥121.4 billion, or 21.5 per cent., as compared to the same period in the previous fiscal year to ¥685.8 billion, principally reflecting an increase in major non-ferrous metal prices and the effect of the depreciation of the yen.

Cost of Sales

Consolidated cost of sales for the nine-month period ended 31 December 2017 amounted to ¥572.8 billion, an increase of ¥90.6 billion, or 18.8 per cent., compared to the same period in the previous fiscal year, principally reflecting an increase in major non-ferrous metal prices. However, the cost-to-sales ratio decreased as compared to the same period in the previous fiscal year, as there were less adverse effects of inventory valuation than the same period in the previous fiscal year which had experienced some temporary sharp appreciations of the yen.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses for the nine-month period ended 31 December 2017 amounted to ¥34.7 billion, an increase of ¥0.3 billion, or 0.9 per cent., compared to the same period in the previous fiscal year.

Operating Income

Consolidated operating income for the nine-month period ended 31 December 2017 amounted to ¥78.4 billion, an increase of ¥30.4 billion, or 63.4 per cent., compared to the same period in the previous fiscal year, principally reflecting an increase in major non-ferrous metal prices and a depreciation trend in the yen, in addition to an increase in revenue in the Materials segment.

Non-operating Income (Expenses)

Consolidated non-operating income for the nine-month period ended 31 December 2017 amounted to ¥21.7 billion, an increase of ¥3.6 billion, or 19.9 per cent., compared to the same period in the previous fiscal year, principally reflecting an increase in equity in income of affiliated companies. Consolidated non-operating expenses for the nine-month period ended 31 December 2017 amounted to ¥9.1 billion, a decrease of ¥82.5 billion, or 90.0 per cent., compared to the same period in the previous fiscal year, principally reflecting a decrease in equity in losses of affiliated companies as the impairment loss recorded at Sierra Gorda S.C.M. in the nine-month period ended 31 December 2016 was not recorded in the nine-month period ended 31 December 2017.

Extraordinary Income (Loss)

Consolidated extraordinary income for the nine-month period ended 31 December 2017 amounted to ¥1.0 billion, a decrease of ¥6.4 billion, or 86.9 per cent., compared to the same period in the previous fiscal year, principally reflecting the gain on liquidation of investment securities recorded in the nine-month period ended 31 December 2016 resulting from the dissolution of Nusa Tenggara Mining Corporation, which held interests in the Batu Hijau Mine, which was not recorded in the nine-month period ended 31 December 2017. Consolidated extraordinary loss for the nine-month period ended 31 December 2017 amounted to ¥2.8 billion, a decrease of ¥7.6 billion, or 73.4 per cent., compared to the same period in the previous fiscal year, principally reflecting a provision for discontinued operations recorded in respect of the Company's consolidated subsidiary, JCO in the nine-month period ended 31 December 2016, with a much lower amount recorded in the nine-month period ended 31 December 2017.

Profit (Loss) Before Income Taxes

As a result of the above, profit before income taxes for the nine-month period ended 31 December 2017 amounted to ¥89.2 billion, compared to loss before income taxes of ¥28.5 billion recorded in the nine-month period ended 31 December 2016.

Net Income Attributable to Owners of the Parent

Total income taxes for the nine-month period ended 31 December 2017 amounted to ¥20.7 billion, an increase of ¥6.3 billion, or 43.7 per cent., compared to the same period in the previous fiscal year, while net income attributable to non-controlling interests for the nine-month period ended 31 December 2017 amounted to ¥3.5 billion, compared to net loss attributable to non-controlling interests of ¥10.1 billion recorded in the same period in the previous fiscal year. As a result of the above, net income attributable to owners of parent in the nine-month period ended 31 December 2017 amounted to ¥65.0 billion as compared to net loss attributable to owners of parent of ¥32.8 billion recorded in the nine-month period ended 31 December 2016.

Results by Reportable Segment

In the below analysis of results by reportable segment, figures for net sales per segment and segment income (loss) comprise total sales and total income (loss) for such segment, without taking into account any inter-segment eliminations.

Mineral Resources

In the nine-month period ended 31 December 2017, the Hishikari Mine continued operating according to plan. Production levels and sales volume at the Pogo Gold Mine in Alaska in the nine-month period ended 31 December 2017 remained around the same as the same period in the previous fiscal year, despite some decline in the gold ore grade. Production levels and sales volume at the Morenci Copper Mine in Arizona declined as compared to the same period in the previous fiscal year, primarily due to factors such as a decline in the copper ore grade. With regard to equity in income and losses of affiliated companies, as the impairment loss in Sierra Gorda S.C.M. recorded in the nine-month period ended 31 December 2016 was not recorded in the nine-month period ended 31 December 2017, despite the recording of mining royalty tax, interests and penalties of Cerro Verde in respect of its dispute with the Peruvian national tax authority (see "Business—Legal Proceedings"), the nine-month period ended 31 December 2017 saw a significant improvement as compared to the same period in the previous fiscal year.

Net sales in the Mineral Resources segment for the nine-month period ended 31 December 2017 amounted to ¥115.5 billion, an increase of ¥28.3 billion, or 32.5 per cent., compared to the same period in the previous fiscal year. Segment income for the nine-month period ended 31 December 2017 amounted to ¥37.0 billion, compared to a segment loss of ¥62.6 billion recorded in the same period in the previous fiscal year.

Smelting & Refining

In the nine-month period ended 31 December 2017, production levels and sales volume of gold increased as compared to the same period in the previous fiscal year. However, with regard to nickel (including ferronickel) and copper, there was a decrease in production and sales as compared to the same period in the previous fiscal year. Production level and sales volume at Coral Bay Nickel Corporation remained around the same as in the same period in the previous fiscal year, while production level and sales volume at THPAL increased as compared to the same period in the previous fiscal year. As non-ferrous metal prices in the nine-month period ended 31 December 2017 exceeded the levels in the same period in the previous fiscal year, and further due to the depreciation of the yen as compared to the same period in the previous fiscal year, segment income exceeded the amount recorded in the same period in the previous fiscal year.

Net sales in the Smelting & Refining segment for the nine-month period ended 31 December 2017 amounted to ¥494.1 billion, an increase of ¥88.7 billion, or 21.9 per cent., compared to the same period in the previous fiscal year. Segment income for the nine-month period ended 31 December 2017 amounted to ¥35.2 billion, an increase of ¥14.6 billion, or 70.9 per cent., compared to the same period in the previous fiscal year.

Materials

In the Materials segment, sales volume of battery materials in the nine-month period ended 31 December 2017 increased as compared to the same period in the previous fiscal year, as the Group's production capacity increased. However, primarily due to continuing customer inventory adjustment, the sales volume of crystal materials for use as smartphone components in the nine-month period ended 31 December 2017 declined significantly as compared to the same period in the previous fiscal year. Despite the Group's withdrawal from the lead frames business, as sales of battery materials were favourable, the segment saw an increase in both net sales and segment income as compared to the same period in the previous fiscal year.

Net sales in the Materials segment for the nine-month period ended 31 December 2017 amounted to ¥134.0 billion, an increase of ¥7.9 billion, or 6.2 per cent., compared to the same period in the previous fiscal year. Segment income for the nine-month period ended 31 December 2017 amounted to ¥11.4 billion, an increase of ¥3.6 billion, or 46.9 per cent., compared to the same period in the previous fiscal year.

Subsequent Events

The passing of the U.S. tax reform bill in December 2017, in which, among other changes, the U.S. federal tax rate was lowered from 35 per cent. to 21 per cent., is estimated to have an effect on the Group of a ¥260 million decrease in deferred tax liabilities and a ¥218 million increase in income taxes payable under current liabilities, and a ¥3,151 million increase in deferred tax liabilities under non-current liabilities, each as of 31 December 2017. Further, there are estimated increases of ¥216 million and ¥2,694 million in income taxes – current and income taxes – deferred for the nine-month period ended 31 December 2017, respectively. See “Significant Subsequent Event” on page Q-15.

Financial Condition

Consolidated Balance Sheet as of 31 March 2017 Compared to the Consolidated Balance Sheet as of 31 March 2016

Total current assets as of 31 March 2017 increased by ¥54.6 billion compared to 31 March 2016 to ¥593.7 billion, primarily reflecting an increase in inventories caused by the increase in metal prices towards the end of the fiscal year ended 31 March 2017. Total investments and long-term receivables as of 31 March 2017 decreased by ¥70.5 billion compared to 31 March 2016 to ¥554.7 billion, primarily reflecting decreases in investment securities of unconsolidated subsidiaries and affiliated companies and long-term loans receivable of unconsolidated subsidiaries and affiliated companies due to the impairment loss recorded at Sierra Gorda S.C.M. Net property, plant and equipment as of 31 March 2017 amounted to ¥483.5 billion, an increase of ¥29.9 billion compared to 31 March 2016, primarily reflecting increases in buildings and structures and machinery and equipment due to the acquisition of additional interest in the Morenci Copper Mine. As a result, total assets as of 31 March 2017 amounted to ¥1,685.0 billion, an increase of ¥54.2 billion, or 3.3 per cent., compared to ¥1,630.8 billion as of 31 March 2016.

Total current liabilities as of 31 March 2017 decreased by ¥14.4 billion to ¥210.8 billion, primarily reflecting a decrease in long-term debt due within one year. Total long-term liabilities as of 31 March 2017 increased by ¥120.5 billion to ¥450.1 billion as of 31 March 2017, primarily reflecting an increase in long-term debt due to the funding required for the purchase of additional interest in the Morenci Copper Mine. As a result, total liabilities as of 31 March 2017 amounted to ¥660.9 billion, an increase of ¥106.1 billion, or 19.1 per cent., compared to ¥554.8 billion as of 31 March 2016. Interest-bearing debt (consisting of bank loans and long-term debt including corporate bonds) as of 31 March 2017 was ¥495.5 billion, an increase of ¥94.9 billion, or 23.7 per cent., compared to ¥400.6 billion as of 31 March 2016.

Net assets as of 31 March 2017 were ¥1,024.1 billion, a decrease of ¥51.9 billion, or 4.8 per cent., compared to ¥1,076.0 billion as of 31 March 2016. This primarily reflected a decrease in retained earnings due to the recording of a net loss attributable to owners of the parent for the fiscal year ended 31 March 2017, and the decrease in foreign currency translation adjustments due to the strengthened yen, as well as the payment of dividends, set off to a certain extent by an increase in net unrealised holding gains on securities due to a general increase in stock prices.

Equity ratio decreased by 3.2 percentage points from 60.3 per cent. as of 31 March 2016 to 57.1 per cent. as of 31 March 2017.

As of 31 March 2017, the Group had contingent liabilities amounting to ¥87.1 billion, principally relating to the guarantee it provides for loans of affiliates accounted for by the equity method. Furthermore, as of 31 March 2017, the Group had recorded contingent liabilities in respect of the mining royalty tax, interests and penalties of Cerro Verde in respect of its dispute with the Peruvian national tax authority (see “Business—Legal Proceedings”); having lost its appeal of the proceedings relating to such dispute at the Supreme Court of Peru in October 2017, Cerro Verde recorded a total of U.S.$377 million for royalties, penalties and interest on overdue royalties, and the Company consequently reported ¥8,859 million, which is allocable to the Company’s interests, as the share of the loss of entities accounted for by the equity method in the nine-month period ended 31 December 2017. See Note 13 to the audited consolidated financial statements as of and for the fiscal year ended 31 March 2017 and Note 1 to the Consolidated Balance Sheet in the notes to the unaudited quarterly consolidated financial statements on page Q-8, both included elsewhere in this Offering Circular.

Consolidated Balance Sheet as of 31 December 2017 Compared to the Consolidated Balance Sheet as of 31 March 2017

Total current assets as of 31 December 2017 increased by ¥17.2 billion compared to 31 March 2017 to ¥610.9 billion, primarily reflecting an increase in cash and cash equivalents and notes and accounts receivable. Total investments and other assets as of 31 December 2017 increased by ¥9.2 billion compared to 31 March 2017 to ¥569.6 billion, primarily reflecting increases in investment securities. Net property, plant and equipment as of 31 December 2017 amounted to ¥480.4 billion, a decrease of ¥3.0 billion compared to 31 March 2017, primarily reflecting decreases in buildings and structures and machinery and equipment. As a result, total assets as of 31 December 2017 amounted to ¥1,727.2 billion, an increase of ¥42.2 billion, or 2.5 per cent., compared to ¥1,685.0 billion as of 31 March 2017.

Total current liabilities as of 31 December 2017 marginally increased by ¥0.3 billion to ¥211.1 billion, primarily reflecting an increase in long-term debt due within one year. Total long-term liabilities as of 31 December 2017 decreased by ¥40.9 billion to ¥409.2 billion, primarily reflecting a decrease in bonds and long-term debt. As a result, total liabilities as of 31 December 2017 amounted to ¥620.3 billion, a decrease of ¥40.6 billion, or 6.1 per cent., compared to ¥660.9 billion as of 31 March 2017. Interest-bearing debt (consisting of bank loans and long-term debt including corporate bonds) as of 31 December 2017 was ¥439.8 billion, a decrease of ¥55.8 billion, or 11.3 per cent., compared to ¥495.5 billion as of 31 March 2017.

Net assets as of 31 December 2017 were ¥1,106.9 billion, an increase of ¥82.8 billion, or 8.1 per cent., compared to ¥1,024.1 billion as of 31 March 2017. This primarily reflected the recording of net income attributable to owners of parent, an increase in non-controlling interests, and an increase in net unrealised holding gains on securities, set off to a certain extent by deferred losses on hedges.

Equity ratio increased by 2.0 percentage points from 57.1 per cent. as of 31 March 2017 to 59.1 per cent. as of 31 December 2017.

Liquidity and Capital Resources

Cash Flows for the Fiscal Year Ended 31 March 2017 Compared to the Fiscal Year Ended 31 March 2016

Net cash provided by operating activities for the fiscal year ended 31 March 2017 was ¥43.8 billion, a decrease of ¥76.0 billion, or 63.4 per cent., compared with the previous fiscal year. This primarily reflected a reduction in cash inflows due to the recording of a loss before income taxes (as compared to an income before income taxes in the fiscal year ended 31 March 2016) as well as an increase in inventories, although this was set off to a certain extent by a decrease in the amount of payments for income taxes.

Net cash used in investing activities for the fiscal year ended 31 March 2017 was ¥143.2 billion, an increase of ¥50.3 billion, or 54.2 per cent., compared with the previous fiscal year. This primarily reflected the recording of ¥106.2 billion of payments for purchase of mining rights relating to the acquisition of additional interest in the Morenci Copper Mine.

Net cash provided by financing activities for the fiscal year ended 31 March 2017 was ¥70.4 billion, compared to net cash used in financing activities of ¥4.0 billion for the fiscal year ended 31 March 2016. This primarily reflected an increase in proceeds from long-term debt, set off to a certain extent by the redemption of bonds as well as payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation.

Cash and cash equivalents as of 31 March 2017 amounted to ¥170.3 billion, a decrease of ¥27.5 billion compared to ¥197.8 billion as of 31 March 2016.

Funding

The Group believes that it is necessary to maintain a certain amount of liquid funds on hand based on overall demand for funds such as large-scale overseas mining or processing projects or strategic expansions within the Materials business, as well as being essential from the standpoint of management stabilisation. Under that premise, the Group works to procure funding that is favourable in accordance with the use of the funds, at the same time as comprehensively considering the outlook for metal prices, foreign currency exchange, and interest rate markets.

As of 31 March 2017 and 31 December 2017, the Group's interest-bearing debt (consisting of bank loans and long-term debt including corporate bonds) amounted to ¥495.5 billion and ¥439.8 billion, respectively. As of 31 March 2017, assets pledged as collateral for bank loans and long-term debt amounted to ¥26.4 billion (mostly comprising long-term loans receivable).

The Group procures the long-term funds necessary for its capital expenditure and investment mainly through loans from governmental and private financial institutions and the issuance of bonds. Short-term working capital requirements are generally funded through bank loans as required. The Group works to achieve a balanced funding portfolio from both the short and long term as well as direct and indirect financing perspectives. Derivative transactions are only used to avoid the risks attributable to fluctuations in the prices of non-ferrous metals as well as foreign currency exchange and interest rates. The Group does not engage in derivative translations for speculative purposes.

As is customary in Japan, domestic short-term and long-term bank loans are made under general agreements, which may provide for the giving of collateral and guarantees in certain circumstances. Certain of the Group's borrowings also have certain financial covenants.

Capital Expenditure

The following table sets out information with respect to the Group's capital expenditures (being the increase in value of tangible and intangible assets) for the periods indicated by reporting segment:

	Fiscal Year Ended 31 March		
	2015	2016	2017
	(Millions of yen)		
Mineral Resources	¥20,193	¥11,648	¥ 92,012
Smelting & Refining	20,126	15,230	10,885
Materials	10,962	21,632	18,807
Others	712	366	727
Adjustment	3,239	2,137	3,519
Total consolidated capital expenditures	¥55,232	¥51,013	¥125,950

In the fiscal year ended 31 March 2015, the capital expenditure in the Mineral Resources segment related primarily to exploration and development at the Hishikari Mine, as well as expenditures for exploration and production at the Morenci Copper Mine and the Pogo Gold Mine. In the Smelting & Refining segment, capital expenditure in the fiscal year ended 31 March 2015 principally related to enhancement of nickel sulphate production facilities as well as expenditures at THPAL. In the Materials segment, the Group's capital expenditure in the fiscal year ended 31 March 2015 principally related to expenditures relating to the materials for environment and energy industries, including increasing production capacity for battery materials.

In the fiscal year ended 31 March 2016, the capital expenditure in the Mineral Resources segment related primarily to exploration and development at the Hishikari Mine, as well as expenditures for exploration and production at the Morenci Copper Mine and the Pogo Gold Mine. In the Smelting & Refining segment, capital expenditure in the fiscal year ended 31 March 2016 principally related to enhancement of nickel sulphate production facilities as well as expenditures at THPAL. In the Materials segment, the Group's capital expenditure in the fiscal year ended 31 March 2016 principally related to increasing production capacity for battery materials and for lithium tantalate substrate and other materials for SAW filters.

In the fiscal year ended 31 March 2017, the capital expenditure in the Mineral Resources segment related primarily to exploration and development at the Hishikari Mine, as well as the increase in tangible assets related to the additional interest purchased by the Group in the Morenci Copper Mine. In the Smelting & Refining segment, capital expenditure in the fiscal year ended 31 March 2017 principally related to enhancement of nickel sulphate production facilities as well as expenditures at THPAL. In the Materials segment, the Group's capital expenditure in the fiscal year ended 31 March 2017 principally related to increasing production capacity for battery materials and for lithium tantalate substrate and other materials for SAW filters.

CAPITALISATION AND INDEBTEDNESS

The following table sets out the Company's capitalisation and indebtedness as of 31 December 2017, which has been extracted without material adjustment from the Company's unaudited quarterly consolidated financial statements as of the same date (which include some differences in preparation and presentation from the audited annual consolidated financial statements of the Group contained elsewhere in this Offering Circular (see "Presentation of Financial and Other Information")), and as adjusted to give effect to (i) the issue of the Bonds, and (ii) the repayment of entire outstanding amount of the Loan with Series 2 Stock Acquisition Rights with the proceeds of the issue of the Bonds and cash in hand, and (iii) the expected replenishment of such cash in hand through approximately ¥30 billion of additional borrowing (see "Use of Proceeds" and "Information Concerning the Shares—Loan with Series 2 Stock Acquisition Rights"):

	As of 31 December 2017[(1)]	
	Actual	**As adjusted**
	(Millions of yen)	
Short-term debt:		
Bank loans[(2)]	¥ 58,975	¥ 58,975
Long-term debt due within one year[(3)(4)]	30,000	30,000
Total short-term debt.	88,975	88,975
Long-term debt:		
Corporate bonds[(3)]	10,000	10,000
Other long-term debt[(3)(4)]	340,776	270,776
The Bonds now being issued	—	30,000
Total long-term debt	350,776	310,776
Net Assets:		
Shareholders' equity:		
Common stock:		
Authorised: 500,000,000 Shares		
Issued: 290,814,015 Shares[(6)] as of 31 December 2017	93,242	93,242
Capital surplus	86,530	86,530
Retained earnings	770,366	770,366
Less: Treasury stock, at cost (15,033,906 Shares)[(7)]	(32,946)	(32,946)
Total shareholders' equity.	917,192	917,192
Accumulated other comprehensive income:		
Net unrealised holding gains on securities	55,140	55,140
Deferred gains or losses on hedges	(525)	(525)
Foreign currency translation adjustments	47,198	47,198
Remeasurements of defined benefit plans	1,238	1,238
Total accumulated other comprehensive income.	103,051	103,051
Non-controlling interests	86,641	86,641
Total net assets	1,106,884	1,106,884
Total capitalisation and indebtedness[(7)(8)]	¥1,546,635	¥1,506,635

Notes:

(1) The above table should be read in conjunction with the unaudited quarterly consolidated financial statements of the Group contained herein, which consists of an English translation of the unaudited consolidated financial statements contained in the quarterly securities report (*shihanki hokokusho*) of the Group, and which include some differences in the basis of preparation and presentation from the audited annual consolidated financial statements of the Group contained elsewhere in this Offering Circular (see "Presentation of Financial and Other Information").

(2) As of 31 March 2017 (the latest practicable date for disclosure of such information), ¥0 of the Company's consolidated short-term bank loans was secured and/or guaranteed.

(3) As of 31 March 2017 (the latest practicable date for disclosure of such information), ¥26.1 billion of the Company's consolidated long-term debt (including long-term debt due within one year) was secured and/or guaranteed and ¥0 of the Company's corporate bonds was secured and/or guaranteed.

(4) As mentioned in "Use of Proceeds" and "Information Concerning the Shares—Loan with Series 2 Stock Acquisition Rights", the Company intends to repay the entire outstanding principal amount (being ¥100 billion) of the Loan with Series 2 Stock Acquisition Rights on 15 March 2018, and intends to apply ¥25 billion of the proceeds of the issue of the Bonds towards such repayment. The balance of the funds required for such repayment are expected to be sourced from cash in hand, which the Company intends to replenish shortly after such repayment through approximately ¥30 billion of additional long-term borrowings. Such intended repayment and

additional borrowings are reflected in the above table under "As adjusted". However, to the extent that the Company may replenish the depletion in cash in hand through such repayment with borrowings additional to the ¥30 billion of borrowings mentioned above, this has not been reflected in the above table. Upon repayment of the entire outstanding principal amount of the Loan with Series 2 Stock Acquisition Rights, the stock acquisition rights in respect thereof will be cancelled in their entirety.

(5) As at 31 December 2017 the Group had ¥78,480 million of contingent liabilities as guarantor for loans of affiliated companies, and ¥6,819 million of contingent liabilities as a stockholder for future payment of the mining royalty tax, interest and penalties of Cerro Verde (see Note 1 to the Consolidated Balance Sheet in the notes to the unaudited quarterly consolidated financial statements of the Group contained herein on page Q-8).

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

(7) As mentioned in "Information Concerning the Shares—Proposed Share Repurchase by the Company", the Company has announced that it intends to repurchase up to ¥5 billion worth of Shares or up to 1,300,000 Shares at 8:45 a.m. (Tokyo time) on 28 February 2018 at the closing price of the Shares on the Tokyo Stock Exchange on 27 February 2018, through the ToSTNeT-3 system. The result of such repurchase will be announced by the Company in Japan on 28 February 2018. 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 stockholders' equity and total capitalisation and indebtedness. The Company does not undertake to review or revise this "Capitalisation and Indebtedness" section or any other sections of this Offering Circular to reflect any such proposed changes.

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

(9) There has been no material change in the Company's consolidated capitalisation and indebtedness since 31 December 2017, no material change in the Group's long-term secured debt and guarantees and short-term secured debt and guarantees since 31 March 2017, and no material change in the Group's contingent liabilities since 31 December 2017.

INFORMATION CONCERNING THE SHARES

Changes in Issued Share Capital

The Company has an authorised share capital of 500,000,000 Shares, of which 290,814,015 Shares were in issue as of 31 December 2017. The following table shows the changes in the issued share capital of the Company as of the date/period indicated below:

Date/Period	Type of issue	Number of Shares issued/ (decreased)	Total number of Shares in issue
1 April 2007 to 31 March 2008	Exercises of bonds with stock acquisition rights	2,837,161	581,628,031
1 October 2017	One-for-two stock consolidation	(290,814,016)	290,814,015

As at 31 December 2017, there has been no change in issued share capital of the Company since 31 March 2008.

Dividends

Under the Company's Articles of Incorporation, a year-end dividend may be distributed to shareholders and pledgees of record as of 31 March of each year pursuant to a resolution passed at the general meeting of shareholders, while, an interim cash dividend may also be distributed to shareholders and pledgees of record as of 30 September of each year pursuant to a resolution of the Board of Directors. The Company may also make dividends other than those described above with the approval of its shareholders at a general meeting of shareholders and subject to certain restrictions. The payment of dividends will also be subject to other factors including legal restrictions with respect to the payment of dividends. See "Description of the Shares and Certain Regulations—Distributions of Surplus".

The following table sets out the dividends paid by the Company to its shareholders and pledgees of record as at the record dates indicated:

Record date	Dividends per Share
	(Yen)
30 September 2012	¥14.0
31 March 2013	20.0
30 September 2013	17.0
31 March 2014	20.0
30 September 2014	24.0
31 March 2015	24.0
30 September 2015	21.0
31 March 2016	10.0
30 September 2016	5.0
31 March 2017	6.0
30 September 2017	17.0

Note:

(1) The amounts of dividends per Share set out in the above table are actual amounts paid per Share, unadjusted for the one-for-two stock consolidation that took effect on 1 October 2017.

With regard to distribution of profits to shareholders, the Company determines the balance between distribution of cash dividends and the retention of earnings through comprehensively considering its business performance and dividend payout ratio, results of operations for the relevant fiscal period, future business development and the soundness of its financial position. With regard to the frequency of dividends paid in each fiscal year, the Company in general decides such frequency based on the characteristics of the Group's business and its business strategy, and based on the facts that its principal sources of funds are profits from the Mineral Resources and Smelting & Refining businesses, and that the Group is currently pursuing a growth strategy based on large-scale investments, the Company considers the amount of profit distribution focused on the results of operations of the full fiscal year or the first half of the fiscal year. Pursuant to the financial strategy set out in its

2015 Three-Year Business Plan, the Company intends to continue to focus on the maintenance of the soundness of its financial position. The payment of dividends will also be subject to other factors including legal restrictions with respect to the payment of dividends.

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 highest and lowest reported prices of the Shares on the Tokyo Stock Exchange (adjusted for the one-for-two stock consolidation that took effect on 1 October 2017, as if such stock consolidation took effect on 1 January 2013), and the highs and lows of the daily closing Nikkei Stock Average (an index of 225 selected stocks listed on its First Section) and of the daily closing level of the Tokyo Stock Price Index ("TOPIX") for the periods indicated:

	Price per Share		Nikkei Stock Average		TOPIX	
Calendar Year	**High**	**Low**	**High**	**Low**	**High**	**Low**
	(Yen)		**(Yen)**		**(Points)**	
2013[(1)]	¥3,356	¥2,108	¥16,291.31	¥10,486.99	1,302.29	871.88
2014[(1)]	3,760	2,400	17,935.64	13,910.16	1,447.58	1,132.76
2015[(1)]	4,080	2,624	20,868.03	16,795.96	1,691.29	1,357.98
2016[(1)]:						
First quarter	3,019	2,025	18,450.98	14,952.61	1,509.67	1,196.28
Second quarter	2,642	1,946	17,572.49	14,952.02	1,407.50	1,204.48
Third quarter	2,867	2,044	17,081.98	15,106.98	1,352.67	1,209.88
Fourth quarter	3,353	2,584	19,494.53	16,251.54	1,552.36	1,301.16
2017:						
First quarter[(1)]	3,335	2,887	19,633.75	18,787.99	1,577.40	1,506.33
Second quarter[(1)]	3,183	2,613	20,230.41	18,335.63	1,624.07	1,459.07
Third quarter[(1)]	3,933	2,953	20,397.58	19,274.82	1,676.17	1,590.71
Fourth quarter	5,267	3,563	22,939.18	20,400.78	1,831.93	1,673.62
2018:						
First quarter (up to 27 February)	5,562	4,615	24,124.15	21,154.17	1,911.07	1,702.72

Note:

(1) The prices per share for periods prior to (and including) 26 September 2017 (being the last trading day before the shares became ex-rights as regards the stock consolidation) has been adjusted for the one-for-two stock consolidation that took effect on 1 October 2017, as if such stock consolidation took effect on 1 January 2013.

On 27 February 2018, the reported closing price of the Shares on the Tokyo Stock Exchange was ¥5,083 per Share. The closing Nikkei Stock Average and TOPIX on the same date were ¥22,389.86 and 1,790.34, respectively.

Principal Shareholders and Distribution of Shares

As of 30 September 2017, the Company had 36,430 shareholders of record.

As of 30 September 2017, the 10 largest shareholders of record and the number and percentage of Shares held by them were as follows:

Shareholder	Number of Shares held[1]	Percentage of total Shares in issue[2]
	(Thousands)[3]	(Per cent.)
The Master Trust Bank of Japan, Ltd. (Trust Account)[5]	39,762	6.84%
Japan Trustee Services Bank, Ltd. (Trust Account)[5]	39,744	6.83
Toyota Motor Corporation	22,116	3.80
JP Morgan Chase Bank 385632 (Standing Proxy: Mizuho Bank, Ltd.)	11,648	2.00
State Street Bank and Trust Company (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	10,275	1.77
Japan Trustee Services Bank, Ltd. (Trust Account 5)[5]	9,546	1.64
State Street Bank West Client – Treaty 505234 (Standing Proxy: Mizuho Bank, Ltd.)	8,040	1.38
Sumitomo Mitsui Banking Corporation	7,650	1.32
Sumitomo Realty & Development Co., Ltd.	7,490	1.29
Japan Trustee Services Bank, Ltd. (Trust Account 1)[5]	7,475	1.29
Total	163,746	28.16%

Notes:

(1) The number of Shares held are actual number of Shares held as of 30 September 2017, without adjustment for the one-for-two stock consolidation that took effect on 1 October 2017.

(2) Based on the total Shares in issue without adjustment for Shares of treasury stock held by the Company.

(3) Amounts of less than one thousand Shares have been rounded down to the nearest thousand.

(4) The Company held 30,056 thousand Shares of treasury stock as of 30 September 2017, which are excluded from the above table.

(5) Held by such holders in their trust accounts.

(6) The FIEA requires any person who has become, beneficially and solely or jointly, a holder of more than 5 per cent. of the total issued voting Shares to file a report concerning such shareholdings with the director of a competent Local Finance Bureau, and also requires such person to file a similar report concerning 1 per cent. or more changes in such substantial shareholdings or any changes in material matters set out in the reports previously filed (see "Description of the Shares and Certain Regulations—Reporting of Substantial Shareholders"). As of 27 February 2018, the following reports in respect of holdings or changes in holdings of the Shares have been identified by the Company on the EDINET filing system since 1 October 2017:

- A report relating to a change in shareholding filed on 7 February 2018 by Templeton Global Advisors Limited and other joint holders, informing of their ownership of Shares amounting to 15,852,165 Shares as of 31 January 2018, as set out below:

Templeton Global Advisors Limited	6,072,892 Shares
Templeton Investment Counsel, LLC	7,175,516.25 Shares
Franklin Templeton Investments Corp.	1,547,056.75 Shares
Templeton Asset Management Ltd.	1,056,700 Shares

The ownership distribution of the Shares by category of shareholders of record of the Company as of 30 September 2017 was as follows:

Category	Number of Shareholders	Number of Shares held[1]	Percentage of total Shares in issue[3]
		(Units[4])	(Per cent.)
Japanese financial institutions.	108	200,419	34.46%
Japanese financial instruments business operators	46	11,446	1.97
Other Japanese corporations[2]	612	77,201	13.27
Foreign corporations and others (including foreign individuals)	658	190,389	32.73
Japanese individuals and others[3]	35,006	102,171	17.57
Total	36,430	581,626	100.00%

Notes:

(1) The number of Shares held (including the number of Shares of treasury stock held by the Company referred to in Note (5) below) are actual number of Shares held as of 30 September 2017, without adjustment for the one-for-two stock consolidation that took effect on 1 October 2017.

(2) "Other Japanese corporations" include one unit of Shares held in the name of JASDEC.

(3) Based on the total Shares in issue without adjustment for Shares of treasury stock held by the Company.
(4) The unit of Shares used here is 1,000 Shares, using the number of Shares in a unit prior to the one-for-two stock consolidation that took effect on 1 October 2017 (at which time the number of Shares in a unit was reduced to 100 Shares).
(5) 30,056 thousand Shares of treasury stock held by the Company as of 30 September 2017 are included in "Japanese individuals and others".

As of 30 September 2017, the Company's Directors together directly held 94,208 Shares, representing 0.02 per cent. of total Shares in issue as at that date.

As of 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 27 February 2018 that it intends to repurchase up to ¥5 billion worth of Shares or up to 1,300,000 Shares (such number of Shares amounting to approximately 0.47 per cent. of the issued Shares (excluding treasury stock) as at 31 December 2017) at 8:45 a.m. (Tokyo time) on 28 February 2018 at the closing price of the Shares on the Tokyo Stock Exchange on 27 February 2018, through the off-market hour trading system of the Tokyo Stock Exchange for repurchase of its own shares by issuers at the ToSTNeT-3 system. The Company has decided to repurchase such Shares with a view to enabling improved conditions for the issuance of the Bonds through mitigating the potential short-term effect of the issuance of the Bonds on the market supply and demand of Shares. The result of such repurchase will be announced by the Company in Japan on 28 February 2018. As the amount which the Company is able to repurchase through the ToSTNeT-3 system is completely 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 repurchases of Shares (or lack thereof) as referred to above.

Loan with Series 2 Stock Acquisition Rights

In March 2013, the Company procured ¥100 billion of funds through a scheme of a loan combined with the issuance of stock acquisition rights (the "Loan with Series 2 Stock Acquisition Rights"). Under the Loan with Series 2 Stock Acquisition Rights, the Company has borrowed ¥100 billion from Sumitomo Mitsui Banking Corporation (trust account) (the "Lender") at the same time as issuing stock acquisition rights (the "Series 2 Stock Acquisition Rights") to the Lender. The Lender has entrusted the rights under the loan and the Series 2 Stock Acquisition Rights to a special purpose vehicle which has issued trust beneficiary interests in respect thereof to Sumitomo Mitsui Banking Corporation and certain other Japanese financial institutions (the "ABL Lenders") in return for asset-backed loans (secured on the Series 2 Stock Acquisition Rights) from the ABL Lenders. Upon exercise of the Series 2 Stock Acquisition Rights (with the exercise price being ¥3,734 per Share as of 31 December 2017), the loan principal under the Loan with Series 2 Stock Acquisition Rights will be applied as the exercise price thereof in return for the issue of the relevant number of Shares. Further, subject to certain conditions (including the volume weighted average price of the Shares during the period from 15 February 2017 to 14 March 2017 or 15 February 2018 to 14 March 2018 exceeding the minimum exercise price in respect of such Series 2 Stock Acquisition Rights at least one time), the Company may require the exercise of such Series 2 Stock Acquisition Rights by notice to the holders thereof. The Company has, however, announced that it does not intend to exercise its right to require such exercise of the Series 2 Stock Acquisition Rights, even if the conditions to such exercise were to be met.

The maturity date of the loan under the Loan with Series 2 Stock Acquisition Rights is 15 March 2020, provided, however that all or a part of such loan may be repaid at the option of the Company at the date it specifies. The Company intends to redeem the entire outstanding principal amount of the Loan with Series 2 Stock Acquisition Rights (being ¥100 billion) on 15 March 2018, and the Company intends to apply ¥25 billion of the proceeds of the issue of the Bonds towards such repayment (see "Use of Proceeds"). The balance of the funds required for such repayment are expected to be sourced from cash in hand, which may be replenished shortly after such repayment through ¥30 billion of additional long-term borrowing. The Company may also replenish the depletion in cash in hand through such repayment with further additional borrowings. Upon repayment of the entire outstanding principal amount of the Loan with Series 2 Stock Acquisition Rights, the stock acquisition rights in respect thereof will be cancelled in their entirety.

Takeover Defense Measures

The Company has in place its Countermeasures to Large-Scale Acquisitions of the Company's Shares (the "takeover defense measures"), which were approved by shareholders at the annual general meeting held in June 2016. The period of validity of the revised takeover defense measures will last for three years until the conclusion of the ordinary general meeting of shareholders in June 2019.

The Company believes that persons who control decisions on the Company's financial and business policies need to be persons who understand the sources of the Company's corporate value and who will make it possible to continually and steadily ensure and enhance the Company's corporate value and, in turn, the common interests of its shareholders. The Company has therefore adopted the Takeover Defense Measures with a view to protecting its corporate value and the common interests of shareholders against an aggressive acquisition that would harm that corporate value and those common interests of shareholders.

The takeover defense measures set out procedures that acquirers in respect of applicable acquisitions (acquisitions that lead to holdings of 20 per cent. or more of the Company's shares) must adhere to in advance, and include requirements for acquirers to furnish information. Under the Japanese legal system, a party making an acquisition proposal does not have a duty to furnish information. Having takeover defense measures in place attempts to ensure that a party making an acquisition proposal will furnish information and allow shareholders to compare statements by the acquirer and the Company's management before deciding which course of action is preferable.

Additionally, if certain conditions specified in the takeover defense measures are met, such as the acquisition having the potential to harm the Company's corporate value or the common interests of shareholders, the Board of Directors may decide to allot all shareholders registered at that time (other than the acquirer) certain stock acquisition rights, without contribution, and upon exercise thereof (or upon acquisition thereof by the Company), the ratio of voting rights in the Company held by the acquirer will be diluted. Exercise of this measure requires the decision by an Independent Committee comprised of outside directors (independent officers) or other independent parties, in order to guarantee fairness and objectivity.

BUSINESS

Overview

The Group is one of the major non-ferrous metal businesses in the world, involved in the exploration, development and production of non-ferrous metal resources in Japan and overseas, the smelting and refining of copper, nickel and ferronickel as well as precious metals such as gold and silver, and the manufacturing, processing and sales of advanced materials such as battery materials, crystal materials and powder materials. The Group's operations are divided into three reportable segments: (i) Mineral Resources, (ii) Smelting & Refining, and (iii) Materials. The Group's other businesses not included in the reportable segments, are reported as "Others".

As of 31 December 2017, the Company had 60 consolidated subsidiaries (of which 21 were in the Mineral Resources business, 10 were in the Smelting & Refining business, 21 were in the Materials business and eight were in the Others business), 15 affiliates accounted for by the equity method (of which five were in the Mineral Resources business, seven were in the Smelting & Refining business and three were in the Materials business) and 3 non-consolidated subsidiaries.

History

The Company is currently the second oldest listed company in Japan. The history of the Group dates back to 1590, when Riemon Soga, a member of the Sumitomo Family, began copper smelting and refining in Kyoto, following the introduction into Japan of "*Nanban-buki*", a refining method of extracting silver and other substances from unrefined copper by using lead. In 1691, when the Besshi Copper Mine was established by the Sumitomo Family, the business was further expanded. Thereafter, the Sumitomo Family diversified its business from the operation of the Besshi Copper Mine into trading, financing and other areas.

In 1939, the Group entered into the business of nickel smelting and refining. The Company was incorporated with limited liability under the laws of Japan as Besshi Mining Co., Ltd. in March 1950 by being split off from the metal division of Seika Kogyo Co., Ltd., formerly Sumitomo Mining Co., Ltd., and took over the operation of the Besshi Copper Mine, the Konomai Gold Mine and the smelting operations of non-ferrous metals. In 1952, the Company changed its name to Sumitomo Metal Mining Co., Ltd.

In 1954, the Group expanded its business into nickel processing and in 1956, the Company established Hyuga Smelting Co., Ltd. and started production of ferronickel. In 1960, the Company established Tokyo Electronic Metal Co., Ltd. which started to manufacture germanium dioxide, and expanded its business to electronic materials. This company was absorbed by the Company in 1966, which set up the Electronic Metal Division (currently the Materials Division). Also in 1966, the Harima Smelter (currently Harima Refinery) of Sumiko I.S.P. Co., Ltd., a subsidiary of the Company, commenced production of zinc and lead. In 1969, the Company's copper cathode was registered on the LME.

In 1961, the Company made the first of its overseas capital investments, and furnished loans, to develop the Bethlehem Copper Mine in Canada. Since then, the Group has been involved in overseas mine development projects and has established partnerships with mining companies around the world. In 1973, the Group closed its operations at the Besshi Copper Mine and the Konomai Gold Mine in Japan which were one of the leading mines in Japan. In 1981, a gold deposit was discovered in the mining area of the Group in Hishikari, Kagoshima, and the Hishikari Mine was opened in 1985. The Company invested in the overseas mines such as the Morenci Copper Mine in 1986, the Candelaria Copper Mine development project in 1992, the Cerro Verde Copper Mine in Peru in 2005 and the Sierra Gorda Copper Mine development project in 2011. The Company has also invested in the Pogo Gold Mine in Alaska, having initially started the project in 1991 and commencing operations in 2006. The Group acquired an additional interest in the Morenci Copper Mine in 2016.

In terms of the Smelting & Refining business, the Group changed its metal refining process at the Niihama Nickel Refinery to the MCLE method in 1992, while in 2005, commercial production by Coral Bay Nickel Corporation in the Philippines commenced, followed by commercial production at THPAL in the Philippines in 2013, which was the first successful large scale commercial production in the world using the HPAL process.

The Company's Shares have been listed on the First Section of the Tokyo Stock Exchange since June 1950.

Strategy

The business environment surrounding the Group is changing dramatically due to the scarcity of high-quality resources, the expansion of resource nationalism, strengthening of environmental regulations, exchange rate fluctuations and other reasons. In light of these environmental changes, the Group intends to continuously grow its three core businesses, the Mineral Resources business, the Smelting & Refining business and the Materials business, to achieve its Long-Term Vision of becoming a "World Leader in the Non-Ferrous Metals Industry" and an "Excellent Company of Japan".

The copper smelting business is the origin of the Group. The Group believes that it can contribute to the society and improve its corporate value through securing its interests in good resources, and smelting and refining such resources to supply high quality metals and materials. According to its recognition, this can only be made by a "World Leader in the Non-Ferrous Metals Industry", and the Group is aiming for further growth to become such a leader. To become an "Excellent Company of Japan", the Company aims to become such a company that can continuously develop and realise its growth strategies based on the solid management foundation underpinned by the firm corporate philosophy and management vision as well as the strict control of corporate governance and the promotion of corporate social responsibility (CSR) activities in line with such philosophy and vision.

Based on such Long-Term Vision, the Group is pursuing the following strategies under its 2015 Three-Year Business Plan covering the three fiscal years ending 31 March 2019.

Mineral Resources

The mineral resources business has a long-term vision to increase annual production interest, such as through the expansion of overseas copper mines already in operation, the start of commercial production in the Sierra Gorda Copper Mine development project, the acquisition of additional interests in the Morenci Copper Mine and the acquisition of an interest in the Côté Gold Project. With respect to gold, the Group intends to continue exploration around its operating mines, to consider participation in new joint ventures, and to acquire new interests through investments or mergers and acquisitions activities.

Smelting & Refining

The Smelting & Refining business has a long-term vision to expand its nickel production structure by securing alternative sources of mineral resources and expanding production capacity. In addition, the recovery business of scandium and other resources has been showing steady progress towards its aim of launching commercial production. In copper smelting, the Group will strive to bolster profitability through stable operation, by increasing the processing of secondary materials, and by reducing fixed costs. To enhance competitiveness of the Smelting & Refining business, the Company is working on innovation of its mineral resources and smelting and refining technologies at the Resources & Hydrometallurgy Process Centre.

Materials

The Group aims to make large-scale investments in the battery materials (such as lithium nickel oxide cathodes for secondary batteries used in EVs, hybrid vehicles and plug-in hybrid vehicles) and crystal materials (such as lithium tantalate substrate for SAW filter used in smartphones) businesses in order to improve its profitability, and develop its business operations for other product groups according to changes in the environment. Through collaboration with the Group's research and development department and a close relationship with its customers, the Group will aim to market new products as the next driving force for growth.

Research and Development

Based on the "2015 Three-Year Business Plan", the Group intends to continue to focus on resource allocation, accelerate the development of new material-based products, innovate resources and smelting technologies and promote process development.

Strengths

The Group's strength lies in the collaboration of its three core businesses, contributing to the stable supply of goods from basic materials to high-quality products. Excavating ore, a natural resource, making it into metal materials by smelting and refining, and adding new value to those materials is a business process that remains unchanged over the years, even though the materials the Group handles and the value it adds may vary through the ages. The Mineral Resources business takes the first step towards extracting the natural mineral resources that have lain dormant underground over the ages, and turning them into metals. The skills accumulated through 283 years of operating the Besshi Copper Mine, from 1691 to 1973, and other businesses, are incorporated in the operations of the Hishikari Mine and the Pogo Gold Mine, which started production in 1985 and 2006, respectively. Additionally, the Group participates in mining operations as a professional mine developer and operator in regions around the world, while pursuing myriad exploration projects, and proceeding with surveys to develop new mines.

The Smelting & Refining business produces metals, particularly copper, nickel, and gold, from ores procured by the Group's Mineral Resources business and overseas mining companies. Over the 420 years since 1596, when Riemon Soga perfected the "*Nanban-buki*" method of separating silver from copper, the business has continuously passed down and developed smelting and refining technologies. The result is that now the Group possesses world-class smelting and refining technology, as demonstrated by successes such as becoming the world's first company to commercialise the HPAL process for the recovery of nickel from low-grade nickel oxide ores, which had been difficult with conventional technologies. The Company is also the only company in Japan to produce electrolytic nickel and electrolytic cobalt.

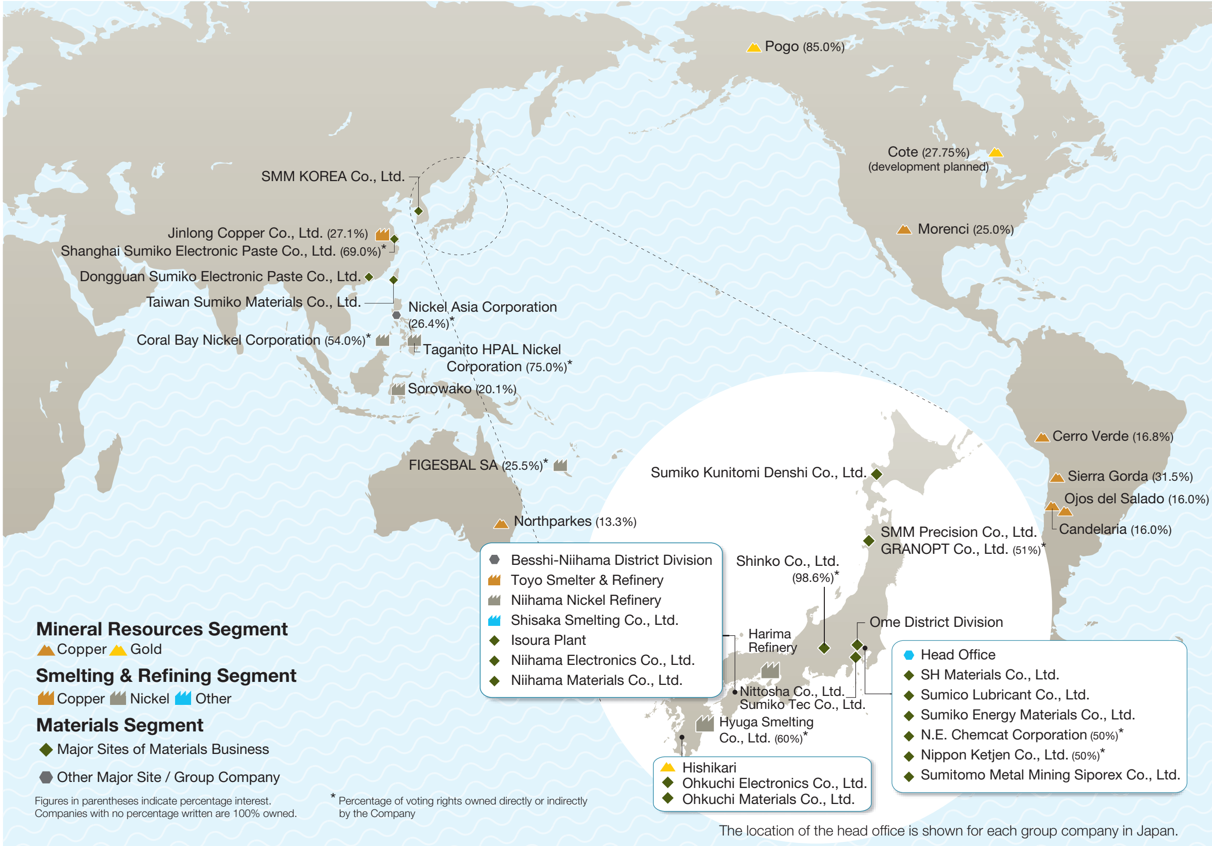
The Materials business produces and supplies advanced materials and the like by applying core technologies to add a range of values to metals and materials procured by the Smelting & Refining business and others. The Group's strength lies in integrated production from the nickel raw material up to the battery material. Recently, securing a stable supply of the basic resources that are used in high-grade materials has become a vital concern for businesses that require them. For the Group's customers, nickel materials used in the rechargeable batteries featured in EVs, hybrid vehicles and plug-in hybrid vehicles are one such concern. As the prevalence of EVs, hybrid vehicles and plug-in hybrid vehicles expands, demand for nickel materials has been increasing sharply. In recent years, the Group has collaborated with customers to aggressively respond to the vigorous demand for cathode materials used in secondary batteries for EVs, hybrid vehicles and plug-in hybrid vehicles, and LT/LN materials for SAW filters used in smartphones and other mobile devices. The Group works with nickel and various other metals to supply products focused on environment and energy, and information communications related areas.

Operations

The Group's operations principally comprise three reportable segments, namely, Mineral Resources, Smelting & Refining, and Materials. The Group's other businesses not included in the reportable segments, are reported as "Others". The table below sets out the major products and the main businesses conducted by each reportable segment:

Reportable segment	Major products/businesses
Mineral Resources	Gold and silver ore, copper concentrates, copper, gold
Smelting & Refining	Copper, gold, silver, electrolytic nickel, electrolytic cobalt, ferronickel, chemical products
Materials	Battery materials, thick film materials, crystal materials, thin film materials, magnetic materials, package materials, oil refining catalysts, automotive catalysts, autoclaved lightweight concrete, lubricants

The following diagram sets out the principal mines, smelters and refineries operated by the Group or in which the Group holds an interest, as well as its major business sites as of 31 December 2017:



The following table sets out the total net sales and segment income of the Group (before inter-segment eliminations) by segment, for the periods indicated:

	For the Fiscal Year Ended 31 March			For the Nine-Month Period Ended 31 December	
	2015	2016	2017	2016	2017
	(Millions of yen)				
Net sales:					
Mineral Resources	¥113,791	¥119,751	¥123,370	¥ 87,171	¥115,494
Smelting & Refining	710,291	641,932	565,057	405,369	494,113
Materials	174,206	171,597	174,061	126,148	134,000
Others	17,366	15,291	10,342	7,096	7,773
Adjustment	(94,320)	(93,164)	(86,684)	(61,324)	(65,539)
Total consolidated net sales	¥921,334	¥855,407	¥786,146	¥564,460	¥685,841
Segment income (loss):					
Mineral Resources	53,775	(44,317)	(53,594)	(62,629)	37,008
Smelting & Refining	81,323	25,258	33,258	20,575	35,165
Materials	12,914	5,972	12,066	7,747	11,377
Others	(80)	(828)	(65)	463	202
Adjustment	26,294	1,151	6,770	8,366	7,257
Total consolidated segment income (loss)	¥174,226	¥(12,764)	¥ (1,565)	¥(25,478)	¥ 91,009

Mineral Resources

The Group uses the technology accumulated from having operated the Besshi Copper Mine (opened in 1691 and closed in 1973), and incorporates it in operations of the Hishikari Mine in Japan and the Pogo Gold Mine in Alaska. The Group also acts as a professional mine developer and operator seeking out superior resources in regions around the world, while participating in mining operations (such as the Morenci Copper

Mine in Arizona and the Sierra Gorda Copper Mine in Chile), pursuing exploration projects and proceeding with surveys to develop new mines.

In terms of the mines operated by the Group (the Hishikari Mine and the Pogo Gold Mine), as of 31 December 2016, the content of gold in recoverable ore in the Hishikari Mine according to JIS standards was 169 tonnes, while at the Pogo Gold Mine, gold reserves and gold resources (according to the Canadian standard) stood at 39 tonnes and 98 tonnes, respectively.

The Group is actively exploring and acquiring gold production interest around the world, having established the Business Development Team under the Exploration & Development Department of the Mineral Resources Division in August 2016 (the team became the Business Development Department in July 2017), dedicated solely to the acquisition of gold interests, and comprising of experts from fields such as mining, exploration, and accounting. The team targets primarily mines currently being developed or those around the feasibility study stage, and is conducting surveys and issuing proposals with a view to mergers and acquisitions as well as joint development. As a result of these efforts, and in line with its strategic focus in identifying additional investments in gold interests, in June 2017 the Group commenced its participation in the Côté Gold Project (in which Canada-based IAMGOLD Corporation holds a 92.5 per cent. interest) and has acquired a 30 per cent. interest held by IAMGOLD Corporation (27.75 per cent. in the overall project). The project is a high-tonnage gold development project for open pit mining located near the city of Timmins in the province of Ontario, Canada.

In the fiscal year ended 31 March 2017, the Group increased its existing 15 per cent. interest in the Morenci Copper Mine with the acquisition of an additional 13 per cent. interest from Freeport-McMoRan Inc. The Morenci Copper Mine is one of the leading copper producers with a long history of operation in the U.S. The Group believes that this mine, which has been operated stably, will play an increasingly important role in the Group's Mineral Resources business.

Smelting & Refining

The Group smelts and refines raw materials procured from a variety of sources, mainly from mines where the Group has an interest, into such metals as copper, nickel and gold. The Group possesses world-class smelting and refining technology, having been the first in the world to commercialise recovery of nickel from low-grade nickel oxide ore, which had been difficult with conventional technologies, using a technology known as the HPAL process.

The following table sets out the Group's principal refineries and their main products:

Refinery name	**Products**
Toyo Smelter & Refinery	Copper cathode, copper sulphate, gold, silver
Niihama Nickel Refinery	Electrolytic nickel, electrolytic cobalt, nickel sulphate, nickel chloride
Harima Refinery	Nickel sulphate
Hyuga Smelting Co., Ltd.	Ferronickel shot
Shisaka Smelting Co., Ltd.	Zinc oxide pellet, iron-containing pellet
CBNC	Mixed nickel-cobalt sulphides
THPAL	Mixed nickel-cobalt sulphides
Jinlong Copper Co., Ltd.	Copper cathode

Copper

Copper is a base metal supporting electric civilization that has a wide array of applications, from electric wire to electronics. The Group manufactures copper cathode by refining copper concentrate mainly imported from South American countries in flash furnaces in the Toyo Smelter & Refinery, which is refined to 99.99 per cent. purity or higher after going through the converter, refining furnace, and electrolytic plant. Since the Group's copper cathode is superior in electric conductivity and workability, it can be used for a wide array of applications, from cutting-edge electronics parts to various electric wires, including general purpose wire. Additionally, due to its superior thermal conductivity coupled with superior workability, it is also used for various copper alloy fabricated products, including copper pipes for air conditioners. Applications include electric wires, copper alloy fabricated products, and allots, plating materials and casting materials.

Nickel/Cobalt

Nickel is a metal used for electronic materials, battery materials, and the aerospace industry, as well as stainless materials, supporting cutting-edge fields. The Group provides high quality electrolytic nickel, an important metal that supports Japan's cutting edge technologies including electronics, chemical engineering, food engineering, energy technology, aerospace industry and, in particular, the semiconductor industry as well as special steels, as the only electrolytic nickel manufacturer in Japan, using the hydrometallurgical process MCLE. Additionally, since April 2005, commercial production of nickel from low-grade ore, for which processing had been difficult conventional technologies, has begun in the Republic of the Philippines, using a technology known as the HPAL (High Pressure Acid Leach) process. Hyuga Smelting Co., Ltd. produces ferronickel, the raw material for stainless materials. The Group is the only electrolytic nickel producer in Japan. The Group expects demand for the high-purity nickel material to grow going forward as the expansion of the market for secondary batteries for EVs, hybrid cars and plug-in hybrid cars increases, and the Group is aiming for a 49,000 tonnes annual production structure for nickel sulphate at the Harima Refinery during 2018.

Electrolytic cobalt can be applied to a wide array of purposes as an alloy element for special steels, magnetic materials (magnets) or battery materials, among others. Especially in recent times, its strong magnetism is utilised for small headphones or small motors. It is also attracting attention as an important material for the aerospace industry, power generators, tool steels, etc., due to its two characteristics of being superior in abrasion resistance and heat resistance. The Group is the only electrolytic cobalt producer in Japan.

The Group has been moving THPAL to a 36,000 tonnes annual nickel production structure to keep up with the rapid increase in demand for automobile-use secondary battery cathode materials. The Taganito HPAL project started because of the success of Coral Bay Nickel Corporation's HPAL (High Pressure Acid Leach) commercial production. Construction started in 2010 and it has been producing commercially since 2013. Ore is supplied by the Group's partner investor, Nickel Asia Corporation, whose subsidiary owns the neighbouring Taganito Nickel Mine, and MS, a mixed nickel-cobalt sulphide, is produced. After this, the Niihama Nickel Refinery and Harima Refinery in Japan refine this MS, producing electrolytic nickel, electrolytic cobalt, nickel sulphate, and others. This HPAL process is a process that makes possible the recovery of nickel and cobalt from low-grade nickel oxide ore, which could not be smelted and refined with traditional technology. It is contributing greatly to the securing and effective use of precious resources.

As part of the strengthening of its competitiveness, the Group has been recovering copper and nickel from secondary materials such as metal scrap. The Group has also achieved the first practical recycling in Japan of lithium-ion secondary batteries. This process recovers the copper and nickel from used batteries and achieves "battery to battery" recycling for waste lithium-ion secondary batteries. The processing flow combines the copper pyrometallurgical refining process of the Toyo Smelter & Refinery and the nickel hydrometallurgical refining process of the Niihama Nickel Refinery, and by accurately controlling the concentration of impurities in the raw materials, the Group has successfully recovered copper and nickel from lithium-ion secondary batteries, which contain smaller amounts of valuable metals as compared with nickel-metal hydride batteries.

Gold/Precious Metals

Gold is widely used for electronic materials, dental materials, and plating materials due to its chemical stability, as well as for jewellery and investments. With the Group's Hishikari Mine in Kagoshima Prefecture, which yields the highest grade and the largest amount of gold in Japanese history, the Group produces high-grade gold using the refining technologies it has accumulated over a long period of time. The Group is on the London Good Delivery List as a smelter that is acceptable to the London Bullion Market Association.

Other precious metals produced by the Group include silver, platinum, rhodium, ruthenium and palladium.

Others

The Group is proceeding with plans for the first western commercial production of scandium. Scandium is one of the rare earth elements and it is expected to be used in applications such as fuel cells. This scandium is produced as a by-product of HPAL technology, which the Group was the first in the world to successfully commercialise. A plant was established at THPAL to manufacture an intermediate product from it. Further, a process to turn the intermediate into the final product, scandium oxide, was established at the Harima Refinery. The Group has also recently taken the decision to commercially recover chromite, which is mainly used as a raw material for stainless steel. The Group will construct a chromite recovery plant at THPAL where it plans to commence production from 2020.

Materials

Since the 1960s, the Group has been leveraging the strengths of its Mineral Resources and Smelting & Refining businesses to develop its Materials business. In recent years, the Group has been carrying out structural reform centred on advanced materials, and making electric battery materials and crystal materials the new pillars of this business, having exited the lead frames business in the fiscal year ended 31 March 2017. As part of its increased focus on battery materials, the Group decided in October 2014 to increase its production structure for lithium nickel oxide, primarily used as cathode material in batteries for EVs, from 850 tonnes per month to 1,850 tonnes per month, and also launched a new business site with the start of operations at the Sumiko Energy Materials Co., Ltd.'s Naraha Plant achieving the 1,850 tonnes monthly production structure in 2016. Following on from this, in October 2016 the Group decided to further increase its production capability to a 3,550 tonnes per month production structure, and the precursor processing equipment that makes up the upstream process was installed at the Harima Refinery, and in July 2017, the Group decided to further increase its production capacity to a 4,550 tonne per month production structure (with the aim of reaching completion in 2018), aimed at enhancing the capabilities of its Isoura Plant. Further, in October 2017, the Group acquired a 51 per cent. interest in Sicoxs Corporation (which develops silicon carbide substrates, a semiconductor material that is mainly used to control electric power, using bonding technology), which the Group intends to operate as a joint venture with Kaga Electronics Co., Ltd.

Materials business products are supplied primarily to customers in the electronic components industry, where they are processed into components which are incorporated into electronic devices such as smartphones, EVs, and other products and delivered to the businesses and consumers that are the end users. The daily evolution of the final products is seen in the increasing sophistication of smartphones and improving performance of EVs, but the connection to these finished products lies not with the Group, but with its customers. Therefore, to conduct its business the Group needs to communicate closely with these customers, gain a full understanding of how upcoming products will differ from current ones and what functions and materials are needed to achieve this, and develop the next generation of materials. An example of the Group's operation to cope with such situation is in the Group's battery materials business where the Group sends not only the sales representative, but also production-related engineers and battery research and development personnel for frequent discussions with the customers' production engineers and research and development personnel.

The following table sets out a description of certain of the major products of the Group in this segment:

Products	**Descriptions**
Battery Materials	
Nickel Hydroxide	Nickel hydroxide is used as the cathode active material for nickel hydride batteries, and is mainly used in hybrid-type electric automobiles.
Lithium Nickel Oxide	Lithium nickel oxide is used as the cathode material for lithium ion batteries, and is mainly used in electric automobiles. Due to a high nickel content of the lithium nickel oxide manufactured by the Group, the capacity of batteries can be increased, which contributes to a longer distance that can be covered with a single-time charging.
Crystal Materials	
LT (Lithium Tantalate)/ LN (Lithium Niobate)	The largest use of Lithium Tantalate (LT) and Lithium Niobate (LN) is in SAW devices mounted in communication devices such as smartphones. When voice communication and data communication are performed, SAW devices such as SAW filters and SAW duplexers are mounted in communication devices as filters for preventing noise and interference.
Communication devices: Faraday Rotator	Control of light is important in WDM (wavelength division multiplex transmission) technology. The Faraday rotator plays the role of making a one-way path for light by utilising the magneto-optic phenomena unique to particular materials. The Group produces Faraday rotators with various characteristics by utilising the magnetic film forming technology based on the liquid phase epitaxial method.

Products	Descriptions
Communication devices: Optical Isolator	Fibre-optic communication network supports the multimedia based society. The introduction of a fibre-optic communication system is indispensable for transmitting audio data, as has been conventionally performed, in addition to transmitting large-volume data such as movie data freely. As the reflection in the bifurcation of optical fibre causes amplifier or laser diode failure, it has become a problem alongside the widening of services. The Group's optical isolator can solve this problem. Applications include optical isolator for optical source devices (LD modules) for optical communications.
Powder Materials	
Thick film materials	Thick Film Materials is ink paste produced through mixing, kneading, and dispersing of metal powders, glass powders, and inorganic oxides with organic solvent in a three-roll mill. Includes thick film paste for internal electrodes for multilayer ceramic capacitors and electrically conductive adhesives for optical devices such as LEDs; fine copper powder for conductive materials and fillers and electromagnetic shielding materials; and nickel powder for electrodes of multilayer ceramic capacitors and conductive paste.
Functional inks: near-infrared shielding materials	New near-infrared shielding materials, lanthanum hexaboride and cesium tungsten oxide with selective and strong near-infrared absorption in the range of 800 to 1200 nm have been developed originally by the Group and are patented by the Group in various jurisdictions. These materials diminish near-infrared rays of shorter wavelength which has much of the heat energy in sunlight. Applications include use in automotive windows and residential housing materials, to suppress temperature rising inside the car or the house.

Approach to Financial Condition

The short-term performance of the Group's core businesses, Mineral Resources and Smelting & Refining, may be greatly affected by factors including the volatility of non-ferrous metal prices and foreign exchange rates. To prepare for risks and medium to long-term investments, the Group has strived to maintain the soundness of its financial standing. Under the 2015 Three-Year Business Plan, the Group intends to leverage this strong financial base and concentrate management resources into priority areas, while undertaking active investment aimed at acquiring interests and operating overseas mines, the enhancement of smelting and refining facilities, and expanding battery and crystal material production capacity. The soundness of its financial standing enabled the Group to recently acquire additional interest in the Morenci Copper Mine.

Approach to Investment

The Group works to enhance its competitiveness in both raw materials procurement and manufacturing to overcome a deteriorating business environment. Due, however, to uncontrollable factors such as changes in the balance of supply and demand for commodities and the impact of natural disasters, it is not always possible to purchase the raw materials for non-ferrous metals in the necessary quantities or at economical prices. To hedge against such unforeseen changes, the Group works to secure stable sources by developing and acquiring interests in overseas mines, as well as through increasing the Group's holding ratio of these sources. With respect to the development and acquisition of such sources, the Group selects investments carefully through strict profitability assessments using its experience and knowledge of exploration and mine valuation, and taking risks into account with the aim of avoiding additional expenditure or increase in mining costs arising from uncertainty.

Set out below is a diagram of the status of the major investment projects in which the Group is involved:

		Project name	FY2015	FY2016	FY2017	2018 onward
Mineral Resources	Cu	Sierra Gorda Copper Mine	Start commercial production	110 kt production structure		(Start debottlenecking)
	Cu	Morenci Copper Mine	Start expanded full-scale production	Acquisition of additional interests (12% -> 25%)		
	Cu	Cerro Verde Copper Mine		Start expanded full-scale production		
	Ni	Solomon			withdrawal from project	
	Au	Cote			Acquisition of interests; FS Start	
Smelting & Refining	Ni	Taganito HPAL			36 kt production structure	
	Ni	Pomalaa Project				DFS Start; Decision on investment
	Ni	Harima Refinery Nickel sulfate		Second line launch		49kt Structure
Materials	Battery materials		NCA 1,850 t structure		NCA 3,550t Structure	NCA 4,550t Structure; Ternary type
	Crystal materials (LT/LN)		Decision on production increase	300KP structure		Increase production (400KP structure)

See "—Mineral Resources" above for recent investments in the Côté Gold Project in Canada and the increase in the Group's interest in the Morenci Copper Mine.

The needs and demands from the materials market change rapidly, even though a high level of product development capabilities and the input of considerable amounts of management resources are often required. In order to meet those needs, the Group intends to build close, trusting relationships with leading companies in the market, with the aim of growing together with them to ensure stable supply and by undertaking continued cost reductions.

Properties

The following table sets out certain information by segment of the Group's properties held as of 31 March 2017:

		Book Value(1)				
	Land Area Owned	Land	Buildings and Structures	Machinery, Equipment and Vehicles	Other Capital Invested(2)	Total
	(Square metres)	(Millions of yen)				
Mineral Resources	43,477	¥ 1,675	¥ 55,583	¥ 61,795	¥45,483	¥164,536
Smelting & Refining	1,482	5,026	85,405	158,423	901	249,755
Materials	883	5,471	22,567	27,909	1,899	57,846
Others	12,367	4,217	5,327	607	263	10,414
Adjustments	11,637	10,208	9,369	1,974	1,231	22,782
Total	69,846	¥26,597	¥178,251	¥250,708	¥49,777	¥505,333

Notes:
(1) Book values exclude construction in progress.
(2) Other capital invested includes tools, fixtures and furnishing, mining rights, software and others.

Principal properties included in the Mineral Resources segment include the Hishikari Mine, the Pogo Gold Mine and manufacturing facilities at the Morenci Copper Mine. Principal properties in the Smelting &

Refining segment comprise the Group's smelters and refineries, principally located in Japan but also in the Philippines. Principal properties in the Materials segment comprise the Group's manufacturing facilities, located in Japan.

Sources of Supply

The principal raw materials utilised by the Group are copper concentrates, crude copper, nickel oxide ore and nickel matte and gold ore. To provide cost-competitive products on a stable basis in the non-ferrous metals markets, the Group intends to secure its own resources through investment in overseas mines. See "—Operations—Approach to Investment". With respect to the mines in which the Group has interests, the Group has the rights to purchase the metal amounts in proportion to its interests. The Group internally procures some of the principal raw materials for its Materials business (for example, nickel and lithium nickelate for electric pastes and battery materials).

The prices for non-ferrous metal materials are determined by reference to prices in the international commodity markets, including the LME, which are mainly set in U.S. dollars. The Group partially hedges against price fluctuations of the prices of metals by entering into metal price hedging contracts.

Material Contracts and Related Party Transactions

Material contracts entered into by the Group with third parties include the following:

- An agreement between Sumitomo Metal Mining Arizona Inc. and SMM Morenci Inc., the Company's subsidiaries, and affiliates of Freeport-McMoRan Inc., pursuant to which the Group has agreed to jointly hold and operate the Morenci Copper Mine in Arizona. Pursuant to the agreement, Sumitomo Metal Mining Arizona Inc. and SMM Morenci Inc. have the right and obligation to assume 15 per cent. and 13 per cent., respectively, of the products of the mine.

- An agreement between the Company's subsidiary, SMMA Candelaria Inc. and Lundin Mining Corporation of Canada, pursuant to which the Group has agreed to jointly operate the Candelaria Copper Mine (in the Chilean operating company of which the Group holds a 20 per cent. interest). Pursuant to the agreement, the Group has the right and the obligation to purchase 20 per cent. of the products of the mine.

- An agreement between the Company's subsidiary Sumitomo Metal Mining Pogo LLC and an affiliate of Sumitomo Corporation, pursuant to which the two companies have agreed to jointly hold and operate the Pogo Gold Mine in the U.S. Pursuant to such agreement, the Group is involved in the operation of the Pogo Gold Mine, and has the right and obligation to assume 85 per cent. of the products of the mine.

- An agreement between the Company's subsidiary SMM Cerro Verde Netherlands B.V. and Freeport-McMoRan Inc. of the U.S. (and its affiliate) and Compañía de Minas Buenaventura S.A.A. of Peru, pursuant to which the Group has agreed to jointly operate the Cerro Verde Copper Mine in Peru (in which the Group holds a 21 per cent. interest), and has the right and obligation to purchase 21 per cent. of the product of the mine.

- An agreement between the Company and Vale Canada Limited, pursuant to which the Group will jointly operate PT Vale Indonesia Tbk (in which the Group holds a 20 per cent. interest), and has the right and obligation to purchase 20 per cent. of the product of the Sorowako Nickel Mine in Indonesia.

- An agreement between the Company and Mitsui & Co., LTD. ("Mitsui"), Sojitz Corporation ("Sojitz") and Nickel Asia Corporation, whereby Mitsui, Sojitz and Nickel Asia Corporation have invested 46 per cent. interest in the Company's subsidiary Coral Bay Nickel Corporation, and pursuant to which the Company and the three companies have agreed to jointly operate Coral Bay Nickel Corporation. Pursuant to this agreement, Coral Bay Nickel Corporation has the right to purchase all nickel ores appropriate for HPAL nickel production mined at the Rio Tuba Nickel Mine, and the Company has the right to purchase all products produced by Coral Bay Nickel Corporation.

- An agreement between the Company, Sumitomo Corporation and KGHM International Limited of Canada, pursuant to which the Group has agreed to jointly operate Sierra Gorda S.C.M. (in which the Group has a 45 per cent. interest). Pursuant to this agreement, the Group has the right and obligation to purchase 50 per cent. of copper concentrate produced at the Sierra Gorda Copper Mine.

- An agreement between the Company, Mitsui and Nickel Asia Corporation of the Philippines, pursuant to which the Group has agreed to jointly operate the Company's consolidated subsidiary, THPAL (in which Mitsui and Nickel Asia Corporation hold a 25 per cent. interest). Pursuant to this agreement, the Group has the right to purchase all nickel ores appropriate for HPAL nickel production mined at the Taganito Nickel Mine, and the Company has the right to purchase all products produced by THPAL.

See also Note 19 to the audited consolidated financial statements for the fiscal year ended 31 March 2017 for certain related party transactions entered into by the Company.

Competition

The Group is the only producer of electrolytic nickel and electrolytic cobalt in Japan and one of the largest producers of gold, copper and other non-ferrous metals in Japan. The global non-ferrous metals market is highly competitive, and the Group's competitors include global integrated mining and resource companies as well as local smelters. Factors affecting competition in the Mineral Resources business include the availability or otherwise of cost-effective, reliable and high-grade ore supplies, while in the Smelting & Refining business include the level of production costs, which may be affected by technological advancements and development of new production processes. The markets for most of the Group's products are highly competitive, being subject to technological advancements and the introduction of new production processes using new technologies, and the Group has numerous competitors worldwide. The Group strives to compete to participate in attractive mines through rigorous business development efforts in the Mineral Resources business, and to leverage on its advanced technologies and expertise gained over its many years of operation in the Smelting & Refining business.

The markets for many of the Group's products in its Materials business are characterised by short life cycle, rapidly evolving market needs and sudden changes in requirements based on technological advances and customer specifications, and require continuous advances in quality and performance. The Group is required to develop and market products that meet market requirements on a timely basis in order to stay competitive. The Group leverages on its strengths of synergies of its three core businesses, such as integrated production from nickel raw material up to the battery material products in the Materials business.

Research and Development

The Group is concentrating research and development resources on themes that can further contribute to business operations, such as increasing sales and cutting costs, as well as applying open innovation to create new products and businesses for the future.

The Group advances research and development company-wide, with the Technology Division at the core. Within the selection and concentration that it performs in its core businesses of Mineral Resources, Smelting & Refining, and Materials, the Group prioritises allocation of research and development costs, and position smelting and refining process technology, powder synthesis and surface treatment technology, crystal growth and processing technology, and exploration, mining, and mineral processing technology as core technologies. The Group also considers analysis technology, computer aided engineering and analysis technology, and information and communication technology ("ICT") as fundamental technologies, and are carrying out focused development on clearly defined technology domains.

The core of the Group's research and development is carried out at four research and development sites: Niihama Research Laboratories, the Battery Research Laboratories, the Materials Laboratories, and the Ichikawa Research Center. These sites collaborate with business divisions over the development of products and production technology, and carry out basic research focused on acquiring new technologies for the future. For example, the Ichikawa Research Center is advancing basic research in the area of powder materials. Furthermore, the ICT Promotion Office was established in December 2016 and has started work on using internet of things ("IoT") to increase facility operation rates and product recovery rates.

Current main themes being advanced are mineral resource development and process/technology development in the field of non-ferrous metals smelting and refining, and in the materials field, the Group is focusing on materials and new technology development in the environment/energy fields and the information and communications fields, where the Group believes great societal need exists. The Group performs research and development after clearly defining the scale of its sales targets for new products, an approach that is generating results.

As for battery materials, the Group is focused on development such as increasing capacity of cathode materials for high capacity/high output lithium ion batteries used in hybrid and electric vehicles. And for crystal materials, the Group is developing crystal growth and wafer processing technologies in response to increased production of lithium tantalate and lithium niobate substrates for SAW filters contained in communication devices such as smartphones.

The key theme for smelting and refining process development is the recycling of discarded lithium ion batteries. This is technology for separating and refining useful metals, such as nickel and cobalt, from used batteries. Furthermore, although the Group uses cutting-edge technology called HPAL for extracting nickel, the Group aims to further strengthen its resource handling capabilities and have started developing pyrometallurgical smelting and refining processes that differ from HPAL.

The following table sets out the research and development expenses broken down by business segment for the periods indicated:

	Fiscal Year Ended 31 March		
	2015	**2016**	**2017**
	(Billions of yen)		
Mineral Resources	¥0.4	¥ 0.3	¥ 0.1
Smelting & Refining	1.2	1.1	0.9
Materials	4.0	4.5	4.4
Adjustment	0.3	(0.1)	(0.2)
Total research and development expenses	¥5.9	¥ 5.8	¥ 5.2

Intellectual Property

The Group actively promotes the construction of a patent network, as well as patent applications that contribute to stable business operation and development, and research and development. The following table sets out the number of patents and design registrations registered by the Group as of the dates indicated:

	Fiscal Year Ended 31 March		
	2015	**2016**	**2017**
Patents and design registrations	1,622	1,842	2,099

Marketing, Sales and Distribution

The following table shows the Group's net sales to external customers by region based upon the location of customers for the periods indicated, together with such net sales as a percentage of consolidated net sales:

	For the year ended 31 March					
	2015		**2016**		**2017**	
	(Millions of yen/per cent.)					
Japan	¥558,183	60.6%	¥515,177	60.2%	¥472,427	60.1%
East Asia	192,433	20.9	175,901	20.6	148,879	18.9
Southeast Asia	71,406	7.8	70,140	8.2	64,752	8.2
North America	75,619	8.2	73,384	8.6	82,588	10.5
Others	23,693	2.5	20,805	2.4	17,500	2.3
Total consolidated net sales	¥921,334	100.0%	¥855,407	100.0%	¥786,146	100.0%

The Group's products are sold by the sales department of each business segment, to some extent utilising trading companies. The Group sells the majority of its non-ferrous metal products to third party customers, and the remainder is used internally, with approximately 40 per cent. of consolidated net sales of the Mineral Resources segment being through inter-segment transactions. With respect to the Materials business, the principal customers are manufacturers of smartphones and of batteries for use in EVs, hybrid vehicles and plug-in hybrid vehicles. The primary overseas market for the Group's products is East Asia (excluding Japan), reflecting the growth in IT-related businesses in East Asia.

Environment

Many chemical substances are handled by the Group's businesses during mineral resource processing and manufacturing. Should an accident occur, a risk of seriously affecting the local environment will be realised. The Group emphasises the need to prevent environmental contamination by supplying equipment and strengthening management, and by providing training for relevant staff members. Each year, drills are held in order to help minimise the effects and prevent external impacts in the unlikely event an incident does occur. The Group has also worked to improve facilities, including installing systems for automatically shutting off discharge if any abnormalities are detected just before the wastewater port.

The Group believes that advancing biodiversity preservation initiatives is one of the concrete measures for bringing about its Long-Term Vision. The Group's approach to biodiversity adopts the three perspectives of pursuing global warming countermeasures, reducing environmental impacts, and preserving ecosystems. The Group is expanding its low carbon impact products business (creating, storing and saving energy), and working to reduce carbon dioxide emissions by installing energy-saving technology and taking advantage of renewable energy. Although for all of the Group's core businesses, direct and indirect impacts on biodiversity are unavoidable, the Group is striving to decrease and avoid environmental impacts in its development, operations and product use. For example, when developing mines and building smelting and refining plants, the Group surveys the surrounding ecosystems and gives consideration to the effect on these systems when choosing the location of roads and facilities; the Group also carries out activities to monitor ecosystems and plant trees.

Regulation

The Group's business activities are subject to various governmental regulations in countries in which it operates, including regulations relating to business and investment approvals, export regulations, including those related to tariffs, antitrust, intellectual property, taxation, foreign exchange controls and environmental and recycling requirements.

Significant regulations to which the Group's business activities in Japan are subject include, but are not limited to, (i) the Mining Act of Japan (Act No. 289 of 1950, as amended), which requires any person or company to obtain mining rights with permission from the Minister of Economy, Trade and Industry of Japan for the operation of its mining business, (ii) the Mine Safety Act of Japan (Act No. 70 of 1949, as amended), which governs mine workers' safety and environmental safety in connection with mining operations in Japan and allows the Minister of Economy, Trade and Industry of Japan to order mining operators to suspend their operations in cases where continued operation may cause any danger or hazard, or damage mining resources or facilities, and (iii) the Waste Management and Public Cleansing Act of Japan (Act No. 137 of 1970, as amended), which requires any person or company doing business to dispose of industrial waste either on its own or by delegating such tasks to an authorised waste disposer in accordance with the standards set forth by government ordinance.

Insurance

The Group maintains a range of insurance policies for all of its principal manufacturing plants and principal properties (but not earthquake risk, except for certain limited facilities in Japan).

Legal Proceedings

The Group is, from time to time, involved in various legal proceedings in the ordinary course of its business. Recent legal proceedings in which the Group has had a direct or indirect involvement include the following:

- *Cerro Verde Royalty Dispute.* Pursuant to the Agreement of Guarantees and Measures to Promote Investments with the Government of Peru (the "1998 Stability Agreement"), which was effective from 1999 through 2013, Cerro Verde, the Company's affiliated company accounted for by the equity method, has paid taxes based on the assumption that the mining royalty tax regime of 2004 did not apply to it. In October 2013, the Peruvian national tax authority issued to Cerro Verde a payment order of taxes for the years 2006 through 2008, plus interests and penalties thereon, because the tax authority decided that the 1998 Stability Agreement did not exempt Cerro Verde's Copper Sulphide Ores Development Project, the production of which commenced in 2006 (the "Project"), from the mining royalty tax regime. Although Cerro Verde made an appeal to related agencies that the 1998 Stability Agreement exempted the Project, it paid taxes for 2009 and onwards based on the same assumption that the 1998 Stability Agreement had been effective and had exempted the Project. In October 2017, Cerro Verde received a notice of a ruling in favour of Peruvian national tax authority issued by the Peruvian Supreme Court, that the assessments of royalties for the year 2008 on ore processed under the Project were proper under Peruvian law. As a result of the unfavourable Peruvian Supreme Court decision on the 2008 royalty matter, Cerro Verde recorded a total of U.S. $377 million for royalties, penalties and interest on overdue royalties, which it had been disputing with the Peruvian national tax authorities through judicial bodies for the period from December 2006 to 2008, as well as royalties and other payments for the period from 2009 to 2013, which is similarly being disputed. Consequently, the Company reported ¥8,859 million, which is allocable to its interests, as share of loss of entities accounted for using equity method in the nine months ended 31 December 2017.

- *Solomon Nickel Exploration Dispute*. In connection with the Solomon Nickel Exploration Project, the Group, through the Company's subsidiary SMM Solomon Limited ("SMMS"), started its acquisition of prospecting licenses and exploration activities in the Solomon Islands in 2005, and having completed the activities in the prospecting license areas of Choiseul province and Isabel province in 2014, it applied for the mining leases in three areas ("SMMS Own Areas"). As the rights awarded to SMMS had been cancelled, SMMS brought legal proceedings against Axiom and others regarding the international tender areas in the Isabel province ("International Tender Areas"). The legal proceedings lasted six years until March 2017 and ended with neither SMMS nor Axiom being granted the rights over the International Tender Areas. During this time, the nickel prices had fallen and taking into account market conditions, the Group considered that the business circumstances of the Solomon Nickel Exploration Project had changed significantly. As the result of its comprehensive review of such business circumstances, the final judgment in the legal proceedings and other factors, the Group concluded that it was difficult for SMMS to implement the project that SMMS had sought to realise by integrating SMMS' Own Areas with the International Tender Areas, and decided to withdraw from the Solomon Nickel Exploration Project.

The Group is not currently involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened) which the Company believes would individually or in the aggregate have a material adverse effect on the Group's business, financial condition or results of operations.

MANAGEMENT AND EMPLOYEES

Management

The Company's Board of Directors carries the ultimate responsibility for the management and administration of the affairs of the Company. The Company's Articles of Incorporation provide for not more than 10 Directors. Directors are elected at a general meeting of shareholders. The normal term of office of any Director expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ending within one year after such Director's appointment, although they may serve any number of consecutive terms. The Board of Directors elects from among its members one or more Representative Directors of the Company, who have the authority individually to represent the Company. The Board of Directors may also elect from among its members Chairman of the Board and President.

The Company's Articles of Incorporation also provide for not more than five Audit & Supervisory Board Members, who are elected at a general meeting of shareholders. The normal term of office of any Audit & Supervisory Board Member expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ending within four years after such Audit & Supervisory Board Member's appointment, although they may serve any number of consecutive terms.

Under Japanese laws, Audit & Supervisory Board Members are not required to be, and are not, certified public accountants, and may not at the same time be directors or employees of the Company or any of its subsidiaries. The Audit & Supervisory Board Members form the Audit & Supervisory Board. In addition, under Japanese laws, the number of the Audit & Supervisory Board Members must be three or more, and at least half of them are required to be persons who have never been directors, accounting advisors, executive officers or employees of the Company or of any of its subsidiaries within 10 years prior to assuming the position of Audit & Supervisory Board Members. Audit & Supervisory Board Members have the duties of supervising the administration by the Directors of the Company's affairs and of examining the financial statements and business reports of the Company to be submitted by a Representative Director to the general meetings of shareholders and of reporting their opinions thereon to the shareholders. They are required to attend meetings of the Board of Directors in general and to express their opinions when or if necessary at such meetings but they are not entitled to vote. In addition, they are required to elect from among themselves at least one full-time Audit & Supervisory Board Member. Audit & Supervisory Board Members also have a statutory duty to provide their report to the Audit & Supervisory Board, which must submit its auditing report to the relevant Directors and the independent auditor. The Audit & Supervisory Board will also determine matters relating to the duties of the Audit & Supervisory Board Members, such as audit policy and methods of investigation of the affairs of the Company.

In addition, under the Securities Listing Regulations of the Tokyo Stock Exchange, listed companies in Japan, including the Company, are required to have at least one independent officer. Such independent officer is required to be an outside Director or outside Audit & Supervisory Board Member (as defined under the Companies Act) who is unlikely to have conflicts of interest with shareholders of the relevant company.

In addition to Audit & Supervisory Board Members, the Company must appoint by a resolution of a general meeting of shareholders independent certified public accountants as an independent auditor, who has the statutory duties of auditing the financial statements to be submitted by a Representative Director to the general meetings of shareholders and reporting thereon to the relevant Audit & Supervisory Board Members and the relevant Directors. Currently, the Company's independent auditor is KPMG AZSA LLC.

The Company's Directors and Audit & Supervisory Board Members as at the date of this Offering Circular are set out in the table below:

Name	Title
Yoshiaki Nakazato	Representative Director and President
Takeshi Kubota	Representative Director
Harumasa Kurokawa	Director
Akira Nozaki	Director
Hiroshi Asahi	Director
Tsutomu Ushijima(1)	Director
Hitoshi Taimatsu(1)	Director
Kazuhisa Nakano(1)	Director
Kazushi Ino	Senior Audit & Supervisory Board Member (full-time)
Yasuyuki Nakayama	Audit & Supervisory Board Member (full-time)
Junichi Kondo(2)	Audit & Supervisory Board Member
Yuichi Yamada(2)	Audit & Supervisory Board Member

Notes:
(1) Outside Directors under the Companies Act.
(2) Outside Audit & Supervisory Board Members under the Companies Act.

All the Directors of the Company, other than the outside Directors, are engaged in the business of the Company on a full-time basis.

The business address for the Company's Directors and Audit & Supervisory Board Members is 11-3, Shimbashi 5-chome, Minato-ku, Tokyo 105-8716, Japan.

As of 31 March 2017, no Director of the Company had an interest in any transaction which was unusual in its nature or conditions or significant to the Group's business which was effected by the Company. As of 31 March 2017, there were no outstanding loans granted by any company of the Group to the Company's Directors nor any guarantees provided by any company of the Group for the benefit of any of the Directors of the Company.

The aggregate remuneration of the Directors (excluding outside Directors), the Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members) and Outside Officers (including Outside Directors and Outside Audit & Supervisory Board Members) for the fiscal year ended 31 March 2017 paid to by the Company was ¥214 million, ¥60 million and ¥57 million, respectively.

The Company's Articles of Incorporation provide that the Company may enter into liability limitation contracts with any of Outside Officers to limit the maximum amount of such damages to the higher of (i) the amount equal to ¥10 million or more determined by the Company in advance or (ii) the total amount stipulated in Article 425, Paragraph 1 of the Companies Act.

Employees

As of 31 March 2017, the Group had 7,384 full-time employees and for the fiscal year ended 31 March 2017 had an average of 679 temporary employees. The following table sets out the number of full-time employees of the Group as of 31 March 2015, 2016 and 2017, according to reporting segments:

	As at 31 March		
	2015	**2016**	**2017[(2)]**
Mineral Resources	683	697	691
Smelting & Refining	2,257	2,250	2,347
Materials	4,547	4,528	3,078
Others	953	512	516
Headquarters and Others[(1)]	326	747	752
Total	8,766	8,734	7,384

Notes:
(1) The number of employees in "Headquarters and Others" relate to employees in the Group's administrative divisions.
(2) The number of employees decreased in the fiscal year ended 31 March 2017 partly due to the sale of consolidated subsidiaries involved in the lead frames business.

Labour Relations

The Company considers the Group's labour relations to be good. A significant portion of the Group's full-time employees (excluding its managers) are organised into labour unions, each of which is affiliated with the Federation of Sumitomo Metal Mining Workers Union, which is a member of the Japan Federation of Basic Industry Workers' Unions.

Directors'/Employees' Stock Options

The Group has no outstanding stock options.

SUBSIDIARIES AND AFFILIATES

As of 31 December 2017, the Company had 60 consolidated subsidiaries, 3 non-consolidated subsidiaries and 15 affiliates accounted for by the equity method.

The following table sets out certain information as at 31 December 2017 with respect to the Company's principal subsidiaries and affiliates:

Name of subsidiary/affiliate	Location	Segment	Principal business	Capital stock or capital contribution as at 31 December 2017	Percentage of voting rights owned, directly (indirectly), by the Company
				(Millions of yen, unless otherwise indicated)	(Per cent.)
Consolidated Subsidiaries					
Sumitomo Metal Mining America Inc.	Delaware, U.S.A.	Mineral Resources	Exploration, management of mining subsidiaries in North and South America	U.S.$600	100.0
Sumitomo Metal Mining Arizona Inc.	Delaware, U.S.A.	Mineral Resources	Production and sales of copper and copper concentrate	U.S.$800	80.0 (80.0)
SMM Morenci Inc.	Delaware, U.S.A.	Mineral Resources	Production and sales of copper and copper concentrate	U.S.$10,000	100.0 (100.0)
Sumitomo Metal Mining Oceania Pty. Ltd.	New South Wales, Australia	Mineral Resources	Resource surveys, mine development and related operations in Oceania, production and sale of copper concentrate	A$43,000 thousand	100.0 (89.0)
Sumitomo Metal Mining Pogo LLC	Alaska, U.S.A.	Mineral Resources	Production and sales of gold	U.S.$41,500 thousand	100.0 (100.0)
Hyuga Smelting Co., Ltd.	Miyazaki, Japan	Smelting & Refining	Ferronickel smelting	¥1,080	60.0
Coral Bay Nickel Corporation	Palawan, Philippines	Smelting & Refining	Manufacture and sale of mixed nickel-cobalt sulphides	PHP587,500 thousand	54.0
Taganito HPAL Nickel Corporation(2)	North Surigao, Philippines	Smelting & Refining	Manufacture and sale of mixed nickel-cobalt sulphides	PHP4,095,000 thousand	75.0
SH Materials Co., Ltd.	Tokyo, Japan	Materials	Manufacture and sale of lead frames	¥1,000	100.0
Ohkuchi Electronics Co., Ltd.	Kagoshima, Japan	Materials	Manufacture of functional inks	¥1,000	100.0
Shinko Co., Ltd.	Nagano, Japan	Materials	Design, manufacture, and sale of printed circuit boards	¥738	98.6
Sumitomo Metal Mining Siporex Co., Ltd.	Tokyo, Japan	Materials	Manufacture and sale of ALC (autoclaved lightweight aerated concrete) and other construction materials	¥5,000	100.0
JCO Co., Ltd.(3)	Tokyo, Japan	Others	—	¥10	100.0
Affiliates Accounted for by the Equity Method					
Compania Contractual Minera Candelaria	Santiago, Chile	Mineral Resources	Production and sales of copper concentrate	U.S.$105,860 thousand	20.0 (20.0)
Sociedad Minera Cerro Verde S.A.A.	Arequipa, Peru	Mineral Resources	Production and sales of copper and copper concentrate	U.S.$990,659 thousand	21.0 (21.0)

Name of subsidiary/affiliate	Location	Segment	Principal business	Capital stock or capital contribution as at 31 December 2017	Percentage of voting rights owned, directly (indirectly), by the Company
				(Millions of yen, unless otherwise indicated)	(Per cent.)
Sierra Gorda S.C.M.	Santiago, Chile	Mineral Resources	Production and sales of copper concentrate and molybdenum concentrate	U.S.$2,189,400 thousand	45.0 (45.0)
Mitsui Sumitomo Metal Mining Brass & Copper Co., Ltd.	Saitama, Japan	Smelting & Refining	Production and sale of copper and brass products and processed copper and brass products	¥4,250	50.0
PT Vale Indonesia Tbk	Jakarta, Indonesia	Smelting & Refining	Nickel ore mining, nickel smelting and sale	U.S.$136,413 thousand	20.1
FIGESBAL SA	Nouméa, New Caledonia	Smelting & Refining	Nickel ore mining, harbour transportation	CFPF543,213 thousand	25.5 (0.0)
Nickel Asia Corporation	Manila, Philippines	Smelting & Refining	Nickel ore mining	PHP3,808,665 thousand	26.4 (26.4)
N.E. Chemcat Corporation	Tokyo, Japan	Materials	Production and sale of precious metal catalysts, recovery and refining of precious metals	¥3,424	50.0

Notes:

(1) In the above table, "A$" stands for Australian dollar, "CFPF" stands for CFP franc, and "PHP" stands for Philippine peso.

(2) All of the shares of THPAL held by the Company are subject to a lien given in respect of the Company's guarantee of the borrowing (amounting to ¥62.6 billion in principal amount as of 31 March 2017) by THPAL from a financial institution.

(3) JCO is involved in the maintenance and administration of facilities and storage of low-level radioactive wastes, and is taking measures towards decontamination and dismantling with a view to decommissioning the facilities.

JAPANESE FOREIGN EXCHANGE REGULATIONS

Foreign Exchange Regulations

The Foreign Exchange and Foreign Trade Act of Japan (Act No. 228 of 1949, as amended) (including regulations promulgated thereunder, the "Foreign Exchange Regulations") govern certain aspects relating to the acquisition and holding of shares of a Japanese corporation by "exchange non-residents" and by "foreign investors" (as these terms are defined below). In general, the Foreign Exchange Regulations currently in effect do not affect transactions between exchange non-residents to purchase or sell shares of a Japanese corporation outside Japan using currencies other than yen.

Exchange residents are defined in the Foreign Exchange Regulations as:

(i) individuals who reside within Japan; or

(ii) corporations whose principal offices are located within Japan.

Exchange non-residents are defined in the Foreign Exchange Regulation as:

(i) individuals who do not reside in Japan; or

(ii) corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations located within Japan are regarded as exchange residents. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are defined in the Foreign Exchange Regulations as:

(i) individuals who do not reside in Japan;

(ii) corporations or other entities organised under the laws of foreign countries or whose principal offices are located outside Japan;

(iii) corporations of which 50 per cent. or more of the total voting rights are held, directly or indirectly, by individuals and/or corporations falling within (i) and/or (ii) above; or

(iv) corporations or other entities of which a majority of whose directors or other officers (or directors or other officers having the power of representation) are non-resident individuals.

Acquisition of Shares

Acquisition by an exchange non-resident of shares of stock of a Japanese corporation from an exchange resident requires post facto reporting by the exchange resident to the Minister of Finance of Japan through the Bank of Japan. No such reporting requirement is imposed, however, if:

(i) the aggregate purchase price of the relevant shares is ¥100 million or less;

(ii) the acquisition is effected through any bank, securities firm or other entity prescribed by the Foreign Exchange Regulations acting as an agent or intermediary; or

(iii) the acquisition constitutes an "inward direct investment" described below.

Inward Direct Investment in Shares of Listed Corporations

If a foreign investor acquires shares of a Japanese corporation that is listed on a Japanese stock exchange, such as the Shares, or that is traded on an over-the-counter market in Japan and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10 per cent. or more of the issued shares of the relevant corporation, such acquisition constitutes an "inward direct investment" and the foreign investor in general must file a report of the acquisition with the Minister of Finance of Japan and any other competent Ministers having jurisdiction over that Japanese corporation by the 15th day of the month immediately following the month to which the date of such acquisition belongs. In certain circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, or where that Japanese corporation is engaged in certain businesses designated by the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance of Japan and any other competent Ministers (including the Minister of Economy, Trade and Industry of Japan). The Group's businesses relating to certain products including nickel powder fall down into the definition of such designated businesses. In addition, JCO's involvement in recycling, disposition or other handling of uranium and metals from uranium-containing materials stored at its facilities may fall down into the definition of such designated businesses. If such prior notification is filed, the proposed acquisition may not be consummated until 30 days have passed from the date of filing, although this period will be shortened to two weeks unless such Ministers deem it necessary to review the proposed acquisition. The Ministers may recommend any modification or abandonment of the proposed acquisition and, if such recommendation is not accepted, they may order the modification or abandonment of such acquisition.

Acquisition of shares by foreign investors by way of stock split is not subject to any of the foregoing notification or reporting requirements.

Dividends and Proceeds of Sale

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds from sales in Japan of, shares of a Japanese corporation held by exchange non-residents may generally be converted into any foreign currency and repatriated abroad.

DESCRIPTION OF THE SHARES AND CERTAIN REGULATIONS

Set out below is certain information concerning the Shares, including brief summaries of certain provisions of the Company's Articles of Incorporation and Share Handling Regulations and of the Companies Act relating to joint stock corporations (*kabushiki kaisha*), and certain related legislation, all as currently in effect at the date of this Offering Circular.

General

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

On 5 January 2009, a new central clearing system for shares of Japanese listed companies was established pursuant to the Book-Entry Act, and the shares of all Japanese companies listed on any Japanese stock exchange, including the Shares, became subject to this new system. On the same day, all existing share certificates for such shares became null and void. At present, JASDEC is the only institution that is designated by the relevant authorities as a clearing house which is permitted to engage in the clearing operations of shares of Japanese listed companies under the Book-Entry Act. Under the new clearing system, in order for any person to hold, sell or otherwise dispose of shares of Japanese listed companies, they must have an account at an account managing institution unless such person has an account at JASDEC. "Account managing institutions" are financial instruments traders (being securities firms), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Act, and only those financial institutions that meet further stringent requirements of the Book-Entry Act can open accounts directly at JASDEC. For the purpose of the description under this section, the Company assumes that the relevant person has no account at JASDEC.

Under the Book-Entry Act, any transfer of shares is effected through book-entry, and the title to the shares passes to the transferee at the time when the transferred number of shares is recorded in the transferee's account at an account managing institution. The holder of an account at an account managing institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act, in order to assert shareholders' rights against the Company, a transferee must have his or her name and address registered in the Company's register of shareholders, except in limited circumstances. Under the new clearing system, such registration is generally made upon an all shareholders notice from JASDEC. For this purpose, shareholders are required to file their names and addresses with the Company's transfer agent through the account managing institution and JASDEC. See "—Record Date" below for more information.

Non-resident shareholders are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each such shareholder must give notice of his or her standing proxy or a mailing address to the relevant account managing institution. Such notice will be forwarded to the Company's transfer agent through JASDEC. Japanese securities firms and commercial banks customarily act as standing proxy and provide related services for standard fees.

The transfer agent of the Company is Sumitomo Mitsui Trust Bank, Limited.

Distributions of Surplus

General

Under the Companies Act, distributions of cash or other assets by joint stock corporations to their shareholders, so called "dividends", are referred to as "distributions of surplus". The Company may make distributions of surplus to its shareholders any number of times per fiscal year, subject to certain limitations described in "—Restriction on Distributions of Surplus".

The Companies Act requires a distribution of surplus to be authorised in principle by a resolution of a general meeting of shareholders. However, a distribution of surplus may also be made pursuant to a resolution of the Board of Directors but only if all the requirements described in (a) to (d) below are met:

(a) the Company's Articles of Incorporation provide that the Board of Directors has the authority to decide to make distributions of surplus;

(b) the Company select independent auditors and form an Audit & Supervisory Board under the Companies Act;

(c) the normal term of office of each Director of the Company terminates on or prior to the date of conclusion of the ordinary general meeting of shareholders relating to the last year ending within the period of one year from the election of such Director; and

(d) the Company's non-consolidated annual financial statements and certain documents for the latest fiscal year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

At present, the requirement described in (a) above is not met. Nevertheless, the Company may make distributions of surplus in cash as an interim dividend to its shareholders by a resolution of the Board of Directors once per fiscal year under the Company's Articles of Incorporation and the Companies Act.

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

Distributions of surplus may be made in cash or (except for distributions as an interim dividend and cases where shareholders are granted the right to require the Company to make such distributions in cash instead of in kind, upon approval of a general meeting of shareholders) in kind in proportion to the number of Shares held by each shareholder. A resolution of the Board of Directors or a general meeting of shareholders authorising a distribution of surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, the Company may, pursuant to a resolution of the Board of Directors, grant a right to its shareholders to require the Company to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders (see "—Voting Rights" with respect to a "special resolution").

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the Shares goes ex-dividend generally on the second business day prior to the record date.

Restrictions on Distributions of Surplus

When the Company makes a distribution of surplus, it must, until the sum of its legal capital surplus and legal retained earnings reaches one-quarter of its capital stock, set aside in its legal capital surplus and/or legal retained earnings the smaller of (i) an amount equal to one-tenth of the amount of surplus so distributed or (ii) an amount equal to one-quarter of its capital stock less the sum of its legal capital surplus and legal retained earnings as at the date of such distribution in accordance with an ordinance of the Ministry of Justice.

The amount of surplus at any given time must be calculated in accordance with the following formula:

$A + B + C + D - (E + F + G)$

In the above formula:

"A" = the total amount of other capital surplus and other retained earnings, as each such amount appears on the Company's non-consolidated balance sheet as at the end of the last fiscal year;

"B" = (if the Company has disposed of its treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by the Company less the book value thereof;

"C" = (if the Company has reduced its capital stock after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to legal capital surplus or legal retained earnings (if any);

“D” = (if the Company has reduced its legal capital surplus or legal retained earnings after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to capital stock (if any);

“E” = (if the Company has cancelled its treasury stock after the end of the last fiscal year) the book value of such treasury stock;

“F” = (if the Company has distributed surplus to its shareholders after the end of the last fiscal year) the total book value of the surplus so distributed; and

“G” = certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced surplus and increased its capital stock, legal capital surplus or legal retained earnings after the end of the last fiscal year) the amount of such reduction and (if the Company has distributed surplus to its shareholders after the end of the last fiscal year) the amount set aside in its legal capital surplus or legal retained earnings (if any) as required by ordinances of the Ministry of Justice. The aggregate book value of surplus distributed by the Company may not exceed a prescribed distributable amount (the “Distributable Amount”), as calculated on the effective date of such distribution.

The Distributable Amount shall, at any given time, be equal to the amount of surplus less the aggregate of the following:

(a) the book value of the Company’s treasury stock, as at the effective date of distributions;

(b) the amount of consideration for the Company’s treasury stock disposed of by it after the end of the last fiscal year; and

(c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one half of goodwill and the deferred assets exceeds the total of capital stock, legal capital surplus and legal retained earnings, each such amount being that appearing on the non-consolidated balance sheet of the Company as at the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

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 temporary financial statements (*rinji keisan shorui*) as described below, and if such temporary financial statements have been approved by the Board of Directors or (if so required by the Companies Act) by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for the Company’s treasury stock disposed of by it, during the period in respect of which such temporary financial statements have been prepared. The Company may prepare non-consolidated temporary financial statements consisting of a balance sheet as at any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Temporary financial statements prepared by the Company must be reviewed by its Audit & Supervisory Board Members and independent auditors, and approved by the Board of Directors and a general meeting of shareholders, as required by the Companies Act and ordinances of the Ministry of Justice.

Capital and Reserves

When the Company issues new Shares, the entire amount of money or other assets paid or contributed by subscribers for such Shares is required to be accounted for as capital stock, although the Company may account for an amount not exceeding one-half of the amount of such subscription money or other assets as legal capital surplus by a resolution of the Board of Directors.

The Company may reduce its legal capital surplus or legal retained earnings generally by a resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as capital stock. On the other hand, the Company may reduce its capital stock generally by a special resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as legal capital surplus. In addition, the Company may reduce its surplus and increase either (i) its capital stock or (ii) legal capital surplus and/ or legal retained earnings by the same amount, in either case, by a resolution of a general meeting of shareholders.

Stock Splits

The Company may at any time split the issued Shares into a greater number of Shares by a resolution of its Board of Directors. When a stock split is to be made, so long as the only type of the Company's outstanding stock is its common stock, it may increase the number of authorised shares to the extent that the ratio of such increase in authorised shares does not exceed the ratio of such stock split by amending its Articles of Incorporation, which amendment may be made without approval by shareholders.

Before a stock split, the Company must give public notice of the stock split, specifying certain matters such as the record date therefor, not less than two weeks prior to such record date. Under the rules relating to the new clearing system, the Company must also inform JASDEC of certain matters regarding a stock split promptly after a resolution of its Board of Directors determining such stock split. On the effective date of the stock split, the numbers of Shares recorded in all accounts held by holders of Shares at account managing institutions or JASDEC will be increased in accordance with the applicable ratio.

Unit Share System

The Company's Articles of Incorporation provide that 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. The number of Shares constituting a unit may not exceed the lesser of 1,000 or 0.5 per cent. of the total number of issued Shares.

Under the unit share system, a shareholder has one vote for each unit of Shares held by it, except as stated in "—Voting Rights". Shares constituting less than one unit will carry no voting rights and be excluded for the purposes of calculating the quorum for voting purposes. Moreover, holders of Shares constituting less than one unit will have no other shareholder rights if the Company's Articles of Incorporation so provide, except that such holders may not be deprived of certain rights specified in the Companies Act or an ordinance of the Ministry of Justice, including the right to receive distributions of surplus.

Holders of Shares constituting less than one unit may at any time request the Company to purchase Shares held by them. Also, the Company's Articles of Incorporation provide that holders of Shares constituting less than one unit may request the Company to sell the holder such number of Shares that, when added to the Shares held by such holder, constitute one unit of Shares. Such purchase or sale of Shares will be effected at the last trading price of the Shares on the relevant stock exchange on the day such request is made (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter). The request for such purchase or sale may not be withdrawn without the Company's consent.

General Meeting of Shareholders

The ordinary general meeting of shareholders of the Company is held in June each year under the Company's Articles of Incorporation. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary. Notice of a general meeting of shareholders stating, among others, the place, time and purpose thereof must be given to each shareholder having voting rights (or, in the case of a non-resident shareholder, to its standing proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. The record date for an ordinary general meeting of shareholders is 31 March of each year. Any shareholder holding at least 300 voting rights or one per cent. of the total number of voting rights for six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a request to a Representative Director at least eight weeks prior to the date of such meeting. If the Company's Articles of Incorporation so provide, any of the minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened.

Voting Rights

A holder of Shares constituting one or more units is, in principle, entitled to one voting right for each unit of Shares. However, in general, neither the Company nor any corporate or certain other entity, where one-quarter or more of the total voting rights are directly or indirectly held by the Company, has voting rights in respect of Shares held by the Company or such entity.

Except as otherwise provided by law or in the Company's Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by the holders of a majority of the total number of voting rights represented at the meeting. The Company's Articles of Incorporation provide that the quorum for election of its Directors and Audit & Supervisory Board Members is one-third of the total number of voting rights. The Company's shareholders are not entitled to cumulative voting in the election of its Directors. The shareholders may exercise their voting rights in writing or through proxies, provided that the proxies are, in general, also shareholders who have voting rights.

The Companies Act provides that certain important matters shall be approved by a "special resolution" of a general meeting of shareholders. Under the Company's Articles of Incorporation, the quorum for a special resolution is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required for adopting a special resolution. Such important matters include:

(i) purchase of Shares by the Company from a specific shareholder other than the Company's subsidiary;

(ii) consolidation of Shares;

(iii) issuance or transfer of new Shares or existing Shares held by the Company as treasury stock to persons other than the shareholders at a "specially favourable" price;

(iv) issuance of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under "specially favourable" conditions;

(v) removal of any of the Audit & Supervisory Board Members of the Company;

(vi) exemption from a portion of liability of the Directors, Audit & Supervisory Board Members or independent auditors of the Company;

(vii) distribution of surplus in kind with respect to which shareholders are not granted the right to require the Company to make distribution in cash instead of in kind;

(viii) reduction of capital stock;

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

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

(xi) transfer of the whole or a part of the Company's equity interest in any subsidiary of the Company, resulting in the Company ceasing to hold a majority of the total voting rights in such subsidiary;

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

(xiii) merger;

(xiv) corporate split;

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

(xvi) consolidation; and

(xvii) dissolution.

However, under the Companies Act, no shareholder approval, whether by an ordinary resolution or a special resolution at a general meeting of shareholders, is required for any matter described in (viii) to (xv) above, and such matter may be decided by the Board of Directors, if it satisfies certain criteria prescribed by the Companies Act.

Liquidation Rights

In the event of the liquidation of the Company, any assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among holders of Shares in proportion to the respective number of Shares that they hold.

Subscription Rights

Holders of Shares have no pre-emptive rights. Authorised but unissued Shares may be issued at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the issuance of new Shares at a "specially favourable" price mentioned in "—Voting Rights". The Board of Directors may, however, determine that shareholders be given subscription rights to new Shares, in which case they must be given on uniform terms to all holders of Shares as at a record date of which not less than two weeks' prior public notice must be given. Each of the shareholders to whom such rights are given must also be given at least two weeks' prior notice of the date on which such rights expire.

Stock Acquisition Rights

The Company may issue stock acquisition rights (*shinkabu yoyakuken*). Holders of stock acquisition rights are entitled to acquire Shares from the Company, upon payment of the applicable exercise price, and subject to other terms and conditions thereof. The Company may also issue bonds with stock acquisition rights (*shinkabu yoyakuken-tsuki shasai*). The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorised by the Board of Directors unless it is made under "specially favourable" conditions, as described in "—Voting Rights".

Reports to Shareholders

The Company furnishes to its shareholders notices of shareholders' meetings, annual business reports, including financial statements, and notices of resolutions adopted at the shareholders' meetings, all of which are in Japanese. The Company may, if it so chooses, send such notices and reports by an electronic method, such as e-mail, to those shareholders who have approved such method. Pursuant to the Company's Articles of Incorporation, public notice given by the Company shall be published by an electronic method; provided, however, that such notice shall be given by publication in the Nihon Keizai Shimbun if the method of electronically publishing notices is not available due to any technical problems or other unavoidable circumstances.

Record Date

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

In addition, by a resolution of the Board of Directors and after giving at least two weeks' prior public notice, the Company may at any time set a record date for determining the shareholders entitled to certain rights pertaining to Shares.

Under the rules relating to the new clearing system, the Company is required to give notice of each record date to JASDEC promptly after the resolution of the Board of Directors of the Company determining such record date. JASDEC is required to promptly give the Company notice of the names and addresses of holders of Shares, the numbers of Shares held by them and other relevant information as at such record date.

Acquisition of Shares by the Company

The Company may acquire Shares (i) from a specific shareholder other than any of the Company's subsidiaries (pursuant to a special resolution of a general meeting of shareholders); (ii) from any of the Company's subsidiaries (pursuant to a resolution of the Board of Directors) or (iii) by way of purchase on any

Japanese stock exchange on which the Shares are listed or by way of tender offer (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors). In the case of (i) above, any other shareholder may make a request to the Company that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the higher of (x) the last trading price of the Shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter) or (y) if the Shares are subject to a tender offer on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted, the price of the Shares under the agreement with respect to such tender offer on such day.

The total amount of the purchase price of Shares may not exceed the Distributable Amount, as described in "—Distributions of Surplus—Restriction on Distributions of Surplus".

The Company may hold the Shares acquired in compliance with the provisions of the Companies Act, and may generally dispose of or cancel such Shares by a resolution of the Board of Directors.

Disposal of Shares by the Company held by Shareholders whose Location is Unknown

The Company is not required to send notices to a shareholder if delivery of notices to such shareholder fails continuously for five years or more at his or her address registered in the Company's register of shareholders or otherwise notified to the Company.

In the above case, if the relevant shareholder to whom delivery of notices has failed also fails to receive distributions of surplus on the Shares continuously for five years or more at his or her address registered in the Company's register of shareholders or otherwise notified to the Company, then the Company may in general dispose of such Shares at their then market price and hold or deposit the proceeds of such disposition on behalf of the relevant shareholder.

Reporting of Substantial Shareholders

The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of more than five per cent. of the total issued shares of capital stock of a company listed on any Japanese stock exchange to file a report concerning such shareholdings with the director of the relevant Local Finance Bureau of the Ministry of Finance of Japan within five business days. With certain exceptions, a similar report must also be filed in respect of any subsequent change of one per cent. or more in the holding or of any change in material matters set out in reports previously filed. For this purpose, shares issuable to such person upon his or her exchange of exchangeable securities, conversion of convertible securities or exercise of warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. These reports are required to be filed and made publicly available through the Electronic Disclosure for Investors' Network, known as the EDINET system.

TAXATION

Japan

The following is a summary of the principal Japanese tax consequences to Bondholders and owners of Shares, acquired upon the exercise of the Stock Acquisition Rights incorporated in the Bonds or delivered upon the acquisition of the Bonds by the Company as consideration therefor, who are non-resident individuals or non-Japanese corporations, in either case having no permanent establishment in Japan ("non-resident Holders").

The statements regarding Japanese tax laws set out below are based on the laws in force as at the date hereof and are subject to changes in the applicable Japanese laws or tax treaties, conventions or agreements or in the interpretation thereof after that date.

This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the Bonds and Shares acquired upon exercise of the Stock Acquisition Rights incorporated in the Bonds or delivered upon the acquisition of the Bonds by the Company as consideration therefor, including, specifically, the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

Bonds

Receipts of premium (if any) upon redemption of the Bonds are subject to Japanese income tax (including corporate income tax) but are not subject to any withholding tax. If the recipient is a resident or a corporation of a country with which Japan has an income tax treaty, Japanese tax treatment may be modified by any applicable provisions of such income tax treaty. Bondholders are advised to consult with their legal, accounting or other professional advisers as to the applicable tax treatment.

Gains derived from the sale of Bonds, outside Japan by a non-resident Holder thereof, are, in general, not subject to Japanese income tax. Exercise of the Stock Acquisition Rights is not a taxable event in general.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual, who has acquired Bonds as legatee, heir or donee even if the individual is not a Japanese resident.

Shares

Generally, a non-resident Holder of Shares is subject to Japanese withholding tax on dividends paid by the Company.

The rate of Japanese withholding tax applicable to dividends paid by the Company to a non-resident Holder of Shares is 20.42 per cent. on or before 31 December 2037 and 20 per cent. thereafter, subject to any applicable income tax treaty. However, with respect to dividends paid by the Company to any non-resident Holders of Shares, except for any individual shareholder who holds 3 per cent. or more of the total issued Shares, the said 20.42 per cent. or 20 per cent. withholding tax rate is reduced to (i) 15.315 per cent. for dividends due and payable on or before 31 December 2037 and (ii) 15 per cent. for dividends due and payable thereafter.

Gains derived from the sale of Shares outside Japan, by a non-resident Holder thereof, are, in general, not subject to Japanese income tax.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Shares as legatee, heir or donee even if the individual is not a Japanese resident.

Other

Proposed Financial Transactions Tax

The European Commission has published a proposal for a Directive for a common financial transactions tax ("FTT") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States"). However, Estonia has ceased to participate.

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in Bonds (including secondary market transactions) in certain circumstances.

Under current proposals 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 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.

The FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Bonds are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

SMBC Nikko Capital Markets Limited and Daiwa Capital Markets Europe Limited (together, the "Joint Lead Managers") have entered into a subscription agreement with the Company dated 27 February 2018 in respect of the Bonds (the "Subscription Agreement") under which, subject to the satisfaction of certain conditions set out therein, the Joint Lead Managers have agreed, severally but not jointly, to purchase the aggregate principal amount of the Bonds as indicated in the table below, at the issue price (the "Issue Price") of 100.5 per cent. of the principal amount of the Bonds and to offer the Bonds at the Offer Price as stated on the cover page of this Offering Circular (the "Offer Price").

Joint Lead Managers	Aggregate Principal Amount of the Bonds
SMBC Nikko Capital Markets Limited	¥18,000,000,000
Daiwa Capital Markets Europe Limited	12,000,000,000
Total	¥30,000,000,000

No selling concession, management commission or underwriting commission shall be payable by the Company with respect to the offering of the Bonds. The difference between the Offer Price and the Issue Price will be retained by the Joint Lead Managers.

The Company has agreed to pay certain costs in connection with the issue of the Bonds and to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Bonds in accordance with the Subscription Agreement. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement or to terminate the Subscription Agreement in certain circumstances prior to payment being made to the Company as set out therein. The Company has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offering of the Bonds.

Lock-up Arrangements

In connection with the issue and offering of the Bonds, the Company has agreed that it will not, and will procure that none of its directors or officers or any person acting on the direction of the Company will, for a period beginning on the date of the Subscription Agreement and ending on the date 180 calendar days after the Closing Date:

(i) issue, offer, pledge, lend, sell, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that constitutes the right to receive, Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for Shares;

(ii) enter into a transaction (including a derivative transaction) that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale;

(iii) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or purchase Shares or any other capital stock of the Company) in any depositary receipt facility; or

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

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

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

(b) the sale of Shares by the Company 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;

(c) the issue of stock acquisition rights upon the decision by the Board of Directors of the Company to take certain countermeasures against large-scale acquisitions of Shares in accordance and in compliance with the Company's takeover defence measures approved by the shareholders at the annual general meeting held in June 2016, and the issue or transfer of Shares upon exercise of such stock acquisition rights;

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

(e) the sale by the Company of the Shares held by unidentified shareholders; and

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

Selling Restrictions

United States

Neither the Bonds nor the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company have been or will be registered under the Securities Act or may be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered and will not offer or sell the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company (i) as part of the distribution at any time or (ii) otherwise, until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, except in accordance with Rule 903 of Regulation S, and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to whom it sells the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company, as the case may be, within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Japan

The Bonds have not been and will not be registered under the FIEA. Accordingly, each Joint Lead Manager has represented and agreed that, in connection with the initial offering of the Bonds, it has not, directly or indirectly, offered or sold and shall not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the account or benefit of, any resident of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines in Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the Insurance Mediation Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in the Prospectus Directive; and

(b) the expression "offer" includes 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.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds or the Shares to be issued upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds or the Shares to be issued upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company in, from or otherwise involving the United Kingdom.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the "MAS"). Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company, or caused the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company or cause the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company 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 or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company 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 or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company 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:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "SFO") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions Ordinance (Cap. 32) of Hong Kong (the "C(WUMP)O") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) 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 or the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company, 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 and the Shares issuable upon exercise of the Stock Acquisition Rights or upon acquisition of the Bonds by the Company which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

General

Neither the Company nor any of the Joint Lead Managers represents that the Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating such sales.

Other Relationships

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

In connection with the offering, any Joint Lead Manager or its affiliates may purchase the Bonds for its or their own account and may for its or their own account enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps or other derivatives relating to the Bonds and/or the Shares and/or other securities of the Company or its subsidiaries or affiliates and/or components of such Bonds and/or Shares and/or other securities, at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). As a result of such transactions any of the Joint Lead Managers or their affiliates 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.

In connection with the offering, any Joint Lead Manager or its affiliates may purchase the Bonds acting as an investor for its own account may take up Bonds and in that capacity may retain, purchase or sell for their own account any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering.

Any Joint Lead Manager or its affiliates may in the past have provided, may currently be 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. In particular, Sumitomo Mitsui Banking Corporation is one of the principal bank lenders of the Company and is the parent of SMBC Nikko Capital Markets Limited. Proceeds from the issuance of the Bonds will be used to repay a portion of the Loan with Series 2 Stock Acquisition Rights from Sumitomo Mitsui Banking Corporation (trust account).

GENERAL INFORMATION

1. The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The International Security Identification Number (ISIN) is XS1782471152 and the Common Code is 178247115. The Legal Entity Identifier (LEI) for the Company is 353800CF81IXL9974H84.

2. The Securities Identification Code for the Shares given by Securities Identification Code Committee of Japan is 5713.

3. Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Company will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for definitive Certificates. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, an announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.

4. The Company has obtained all necessary consents, approvals and authorisations in Japan, if any, in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by a resolution dated 27 February 2018 of the Board of Directors of the Company.

5. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Group and no material adverse change in the prospects of the Group since 31 December 2017.

6. Save as disclosed in this Offering Circular, neither the Company nor any of its subsidiaries is, or has been involved in, any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position or the profitability of the Group nor is the Company aware that any such proceedings are pending or threatened.

7. Copies of the latest annual report of the Company including the audited annual consolidated financial statements in English, and the Company's latest unaudited quarterly consolidated financial statements in English (being an English translation of the Company's quarterly securities report (*shihanki hokokusho*) in Japanese) 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. The consolidated financial statements of the Group for the fiscal years ended 31 March 2017 and 2016, and for the fiscal years ended 31 March 2016 and 2015, included in this Offering Circular, have been audited by KPMG AZSA LLC, the Company's independent auditor, as stated in its audit reports appearing herein.

9. Except to the extent provided in Condition 6, the Conditions do not provide for participating rights in the event of a take-over of the Company.

10. The Trustee is entitled under the Trust Deed to rely without liability to Bondholders or any other person on reports and certificates prepared by the Auditors or any Independent Financial Adviser or other expert pursuant to the Conditions whether or not addressed to the Trustee and whether or not the same are subject to any limitation on the liability of such party whether by reference to a monetary cap or otherwise.

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INDEX TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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Independent Auditor's Report

Independent Auditor's Report

To the Board of Directors of Sumitomo Metal Mining Co., Ltd.:

We have audited the accompanying consolidated financial statements of Sumitomo Metal Mining Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31,2017 and 2016, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sumitomo Metal Mining Co., Ltd. and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31,2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 11, 2017
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Consolidated Balance Sheets

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
As of March 31, 2017 and 2016	**2017**	2016	**2017**
Current assets:			
Cash and cash equivalents (Notes 3 and 8)	**¥ 170,293**	¥ 197,825	**$ 1,517,898**
Time deposits (Note 3)	**24**	5,049	**214**
Notes and accounts receivable (Note 3):			
Trade	**102,168**	94,101	**910,669**
Unconsolidated subsidiaries and affiliated companies	**1,718**	4,803	**15,313**
Allowance for doubtful accounts	**(735)**	(598)	**(6,551)**
Inventories (Note 6)	**218,535**	161,974	**1,947,901**
Deferred tax assets (Note 9)	**1,225**	1,455	**10,919**
Other current assets	**100,425**	74,470	**895,134**
Total current assets	**593,653**	539,079	**5,291,497**
Investments and long-term receivables:			
Investment securities (Notes 3, 4 and 8):			
Unconsolidated subsidiaries and affiliated companies	**292,706**	325,905	**2,609,020**
Others	**140,164**	132,602	**1,249,345**
Long-term loans receivable (Notes 3 and 8)			
Unconsolidated subsidiaries and affiliated companies	**57,382**	122,236	**511,472**
Others	**3,618**	3,988	**32,249**
Other long-term receivables (Note 8)	**60,980**	40,626	**543,542**
Allowance for doubtful accounts	**(197)**	(200)	**(1,756)**
Total investments and long-term receivables	**554,653**	625,157	**4,943,872**
Property, plant and equipment (Note 8):			
Land	**29,311**	29,320	**261,262**
Buildings and structures	**310,755**	282,616	**2,769,899**
Machinery and equipment	**611,802**	596,369	**5,453,267**
Construction in progress	**25,552**	34,242	**227,757**
	977,420	942,547	**8,712,185**
Accumulated depreciation	**(493,964)**	(489,013)	**(4,402,924)**
Net property, plant and equipment	**483,456**	453,534	**4,309,261**
Deferred tax assets (Note 9)	**5,666**	3,648	**50,504**
Other assets	**47,590**	9,382	**424,190**
Total assets	**¥ 1,685,018**	¥ 1,630,800	**$ 15,019,324**

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

LIABILITIES AND NET ASSETS

As of March 31, 2017 and 2016	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Bank loans (Notes 3 and 8)	**¥ 79,513**	¥ 77,590	**$ 708,735**
Long-term debt due within one year (Notes 3 and 8)	**17,427**	34,933	**155,335**
Notes and accounts payable:			
Trade (Note 3)	**40,583**	37,822	**361,735**
Unconsolidated subsidiaries and affiliated companies (Note 3)	**6,723**	7,611	**59,925**
Others	**15,959**	12,083	**142,250**
Accrued income taxes	**17,274**	3,840	**153,971**
Accrued expenses	**4,552**	3,791	**40,574**
Advances received	**445**	416	**3,966**
Accrued restructuring charges	**600**	417	**5,348**
Accrued environmental measures	**232**	338	**2,068**
Deferred tax liabilities (Note 9)	**842**	195	**7,505**
Other current liabilities	**26,693**	46,231	**237,927**
Total current liabilities	**210,843**	225,267	**1,879,339**
Long-term liabilities:			
Long-term debt (Notes 3 and 8)	**398,564**	288,036	**3,552,580**
Deferred tax liabilities (Note 9)	**21,807**	15,912	**194,376**
Accrued environmental measures	**383**	325	**3,414**
Accrued restructuring charges	**1,004**	904	**8,949**
Provision for discontinued operations	**7,799**	—	**69,516**
Other accruals	**103**	257	**918**
Net defined benefit liability (Note 10)	**9,118**	14,128	**81,273**
Asset retirement obligations (Note 16)	**8,985**	7,831	**80,087**
Other long-term liabilities	**2,291**	2,145	**20,421**
Total long-term liabilities	**450,054**	329,538	**4,011,534**
Contingent liabilities (Note 13)			
Net assets (Note 12):			
Shareholders' equity:			
Common stock			
Authorized -1,000,000,000 shares			
Issued - 581,628,031 shares	**93,242**	93,242	**831,108**
Capital surplus	**86,504**	86,067	**771,049**
Retained earnings	**718,072**	744,886	**6,400,499**
Treasury stock, at cost	**(32,877)**	(32,827)	**(293,048)**
Total shareholders' equity	**864,941**	891,368	**7,709,608**
Accumulated other comprehensive income:			
Net unrealized holding gains on securities	**36,700**	20,225	**327,124**
Deferred gains or losses on hedges	**1,601**	(1,587)	**14,270**
Foreign currency translation adjustments	**57,950**	77,274	**516,534**
Remeasurements of defined benefit plans	**498**	(4,322)	**4,439**
Total accumulated other comprehensive income	**96,749**	91,590	**862,367**
Non-controlling interests	**62,431**	93,037	**556,476**
Total net assets	**1,024,121**	1,075,995	**9,128,451**
Total liabilities and net assets	**¥1,685,018**	¥1,630,800	**$15,019,324**

Consolidated Statements of Operations

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the years ended March 31, 2017 and 2016	**2017**	2016	**2017**
Net sales (Note 15)	**¥ 786,146**	¥ 855,407	**$7,007,273**
Costs and expenses:			
Cost of sales	**663,850**	741,545	**5,917,194**
Selling, general and administrative expenses (Note 11)	**45,906**	54,142	**409,181**
Total costs and expenses	**709,756**	795,687	**6,326,375**
Operating income	**76,390**	59,720	**680,898**
Other income (expenses):			
Interest and dividend income	**15,588**	13,800	**138,943**
Interest expenses	**(5,042)**	(4,873)	**(44,942)**
Loss on sale and disposal of property, plant and equipment	**(245)**	(380)	**(2,184)**
Loss on impairment of fixed assets (Note 7)	**(3,461)**	(813)	**(30,849)**
Gain on sales or liquidation of investment securities	**6,966**	—	**62,091**
Gain on sales or liquidation of subsidiaries and affiliated companies	**1,859**	—	**16,570**
Exchange loss	**(284)**	(6,800)	**(2,531)**
Provision for environmental measures	**(73)**	(131)	**(651)**
Maintenance cost for ceased projects	**(578)**	(605)	**(5,152)**
Casualty loss	**(16)**	(100)	**(143)**
Equity in losses of affiliated companies	**(85,972)**	(73,223)	**(766,307)**
Loss from valuation of derivative instruments	**(34)**	(194)	**(303)**
Reversal (Provision) for allowance for losses on investments	**—**	16,350	**—**
Provision for restructuring charges	**(741)**	(53)	**(6,605)**
Provision for discontinued operations	**(8,667)**	—	**(77,253)**
Other, net	**(1,689)**	(2,139)	**(15,054)**
Total other income (expenses)	**(82,389)**	(59,161)	**(734,370)**
Income (loss) before income taxes	**(5,999)**	559	**(53,472)**
Income taxes (Note 9):			
Current	**26,687**	16,977	**237,873**
Deferred	**(3,641)**	3,379	**(32,454)**
Total income taxes	**23,046**	20,356	**205,419**
Net income (loss)	**(29,045)**	(19,797)	**(258,891)**
Net loss attributable to non-controlling interests	**10,505**	19,488	**93,636**
Net income (loss) attributable to owners of the parent	**¥ (18,540)**	¥ (309)	**$ (165,255)**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (loss) (Note 20)			
—Basic	**¥ (33.61)**	¥ (0.56)	**$ (0.30)**
—Diluted	**—**	—	**—**
Cash dividends applicable to the year	**11.00**	31.00	**0.10**

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

Consolidated Statements of Comprehensive Income

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2017 and 2016	Millions of yen 2017	2016	Thousands of U.S. dollars (Note 1) 2017
Net income (loss)	¥ **(29,045)**	¥ (19,797)	$ **(258,891)**
Other comprehensive income			
Net unrealized holding gains (losses) on securities	**16,362**	(26,228)	**145,842**
Deferred gains (losses) on hedges	**3,138**	(1,783)	**27,970**
Foreign currency translation adjustments	**16,707**	(9,104)	**148,917**
Remeasurements of defined benefit plan	**4,487**	(4,289)	**39,995**
Share of other comprehensive income of affiliated companies accounted for using equity method	**(39,646)**	(3,834)	**(353,383)**
Total other comprehensive income	**1,048**	(45,238)	**9,341**
Comprehensive income (Note 14)	**(27,997)**	(65,035)	**(249,550)**
Comprehensive income attributable to:			
Owners of the parent	**(13,381)**	(43,369)	**(119,271)**
Non-controlling interests	**(14,616)**	(21,666)	**(130,279)**

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

Consolidated Statements of Changes in Net Assets

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

					Shareholders' equity	
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
For the years ended March 31, 2017 and 2016	(thousands)					Millions of yen
Balance at April 1, 2015	581,628	¥ 93,242	¥ 86,066	¥ 770,020	¥ (32,753)	¥ 916,575
Cash dividends paid		—	—	(24,825)	—	(24,825)
Net loss		—	—	(309)	—	(309)
Acquisition of treasury stock		—	—	—	(79)	(79)
Sale of treasury stock		—	1	—	5	6
Net changes of items other than shareholders' equity		—	—	—	—	—
Balance at April 1, 2016	581,628	¥ 93,242	¥ 86,067	¥ 744,886	¥ (32,827)	¥ 891,368
Cash dividends paid		**—**	**—**	**(8,274)**	**—**	**(8,274)**
Net loss		**—**	**—**	**(18,540)**	**—**	**(18,540)**
Acquisition of treasury stock		**—**	**—**	**—**	**(53)**	**(53)**
Sale of treasury stock		**—**	**1**	**—**	**3**	**4**
Change in ownership interest of the parent due to transactions with non-controlling interests		**—**	**436**	**—**	**—**	**436**
Net changes of items other than shareholders' equity		**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2017	**581,628**	**¥ 93,242**	**¥ 86,504**	**¥ 718,072**	**¥ (32,877)**	**¥ 864,941**

				Shareholders' equity	
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
For the year ended March 31, 2017					Thousands of U.S. dollars (Note 1)
Balance at April 1, 2016	$ 831,108	$ 767,154	$ 6,639,504	$(292,602)	$ 7,945,164
Cash dividends paid	**—**	**—**	**(73,750)**	**—**	**(73,750)**
Net loss	**—**	**—**	**(165,255)**	**—**	**(165,255)**
Acquisition of treasury stock	**—**	**—**	**—**	**(472)**	**(472)**
Sale of treasury stock	**—**	**9**	**—**	**26**	**35**
Change in ownership interest of the parent due to transactions with non-controlling interests	**—**	**3,886**	**—**	**—**	**3,886**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2017	**$ 831,108**	**$ 771,049**	**$ 6,400,499**	**$(293,048)**	**$ 7,709,608**

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

Consolidated Statements of Changes in Net Assets (continued)

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

	Accumulated other comprehensive income						
	Net unrealized holding gains on securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumu-lated other comprehensive income	Non-controlling interests	Total net assets
For the years ended March 31, 2017 and 2016							Millions of yen
Balance at April 1, 2015	¥ 46,679	¥ 247	¥ 87,288	¥ 435	¥134,649	¥ 107,721	¥1,158,945
Cash dividends paid	—	—	—	—	—	—	(24,825)
Net loss	—	—	—	—	—	—	(309)
Acquisition of treasury stock	—	—	—	—	—	—	(79)
Sale of treasury stock	—	—	—	—	—	—	6
Net changes of items other than shareholders' equity	(26,454)	(1,834)	(10,014)	(4,757)	(43,059)	(14,684)	(57,743)
Balance at April 1, 2016	¥ 20,225	¥ (1,587)	¥ 77,274	¥ (4,322)	¥ 91,590	¥ 93,037	¥1,075,995
Cash dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**(8,274)**
Net loss	**—**	**—**	**—**	**—**	**—**	**—**	**(18,540)**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(53)**
Sale of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**4**
Change in ownership interest of the parent due to transactions with non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**436**
Net changes of items other than shareholders' equity	**16,475**	**3,188**	**(19,324)**	**4,820**	**5,159**	**(30,606)**	**(25,447)**
Balance at March 31, 2017	**¥ 36,700**	**¥ 1,601**	**¥ 57,950**	**¥ 498**	**¥ 96,749**	**¥ 62,431**	**¥1,024,121**

	Accumulated other comprehensive income						
	Net unrealized holding gains on securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumu-lated other comprehensive income	Non-controlling interests	Total net assets
For the year ended March 31, 2017							Thousands of U.S. dollars (Note 1)
Balance at April 1, 2016	$180,275	$(14,146)	$ 688,778	$(38,524)	$816,383	$ 829,281	$9,590,828
Cash dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**(73,750)**
Net loss	**—**	**—**	**—**	**—**	**—**	**—**	**(165,255)**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(472)**
Sale of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**35**
Change in ownership interest of the parent due to transactions with non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**3,886**
Net changes of items other than shareholders' equity	**146,849**	**28,416**	**(172,244)**	**42,963**	**45,984**	**(272,805)**	**(226,821)**
Balance at March 31, 2017	**$327,124**	**$ 14,270**	**$ 516,534**	**$ 4,439**	**$862,367**	**$ 556,476**	**$9,128,451**

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

Consolidated Statements of Cash Flows

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
For the years ended March 31, 2017 and 2016	**2017**	2016	**2017**
Cash flows from operating activities:			
Income (loss) before income taxes	**¥ (5,999)**	¥ 559	**$ (53,472)**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	**44,232**	46,141	**394,260**
Loss on impairment of fixed assets	**3,461**	813	**30,849**
Loss on sale and disposal of property, plant and equipment	**245**	380	**2,184**
Loss from valuation of derivative instruments	**34**	194	**303**
Decrease (Increase) in allowance for losses on investments	**—**	(16,350)	**—**
Interest and dividend income	**(15,588)**	(13,800)	**(138,943)**
Interest expense	**5,042**	4,873	**44,942**
Equity in losses (earnings) of affiliated companies	**85,972**	73,223	**766,307**
Casualty loss	**16**	100	**143**
Decrease (Increase) in trade receivables	**(23,858)**	16,415	**(212,657)**
Decrease (Increase) in inventories	**(46,634)**	37,948	**(415,670)**
Increase (Decrease) in trade payables	**2,766**	18,128	**24,655**
Others	**2,250**	(7,982)	**20,055**
Sub-total	**51,939**	160,642	**462,956**
Interest and dividend received	**8,660**	10,647	**77,190**
Interest paid	**(4,762)**	(5,364)	**(42,446)**
Payments for maintenance costs for ceased projects	**(578)**	(605)	**(5,152)**
Payments for recovery costs	**(16)**	(100)	**(143)**
Payments for income taxes	**(11,447)**	(45,516)	**(102,032)**
Net cash provided by operating activities	**43,796**	119,704	**390,373**
Cash flows from investing activities:			
Payments for acquisition of property, plant and equipment	**(50,619)**	(42,880)	**(451,190)**
Proceeds from sale of property, plant and equipment	**779**	775	**6,944**
Payments for acquisition of intangible assets	**(1,735)**	(455)	**(15,465)**
Payments for purchases of investment securities	**(5,024)**	(702)	**(44,781)**
Proceeds from sales or liquidation of investment securities	**9,081**	2	**80,943**
Payments for purchase of securities of subsidiaries and affiliated companies	**(11,187)**	(25,523)	**(99,715)**
Payments into time deposits	**(953)**	(553)	**(8,495)**
Proceeds from withdrawal of time deposits	**4,126**	208	**36,777**
Payments for loans lended	**(675)**	(25,079)	**(6,017)**
Collection of loans repaid	**9,092**	394	**81,041**
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	**10,051**	—	**89,589**
Payments for purchase of mining rights	**(106,155)**	—	**(946,206)**
Others	**0**	937	**0**
Net cash used in investing activities	**(143,219)**	(92,876)	**(1,276,575)**
Cash flows from financing activities:			
Net decrease (increase) in bank loans	**5,980**	(1,664)	**53,303**
Proceeds from long-term debt	**120,488**	37,299	**1,073,965**
Repayments of long-term debt	**(24,018)**	(21,035)	**(214,083)**
Redemption of bonds	**(10,000)**	—	**(89,135)**
Contribution from non-controlling interests	**3,231**	10,507	**28,799**
Increase in treasury stocks	**(49)**	(73)	**(437)**
Cash dividends paid	**(8,274)**	(24,825)	**(73,750)**
Cash dividends paid to non-controlling interests	**(3,858)**	(4,212)	**(34,388)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(13,108)**	—	**(116,838)**
Net cash provided by (used in) financing activities	**70,392**	(4,003)	**627,436**
Effect of changes in exchange rate on cash and cash equivalents	**1,499**	(2,720)	**13,361**
Net increase (decrease) in cash and cash equivalents	**(27,532)**	20,105	**(245,405)**
Cash and cash equivalents at beginning of year	**197,825**	177,720	**1,763,303**
Cash and cash equivalents at end of year	**¥ 170,293**	¥197,825	**$ 1,517,898**

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

Notes to Consolidated Financial Statements

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1 Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (“IFRSs”).

The accounts of the Company’s overseas subsidiaries and affiliated companies are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile and make necessary amendments for consolidated financial statements required by Practical Issues Task Force No. 18 and No. 24 issued by ASBJ. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of Sumitomo Metal Mining Co., Ltd. (the “Company”) prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.19 to US$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2 Summary of significant accounting policies

Consolidation — The consolidated financial statements include the accounts of the Company and its significant subsidiaries (61 subsidiaries in 2017, 68 in 2016). All significant inter-company balances and transactions have been eliminated. Investments in affiliated companies of which the Company has the ability to exercise significant influence over financial and operating policies, are accounted for by the equity method (15 affiliated companies in 2017, 16 in 2016).

Investments in the remaining unconsolidated subsidiaries and affiliated companies are carried at cost because of their immaterial effect on the consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling interests, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

Goodwill (consolidation difference between the investment cost and the underlying equity in its net assets at the date of acquisition) is amortized over five years on a straight-line basis. With respect to subsidiaries in the United States, goodwill is amortized over twenty years on a straight-line basis.

Cash and cash equivalents and cash flow statements — Cash on hand, readily available bank deposits, negotiable certificates of deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Allowance for doubtful accounts — The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to ordinary accounts, plus an estimate of uncollectible amount determined by reference to specific doubtful accounts from customers who are experiencing financial difficulties.

Investment securities — Securities are classified into two categories based on the intent of holding: available-for-sale securities; and securities issued by unconsolidated subsidiaries and affiliated companies.

Available-for-sale securities with available fair values (marketable securities) are stated at the fair value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. The cost of securities sold is determined by the moving-average method. Other available-for-sale securities with no available fair values (non-marketable securities) are stated at moving-average method. Securities issued by unconsolidated subsidiaries and affiliated companies other than those accounted for by the equity method are carried at cost.

Derivatives and hedge accounting — Derivative instruments are stated at fair value. Changes in the fair values are recognized as gains and losses unless derivative transactions are used for hedging purposes.

If derivative transactions are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative transactions until the related losses or gains on the hedged items are recognized.

If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Company evaluates hedge effectiveness monthly by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

Foreign currency translation — Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates except for account components of net assets, which are translated at historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

Inventories — Inventories are mainly stated at the lower of cost determined by the first-in first-out (FIFO) method or net selling value of inventories regarded as the decreased profitability of assets, whose write-downs are included in cost of sales.

Property, plant and equipment — Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is computed by the straight-line method, based on the estimated useful lives of respective assets. The depreciation period generally ranges from 1 year to 60 years for buildings and structures and 1 year to 22 years for machinery and equipment.

Accrued restructuring charges — Accrued restructuring charges are provided by the Company and its consolidated subsidiaries to cover the costs of business reconstruction.

Accrued environmental measures — Provisions for environmental measures are estimated and recorded to provide for future potential costs, such as costs related to the disposal of polychlorinated biphenyl (PCB) and lead.

Provision for discontinued operations — JCO Co., Ltd., a consolidated subsidiary of the Company, is preparing for decommissioning by dismantlement and decontamination of its facilities. JCO Co., Ltd. provided the expenses for future losses that can be reasonably estimated.

Retirement benefits — In calculating projected benefits obligations the benefits formula basis is used to attribute the expected benefit attributable to the respective years. Actuarial gains and losses are recognized in expenses using the straight-line method over 10 years within the average remaining service years commencing from the following period.

Prior service costs are recognized in expenses using the straight-line method over 10 years within the average remaining service period.

Some domestic consolidated subsidiaries use the simplified method for the calculation of projected benefit obligations.

Research and development expense — Research and development expense is charged to income as incurred.

Accounting for certain lease transactions — Finance leases, except for certain immaterial leases, are capitalized and depreciated over the lease term.

Income taxes — Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases, and measured using the statutory tax rates which will be in effect when the differences are expected to be realized.

Sales — Sales of merchandise and finished products are recognized when the products are shipped to customers.

Additional information — The Company and its consolidated domestic subsidiaries have adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the current year.

Amount per share of common stock — Basic net income per share is computed based on the weighted-average number of shares of common stock issued during each year.

Diluted net income per share assumes that outstanding convertible bonds were converted into common stock at the beginning of the period at the current conversion price.

Cash dividends per share represent the actual amount applicable to the respective year.

3 Notes to financial instruments

(1) Status of financial instruments

(i) Policies on the handling of financial instruments

The Group procures the funds necessary for its capital expenditure, investment and loan plans mainly through bank loans and the issuance of bonds. Short-term operating funds are funded through bank loans as required. In the event of a need for new funds, the Group, in principle, looks to the issuance of short-term bonds (commercial paper). This is supplemented by bank loans and the use of liquidation schemes applicable to notes and accounts receivable. The Group takes great care to monitor the status of its funding needs and financial position. This is to ensure that the Group does not overly rely on specific procurement methods and financial instruments. Accordingly, steps are taken to ensure a balanced funding portfolio from both the short and long term as well as direct and indirect financing perspectives.

Temporary surplus funds are utilized only for highly safe financial assets for which there is a low probability of a loss of principal.

Derivative transactions are only used to avoid the risks attributable to fluctuations in the prices of non-ferrous metals as well as foreign currency exchange and interest rates. The Group does not engage in derivative translations for speculative purposes.

(ii) Details of and risks associated with financial instruments

Notes and accounts receivable, which are trade receivables, are exposed to the credit risk of customers. In addition, foreign currency-denominated trade receivables, which are generated by global business operations, are also exposed to fluctuations in foreign currency exchange rates. Turning to the metals business, trade receivables are also exposed to the risk of movements in the prices of non-ferrous metals. Investment securities, which largely represent shares of companies with whom the Group trades or has formed an equity alliance, are exposed to the risk of changes in their market prices.

Notes and accounts payable, which are trade obligations, generally have maturity dates of one year or less. In similar fashion to trade receivables, trade obligations in the metals business are subject to the risk of movements in the prices of non-ferrous metals. A certain portion of trade obligations are related to the import of raw and other materials and as such are denominated in foreign currencies. On this basis, they too are open to the risk of fluctuations in the foreign currency exchange rates. Within loans and bonds payable, bank loans payable primarily represent funding applicable to operating transactions while long-term debt (with a maximum maturity up to June 15, 2031) and bonds mainly concern funding relating to capital expenditures. A certain portion of loans and bonds payable is provided on a floating rate of interest basis. Accordingly, this portion is exposed to the risk of fluctuation in interest rates.

Derivative transactions employed in an effort to offset the aforementioned risks include forward foreign currency exchange rate contracts; forward and option transaction agreements; interest rate swap transaction agreements; and interest rate cap transaction agreements, which seek to provide hedges for the risks of fluctuations in the foreign currency exchange rates of trade receivables and trade obligations; the prices of non-ferrous metals applicable to non-ferrous metal trade receivables and trade obligations; and interest rates applicable to loans and bonds payable, respectively. For hedging instruments and hedged items, hedging policy, the method of assessing the effectiveness of hedges and other details in connection with hedge accounting, refer to the "Derivatives and hedge accounting" described in the Note 2 Summary of significant accounting policies.

(iii) Risk management systems relating to financial instruments

(a) Management of credit risk (risk relating to nonperformance of a contract obligation by a counterparty, etc.)

With respect to trade receivables, each operating department and division within the Group is guided by its own set of management rules and regulations. Sales and marketing departments and divisions regularly monitor the status of customers, managing due dates and balances on an individual customer basis. In this manner, every effort is made to ensure early detection and the mitigation of concerns regarding collection due to deterioration in financial standing or other factors. With respect to the use of derivative transactions, steps are taken to engage in transactions with highly rated financial institutions only. These steps are taken with the aim of mitigating counterparty risk.

The maximum amount of the credit risk is shown in the value of financial assets on the balance sheet which are subject to credit risk.

(b) Management of market risks (risks associated with fluctuations in the price of non-ferrous metals, foreign currency exchange as well as interest rates, etc.)

The Group employs commodity forward transaction and commodity option transaction agreements, which seek to provide hedges for the risks of fluctuations in the prices of imported raw materials with respect to non-ferrous metals as well as the sales prices of commodity metals and copper concentrate on international commodities markets.

At the same time, the Group utilizes forward foreign currency exchange rate contracts in an effort to offset the risks of movements in foreign currency exchange rates in connection with trade receivables and obligations denominated in foreign currencies, interest rate swap transaction agreements, and interest rate cap transaction agreements aimed at hedging the risks of fluctuations in interest rate.

With respect to investment securities, the Group regularly monitors fair values as well as the financial status of issuers (counterparties), and reviews its holdings on a continuous basis taking into consideration its relationships with counterparties.

As for derivative transactions, in accordance with derivative transaction management rules and regulations that outline the purpose and objectives of derivative transactions while providing authority and setting limits and scope, individual departments and divisions are responsible for formulating operating rules with respect to the implementation of derivative transactions, executing and booking transactions and reconciling balances with counterparties on a regular basis. Consolidated subsidiaries also adhere to the Company’s derivative transaction management rules and regulations while working to build the aforementioned management structure under which derivative transactions are managed.

(c) Management of liquidity risks associated with the procurement of funds (the risk of being unable to make payments on due dates)

The Group manages liquidity risk by preparing and updating a cash management plan six months in advance based on reports from each department and division. Certain domestic consolidated subsidiaries have adopted a cash management system and are efficiently maintaining appropriate levels of liquidity and cash on hand.

(iv) Supplementary explanation for fair values, etc. of financial instruments

Fair values of financial instruments are determined by market prices. If no market price is available, the fair value is based on the value that is calculated in a reasonable manner. The determination of such values contains variable factors and as such the adoption of wide ranging and differing assumptions may cause values to change. In addition, with respect to contract and other amounts applicable to derivative transactions outlined as follows in “(2) Fair values, etc. of financial instruments” such amounts themselves do not indicate the size of market risks associated with derivative transactions.

(2) Fair values, etc. of financial instruments

Amounts on the consolidated balance sheets, fair values and the differences between the two as of March 31, 2017 and 2016 are shown as follows. Certain financial instruments were excluded from the following table as the fair values were not available (refer to the table shown in (ii) below).

	Millions of Yen			Thousands of U.S. dollars		
2017	Book values of consolidated balance sheets	Fair values	Difference	Book values of consolidated balance sheets	Fair values	Difference
Cash and cash equivalents	**¥170,293**	**¥170,293**	**¥ —**	**$1,517,898**	**$1,517,898**	**$ —**
Time deposits	**24**	**24**	**—**	**214**	**214**	**—**
Notes and accounts receivable	**103,886**	**103,886**	**—**	**925,983**	**925,983**	**—**
Investment securities	**280,420**	**342,563**	**62,143**	**2,499,510**	**3,053,418**	**553,908**
Long-term loans receivable	**61,000**	**63,979**	**2,979**	**543,720**	**570,274**	**26,554**
Total Assets	**¥615,623**	**¥680,745**	**¥65,122**	**$5,487,325**	**$6,067,787**	**$580,462**
Notes and accounts payable	**47,306**	**47,306**	**—**	**421,660**	**421,660**	**—**
Bank loans and long-term debt due within one year	**96,940**	**96,940**	**—**	**864,070**	**864,070**	**—**
Long-term debt due after one year	**398,564**	**400,616**	**2,052**	**3,552,580**	**3,570,870**	**18,290**
Total Liabilities	**542,810**	**544,862**	**2,052**	**4,838,310**	**4,856,600**	**18,290**
Derivative transactions	**¥ 2,785** *1	**¥ 2,785** *1	**¥ —**	**$ 24,824** *1	**$ 24,824** *1	**$ —**

2016	Millions of Yen Book values of consolidated balance sheets	Fair values	Difference
Cash and cash equivalents	¥197,825	¥197,825	¥ —
Time deposits	5,049	5,049	—
Notes and accounts receivable	98,904	98,904	—
Investment securities	252,007	307,085	55,078
Long-term loans receivable	126,224	131,166	4,942
Total Assets	¥680,009	¥740,029	¥60,020
Notes and accounts payable	45,433	45,433	—
Bank loans and long-term debt due within one year	112,523	112,536	13
Long-term debt due after one year	288,036	291,074	3,038
Total Liabilities	445,992	449,043	3,051
Derivative transactions	¥ (1,664)*1	¥ (1,761)*1	¥ (97)

*1 Net receivables and obligations arising from derivative transactions are shown as a net amount and items for which aggregated results lead to net obligations are shown in parentheses.

(i) Fair values of financial instruments, and matters pertaining to securities and derivative transactions

Assets

(a) Cash and cash equivalents
The book values approximate to the fair values due to their high liquidity.

(b) Time deposits
The book values approximate to the fair values due to their high liquidity.

(c) Notes and accounts receivable
The book values approximate to the fair values due to short-term maturities of these instruments.

(d) Investment securities
The fair values of investment securities are based on the market prices of securities exchanges on which shares are listed.

For details regarding securities on an individual holding purpose basis refer to the Note 4 Securities.

(e) Long-term loans receivable
The fair values of floating-rate long-term loans receivable are based on their book values because the fair values of floating-rate long-term loans receivable reflect market interest rates within a short period of time and closely approximate their book values. The fair values of fixed-rate long-term loans receivable are based on a method of calculation whereby the total principal and interest are discounted at the contracted rates as adjusted considering the market rate.

Liabilities

(a) Notes and accounts payable
The book values approximate to the fair values due to short-term settlement of these instruments.

(b) Bank loans
The book values approximate to the fair values due to short-term settlement of these instruments.

(c) Bonds
The fair values are based on market prices.

(d) Long-term debt
The discounted cash flow method was used to estimate the fair values, based on marginal borrowing rates as discount rate.

Derivative transactions

Refer to the Note 5 Derivative transactions.

(ii) The financial instruments excluded from the above table as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. dollars
	2017	2016	**2017**
	Book values of consolidated balance sheets	Book values of consolidated balance sheets	Book values of consolidated balance sheets
Unlisted equity securities	**¥ 141,806**	¥ 196,722	**$ 1,263,981**

These instruments are not included in “Investment securities” (refer to above table) as the fair values are not available.

(iii) The aggregate maturities subsequent to March 31, 2017 and 2016 for financial assets are as follows:

2017	Millions of yen Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due over 10 years	Thousands of U.S. dollars Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due over 10 years
Cash and cash equivalents	**¥170,293**	**¥ —**	**¥ —**	**¥ —**	**$1,517,898**	**$ —**	**$ —**	**$ —**
Time deposits	**24**	**—**	**—**	**—**	**214**	**—**	**—**	**—**
Notes and accounts receivable	**103,886**	**—**	**—**	**—**	**925,983**	**—**	**—**	**—**
Long-term loans receivable	**-**	**1,291**	**13,826**	**45,883**	**-**	**11,507**	**123,237**	**408,976**
Total	**¥274,203**	**¥1,291**	**¥13,826**	**¥ 45,883**	**$2,444,095**	**$11,507**	**$123,237**	**$408,976**

2016	Millions of yen Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due over 10 years
Cash and cash equivalents	¥197,825	¥ —	¥ —	¥ —
Time deposits	5,049	—	—	—
Notes and accounts receivable	98,904	—	—	—
Long-term loans receivable	—	1,351	18,187	106,686
Total	¥301,778	¥1,351	¥18,187	¥106,686

(iv) The amount scheduled to be repaid after March 31, 2017 of long-term debt

Refer to the Note 8 Bank loans and long-term debt.

4 Securities

(1) The following tables summarize acquisition costs and book values (available fair values) as of March 31, 2017 and 2016:

Available-for-sale securities

Securities with book values (available fair values) exceeding acquisition costs

	Millions of yen					
	2017			2016		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 72,152**	**¥ 125,922**	**¥ 53,770**	¥ 55,032	¥ 89,818	¥ 34,786

	Thousands of U.S. dollars		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	**$ 643,123**	**$ 1,122,400**	**$ 479,277**

Securities with book values (available fair values) not exceeding acquisition costs

	Millions of yen					
	2017			2016		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 15,098**	**¥ 12,267**	**¥ (2,831)**	¥ 28,428	¥ 22,556	¥ (5,872)

	Thousands of U.S. dollars		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	**$ 134,575**	**$ 109,341**	**$ (25,234)**

(2) The following table summarizes book values of the securities with no available fair values as of March 31, 2017 and 2016:

Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unlisted equity securities	**¥ 1,836**	¥ 20,088	**$ 16,365**

(3) Total sales of available-for-sale securities sold during the year ended March 31, 2017 amounted to ¥1,230 million (US$10,964 thousand) and related gains amounted to ¥1,115 million (US$9,939 thousand).

No losses on sales of available-for-sale securities were recognized for the period.

Total sales of available-for-sale securities sold during the year ended March 31, 2016 amounted to ¥2 million (US$18 thousand) and related gains amounted to ¥2 million (US$18 thousand).

No losses on sales of available-for-sale securities were recognized for the period.

(4) Total liquidations of available-for-sale securities liquidated during the year ended March 31, 2017 amounted to ¥7,851 million (US$69,980 thousand) and related gains amounted to ¥5,851 million (US$52,153 thousand).

No losses on liquidations of available-for-sale securities were recognized for the period.

There was no liquidation of available-for-sale securities during the year ended March 31, 2016.

No losses on liquidations of available-for-sale securities were recognized for the period.

(5) There was no impairment loss on available-for-sale securities during the year ended March 31, 2017.

Impairment losses on available-for-sale securities amounted to ¥1,463 million (US$12,991 thousand) during the year ended March 31, 2016.

If the fair value of available-for-sale securities declines by over 50% compared to the acquisition cost thereof, the Company and its consolidated subsidiaries write down the book value of such securities. If the fair value of available-for-sale securities declines between 30% and 50% compared to the acquisition cost thereof, the Company and its consolidated subsidiaries write down the book value of the securities considering the possibilities for recovery of the fair value.

5 Derivative transactions

The following tables summarize the market value information as of March 31, 2017 and 2016 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen							
	2017				2016			
	Contracted amount and others				Contracted amount and others			
	Total	Over 1 year	Fair value	Recognized gains (losses)	Total	Over 1 year	Fair value	Recognized gains (losses)
Currency:								
Forward contracts:								
Buy position—U.S. dollars	**¥ 4,980**	**¥ —**	**¥ (52)**	**¥ (52)**	¥ 7,676	¥ —	¥ (26)	¥ (26)
Buy position—Sterling pound	**4,271**	**3,441**	**(8)**	**(8)**	—	—	—	—
Total	**¥ 9,251**	**¥ 3,441**	**¥ (60)**	**¥ (60)**	¥ 7,676	¥ —	¥ (26)	¥ (26)
Interest:								
Interest rate cap contracts:								
Buy position	**¥ 1,350**	**¥ —**	**¥ 1**	**¥(1,349)**	¥ 1,350	¥ —	¥ 14	¥ (1,336)
Total	**¥ 1,350**	**¥ —**	**¥ 1**	**¥(1,349)**	¥ 1,350	¥ —	¥ 14	¥ (1,336)
Commodity:								
Forward contracts:								
Sell position—Metal	**¥ 7,719**	**¥ 653**	**¥ (162)**	**¥ (162)**	¥ 1,231	¥ —	¥ 559	¥ 559
Buy position—Metal	**—**	**—**	**—**	**—**	5,264	—	—	—
Total	**¥ 7,719**	**¥ 653**	**¥ (162)**	**¥ (162)**	¥ 6,495	¥ —	¥ 559	¥ 559

	Thousands of U.S. dollars			
	2017			
	Contracted amount and others			
	Total	Over 1 year	Fair value	Recognized gains (losses)
Currency:				
Forward contracts:				
Buy position—U.S. dollars	$ **44,389**	$ **—**	$ **(464)**	$ **(464)**
Buy position—Sterling pound	**38,069**	**30,671**	**(71)**	**(71)**
Total	$ **82,458**	**30,671**	$ **(535)**	$ **(535)**
Interest:				
Interest rate cap contracts:				
Buy position	$ **12,033**	$ **—**	$ **9**	$ **(12,024)**
Total	$ **12,033**	$ **—**	$ **9**	$ **(12,024)**
Commodity:				
Forward contracts:				
Sell position—Metal	$ **68,803**	$ **5,820**	$ **(1,444)**	$ **(1,444)**
Buy position—Metal	**—**	**—**	**—**	**—**
Total	$ **68,803**	$ **5,820**	$ **(1,444)**	$ **(1,444)**

Derivative transactions for which hedge accounting has been applied for the years ended March 31, 2017 and 2016 consisted of the following:

			Millions of yen		
			Contracted amount and others		
2017			Total	Over 1 year	Fair value
Type of transaction	Type of derivative transaction	Major hedged items			
Interest	Interest rate swap contracts:				
	Paid fixed/received floating	Short-term loans	¥ **1,290**	¥ **—**	¥ **2**
		Long-term loans	**20,386**	**20,386**	**678**
	Interest rate cap contracts:				
	Buy position	Long-term loans	**20,386**	**20,386**	**772**
	Total		¥ **42,062**	¥ **40,772**	¥ **1,452**
Commodity	Forward contracts:				
	Sell position—Metal	Accounts receivable	¥ **20,566**	¥ **—**	¥ **91**
	Buy position—Metal	Accounts receivable, Accounts payable	**19,239**	**612**	**1,203**
	Option contracts:				
	Sell position				
	Call position—Metal*1	Accounts receivable	**15,274**	**—**	**261**
	Total		¥ **55,079**	¥ **612**	¥ **1,555**

*1 Commodity call option contracts are based on zero cost option contracts. There is no transfer of option fees.

2016			Contracted amount and others: Total (Millions of yen)	Contracted amount and others: Over 1 year (Millions of yen)	Fair value (Millions of yen)
Type of transaction	Type of derivative transaction	Major hedged items			
Interest	Interest rate swap contracts:				
	Paid fixed/received floating	Long-term loans	¥ 3,885	¥ 1,295	¥ (4)
	Total		¥ 3,885	¥ 1,295	¥ (4)
Commodity	Forward contracts:				
	Sell position—Metal	Accounts receivable	¥ 12,503	¥ —	¥ (452)
	Buy position—Metal	Accounts receivable, Accounts payable	27,616	1,190	(2,074)
	Option contracts:				
	Sell position				
	Call position—Metal*1	Accounts receivable	16,951	—	319
	Total		¥ 57,070	¥ 1,190	¥ (2,207)
Interest	Interest rate swap contracts*2:				
	Paid fixed/received floating	Long-term loans	¥ 11,542	¥ 3,847	¥ (97)
	Total		¥ 11,542	¥ 3,847	¥ (97)

*1 Commodity call option contracts are based on zero cost option contracts. There is no transfer of option fees.

*2 The interest rate swap contracts are used as hedges and meet certain hedging criteria. The net amount to be paid or received under these interest rate swap contracts is added to or deducted from the interests on the assets or liabilities for which these interest rate swap contracts were executed.
Main items hedged are long-term loans.

2017			Contracted amount and others: Total (Thousands of U.S. dollars)	Contracted amount and others: Over 1 year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Type of transaction	Type of derivative transaction	Major hedged items			
Interest	Interest rate swap contracts:				
	Paid fixed/received floating	Short-term loans	**$ 11,498**	**$ —**	**$ 18**
		Long-term loans	**181,710**	**181,710**	**6,043**
	Interest rate cap contracts:				
	Buy position	Long-term loans	**181,710**	**181,710**	**6,881**
	Total		**$ 374,918**	**$ 363,420**	**$ 12,942**
Commodity	Forward contracts:				
	Sell position—Metal	Accounts receivable	**$ 183,314**	**$ —**	**$ 811**
	Buy position—Metal	Accounts receivable, Accounts payable	**171,486**	**5,455**	**10,723**
	Option contracts:				
	Sell position				
	Call position—Metal*1	Accounts receivable	**136,144**	**—**	**2,326**
	Total		**$ 490,944**	**$ 5,455**	**$ 13,860**

*1 Commodity call option contracts are based on zero cost option contracts. There is no transfer of option fees.

6 Inventories

Inventories as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen **2017**	Millions of yen 2016	Thousands of U.S. dollars **2017**
Merchandise and finished products	**¥ 57,704**	¥ 47,648	**$ 514,342**
Work in process	**96,524**	60,197	**860,362**
Raw materials and supplies	**64,307**	54,129	**573,197**
Total	**¥ 218,535**	¥ 161,974	**$ 1,947,901**

7 Loss on impairment of fixed assets

(1) Loss on impairment of fixed assets for the year ended March 31, 2017 consisted of the following:

2017			Millions of yen	Thousands of U.S. dollars
Location	Major use	Asset category	Loss	Loss
Niihama City, Ehime Prefecture, Japan	Laboratory facilities	Machinery and other assets	**¥ 130**	**$ 1,159**
Isa City, Kagoshima Prefecture, Japan	Manufacturing facilities for crystal substrates	Machinery	**56**	**499**
Minato City, Tokyo Metropolis, Japan Niihama City, Ehime Prefecture, Japan	Manufacturing facilities for lead frames (to be withdrawn)	Building, machinery and other assets	**867**	**7,728**
Yonezawa City, Yamagata Prefecture, Japan Jiangsu, China Negeri Sembilan, Malaysia	Manufacturing facilities for lead frames (to be sold)	Machinery, building and other assets	**2,408**	**21,463**
Total			**¥ 3,461**	**$ 30,849**

The Company categorizes its operating assets by such business units as plants and manufacturing processes based on the divisions of managerial accounting.

Loss on impairment was recognized for the following reasons:

(i) The book values of laboratory facilities were reduced to their recoverable amounts because it is not anticipated that they will be utilized in the future.

The net sales price (fair value less cost to sell) of the assets was used as recoverable amounts for the measurement of impairment losses.

As sale of these assets was expected to be difficult, the net sales price was assessed as zero.

(ii) The book values of manufacturing facilities for crystal substrates were reduced to their recoverable amounts due to the expectation that they would no longer be in use.

The net sales price (fair value less cost to sell) of the assets was used as the recoverable amount for the measurement of impairment loss. It was based on the expected contract price.

(iii) The book values of manufacturing facilities for lead frames were reduced to their recoverable amounts because the Company decided to withdraw the subsidiaries that own such facilities from business.

The values in use of assets were used as recoverable amounts for the measurement of impairment losses.

Since future cash flow was expected to be negative, it was assumed that there was no recoverable value.

(iv) The book values of manufacturing facilities for lead frames were reduced to their recoverable amounts because the Company decided to sell the subsidiaries that own such facilities.

The net sales price (fair value less cost to sell) of the assets was used as the recoverable amount for the measurement of impairment loss. It was based on the expected contract prices. (Such subsidiaries are grouped into one independent cash-generating unit.)

(2) Loss on impairment of fixed assets for the year ended March 31, 2016 consisted of the following:

2016			Millions of yen
Location	Major use	Asset category	Loss
Ome City, Tokyo Metropolis, Japan	Manufacturing facilities for thin-film paste	Machinery and other assets	¥ 233
Isa City, Kagoshima Prefecture, Japan	Manufacturing facilities for sapphire substrates	Machinery and other assets	348
Jiangsu, China	Manufacturing facilities for lead frames	Machinery and other assets	64
Hyuga City, Miyazaki Prefecture, Japan	Manufacturing facilities for ferronickel	Machinery and other assets	143
Kaohsiung, Taiwan	Building for thin-film paste manufacturing	Building	25
Total			¥ 813

The Company categorizes its operating assets by such business units as plants and manufacturing processes based on the divisions of managerial accounting.

Loss on impairment was recognized for the following reasons:

(i) The book values of manufacturing facilities for thin-film paste were reduced to their recoverable amounts because the sales volume of ITO target will not be expected to recover.

The values in use of assets were used as recoverable amounts for the measurement of impairment losses.

Since future cash flow was expected to be negative, it was assumed that there was no recoverable value.

(ii) The book values of manufacturing facilities for sapphire substrates were reduced to their recoverable amounts due to the withdrawal from sapphire substrate business.

The net sales price (fair value less cost to sell) of the assets was used as the recoverable amount for the measurement of impairment loss. As sale of these assets was expected to be difficult, the net sales price was assessed as zero.

(iii) The book values of manufacturing facilities for lead frames were reduced to their recoverable amounts due to the adverse market environment.

The net sales price (fair value less cost to sell) of the assets was used as the recoverable amount for the measurement of impairment loss. It was based on third-party appraisal or by similar means.

(iv) The book values of manufacturing facilities for ferronickel were reduced to their recoverable amounts because one of the electric furnaces was mothballed.

The values in use of assets were used as recoverable amounts for the measurement of impairment losses.

Since the resuming of the furnace is not yet determined, it was assumed that there was no recoverable value.

(v) The book value of the building for thin-film paste manufacturing was reduced to its recoverable amount due to the relocation of the factory.

The net sales price (fair value less cost to sell) of the asset was used as the recoverable amount for the measurement of impairment loss. As sale of the asset was expected to be difficult, the net sales price was assessed as zero.

8 Bank loans and long-term debt

Bank loans are generally represented by short-term notes (most of which are unsecured) and bank overdrafts, and bore interest at annual weighted average rate of 1.16% and 1.01% as of March 31, 2017 and 2016, respectively.

(1) Long-term debt as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Long-term loans:			
Due within one year *1	**¥ 17,427**	¥ 24,933	**$ 155,335**
Due after one year, maturing through 2031 *2	**358,564**	248,036	**3,196,042**
0.48% domestic bonds due in 2016	**—**	10,000	**—**
0.77% domestic bonds due in 2018	**30,000**	30,000	**267,404**
1.26% domestic bonds due in 2021	**10,000**	10,000	**89,134**
Total	**415,991**	322,969	**3,707,915**
Amount due within one year	**(17,427)**	(34,933)	**(155,335)**
Total	**¥ 398,564**	¥ 288,036	**$ 3,552,580**

*1 Weighted average interest rate at March 31, 2017 is 1.97%

*2 Weighted average interest rate at March 31, 2017 is 0.88%

(2) The aggregate annual maturities of long-term debt as of March 31, 2017 are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥ 17,427	$ 155,335
2019	54,629	486,933
2020	128,984	1,149,692
2021	30,084	268,152
2022	46,027	410,259
Thereafter	138,840	1,237,544
Total	¥ 415,991	$ 3,707,915

(3) Assets pledged as collateral for bank loans and long-term debt as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash and cash equivalents	**¥ 1**	¥ 1	**$ 9**
Property, plant and equipment, at net book value and other assets	**—**	39,153	**—**
Investment securities	**0**	34,654	**0**
Long-term loans receivable	**26,094**	25,227	**232,588**
Others	**343**	338	**3,057**
Total	**¥ 26,438**	¥ 99,373	**$ 235,654**

9 Income taxes

Income taxes in the accompanying consolidated statements of operations comprise corporation taxes, inhabitants' taxes and enterprise taxes. Consolidated overseas subsidiaries are subject to income taxes of the countries in which they are domiciled.

The following table summarizes the significant differences between the statutory tax rate and the Company's and its consolidated subsidiaries' effective tax rate for financial statement purposes for the years ended March 31, 2017 and 2016:

	2017	2016
Statutory tax rate	—%	33.1%
Loss of consolidated subsidiaries	—	4,387.3
Permanently nontaxable dividends received	—	(2,783.4)
Effect of eliminating intercompany dividends received	—	2,285.7
Difference of statutory tax rate in subsidiaries	—	1,541.1
Decrease (Increase) in valuation allowance	—	(709.3)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	—	(486.1)
Difference in local tax system	—	(197.9)
Undistributed earnings of foreign subsidiaries	—	(169.2)
Tax credit	—	(133.3)
Effect of mining taxes	—	(118.1)
Permanently non-deductible items, including entertainment expenses	—	34.5
Others	—	(42.9)
Effective tax rate	—%	3,641.5%

Information for the year ended March 31, 2017 is not provided because income before income taxes is negative.

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Overseas exploration costs	¥ 5,251	¥ 5,370	$ 46,805
Net defined benefit liability	5,050	6,786	45,013
Provision for discontinued operations	2,676	—	23,852
Loss on impairment of fixed assets	2,640	2,067	23,532
Asset retirement obligations	2,478	2,382	22,088
Provision for losses caused by subsidiaries and affiliates	1,939	595	17,283
Net operating losses carry forwards	1,670	2,079	14,885
Unrealized profits	1,626	2,836	14,493
Contribution gains on securities to employee retirement benefits trust	1,356	1,238	12,087
Allowance for bonus payable	1,051	1,084	9,368
Others	7,440	4,965	66,316
Gross deferred tax assets	33,177	29,402	295,722
Less valuation allowance	(6,178)	(4,616)	(55,068)
Deferred tax assets after deducting valuation allowance	26,999	24,786	240,654
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(14,351)	(9,585)	(127,917)
Depreciation	(10,027)	(11,592)	(89,375)
Reserve for losses on overseas investment	(4,973)	(4,973)	(44,327)
Accumulated earnings of overseas subsidiaries	(4,787)	(4,507)	(42,669)
Deferred gains on properties for tax purpose	(1,840)	(1,899)	(16,401)
Reserve for explorations	(1,629)	(1,402)	(14,520)
Depletion	(1,016)	—	(9,056)
Gains on securities contributed to employee retirement benefits trust	(542)	(535)	(4,831)
Others	(3,592)	(1,297)	(32,016)
Deferred tax liabilities	(42,757)	(35,790)	(381,112)
Net deferred tax assets (liabilities)	¥ (15,758)	¥ (11,004)	$ (140,458)

10 Retirement benefits and pension costs

(1) Outline of retirement benefits and pension costs

The Company and certain consolidated subsidiaries have a defined benefit pension plan and a defined contribution pension plan.

The defined benefit pension plan is based upon years of service, compensation at the time of severance and other factors.

Such retirement benefits are provided through a lump-sum benefit or a funded pension plan. The Company has a retirement benefit trust.

Some domestic consolidated subsidiaries use the simplified method for the calculation of projected benefit obligations. Also, certain consolidated subsidiaries enroll in multiemployer pension plans. Such plans are recognized as defined contribution plans.

(2) Defined benefit plans

The detailed notes relating to retirement benefit plans for the 12-month period ended March 31, 2017 and 2016 are as follows:

(i) Movements in retirement benefit obligations, excluding plans to which the simplified method is applied

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year	**¥ 63,576**	¥ 59,972	**$ 566,682**
Service costs	**2,253**	2,051	**20,082**
Interest costs	**349**	550	**3,111**
Actuarial gains and losses	**74**	3,211	**660**
Benefits paid	**(2,230)**	(2,282)	**(19,877)**
Prior service costs	**749**	(19)	**6,676**
Others	**(32)**	93	**(286)**
Balance at end of year	**¥ 64,739**	¥ 63,576	**$ 577,048**

(ii) Movements in plan assets, excluding plans to which the simplified method is applied

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year	**¥ 50,731**	¥ 53,370	**$ 452,188**
Expected return on plan assets	**1,119**	1,156	**9,974**
Actuarial gains and losses	**5,542**	(3,332)	**49,398**
Contributions paid by the employer	**719**	818	**6,409**
Benefits paid	**(1,336)**	(1,281)	**(11,908)**
Balance at end of year	**¥ 56,775**	¥ 50,731	**$ 506,061**

(iii) Movements in liability (asset) for retirement benefits to which the simplified method is applied

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year	**¥ 1,094**	¥ 830	**$ 9,751**
Retirement benefit costs	**178**	642	**1,587**
Benefits paid	**(190)**	(200)	**(1,694)**
Contributions paid by the employer	**(164)**	(178)	**(1,462)**
Other	**(27)**	—	**(241)**
Balance at end of year	**¥ 891**	¥ 1,094	**$ 7,941**

(iv) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Funded retirement benefit obligations	**¥ 67,911**	¥ 66,858	**$ 605,321**
Plan assets	**(60,800)**	(54,555)	**(541,938)**
	¥ 7,111	¥ 12,303	**$ 63,383**
Unfunded retirement benefit obligations	**1,744**	1,636	**15,545**
Total net liability for retirement benefits at end of year	**¥ 8,855**	¥ 13,939	**$ 78,928**
Liability for retirement benefits	**¥ 9,118**	¥ 14,128	**$ 81,273**
Asset for retirement benefits	**(263)**	(189)	**(2,344)**
Total net liability for retirement benefits at end of year	**¥ 8,855**	¥ 13,939	**$ 78,929**

(v) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Service costs	**¥ 2,253**	¥ 2,051	**$ 20,081**
Interest costs	**349**	550	**3,111**
Expected return on plan assets	**(1,119)**	(1,156)	**(9,974)**
Net actuarial gains and losses amortization	**1,732**	(135)	**15,438**
Prior service costs amortization	**79**	154	**704**
Retirement benefit costs based on the simplified method	**178**	642	**1,587**
Total retirement benefit costs for the year	**¥ 3,472**	¥ 2,106	**$ 30,947**

(vi) Other comprehensive income on defined retirement benefit plans, before tax

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Prior service costs	**¥ 670**	¥ (154)	**$ 5,972**
Actuarial gains and losses	**(7,203)**	6,438	**(64,204)**
Total	**¥ (6,533)**	¥ 6,284	**$ (58,232)**

(vii) Accumulated other comprehensive income on defined retirement benefit plans, before tax

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrecognized prior service costs	**¥ 702**	¥ 47	**$ 6,257**
Unrecognized actuarial gains and losses	**(2,048)**	5,161	**(18,255)**
Total	**¥ (1,346)**	¥ 5,208	**$ (11,998)**

(viii) Plan assets

(a) Plan assets consisted of the following:

	2017	2016
Bonds	**32.5%**	35.7%
Equity securities	**58.2**	53.8
Cash and cash equivalents	**1.2**	4.7
Others	**8.1**	5.8
Total	**100.0**	100.0

Plan assets include the retirement benefit trusts that were established in regards to lump-sum payment plans of 40.2% at March 31, 2017 and 35.1% at March 31, 2016.

(b) Long-term expected rate of return

Current and target asset allocations, and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

Assumptions used in calculating the above numbers are as follows:

		2017	2016
Discount rate	(Mainly)	**0.6%**	0.5%
Expected long-term return on plan assets	(Mainly)	**3.5%**	3.5%

(c) Defined contribution plans

The amount of required contributions to the defined contribution plans of the Company and certain consolidated subsidiaries for the years ended March 31, 2017 and 2016 were ¥401 million (US$3,574 thousand) and ¥404 million, respectively.

(d) Multiemployer pension plans

The amount of required contributions to the multiemployer plans which are recognized as defined contribution plans for the years ended March 31, 2017 and 2016 were ¥42 million (US$374 thousand) and ¥70 million, respectively.

The funded status of the multiemployer pension plans at March 31, 2016 and 2015, to which contributions were recorded as net periodic retirement benefit costs, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Plan assets	**¥ 256,616**	¥ 329,141	**$ 2,287,334**
Actuarial liability based on pension plan finance calculation and minimum actuarial reserve	**287,428**	361,482	**2,561,974**
Balance*1	**¥ (30,812)**	¥ (32,341)	**$ (274,640)**

*1 The principle factor relating to the balance was the prior service obligations in pension financing which were –¥28,990 million (–US$258,401 thousand) at March 31, 2016 and –¥32,939 million at March 31, 2015. The multiemployer pension plan (Japan Electronics Packaging and Circuits Employees' Pension Insurance), in which Shinko Co., Ltd. had been enrolled, was dissolved on March 31, 2017, with the approval of the Minister of Health, Labour and Welfare who acted to return the contracted-out portion back to the government, which has been handling it since April 2017. Consequently, it is not included in those assets at March 31, 2016. The impact of dissolution of the plan on operating income and loss before income taxes was immaterial.

The percentage of the Group's contribution to the multiemployer pension plans at March 31, 2016 and 2015 were 0.46% and 0.40%, respectively.

11 Research and development expense

Research and development expense included in selling, general and administrative expenses for the years ended March 31, 2017 and 2016 are ¥5,241 million (US$46,715 thousand) and ¥5,772 million, respectively.

12 Net assets

Net assets comprise three subsections, which are shareholders' equity, accumulated other comprehensive income, and non-controlling interests.

Under the Japanese Companies Act (the "Act"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Act, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of dividend or excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Act, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit, or could be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve should not be distributed as dividends. Under the Act, however, all additional paid-in capital and all of the legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

13 Contingent liabilities

Contingent liabilities as of March 31, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
Notes and accounts receivable sold to factoring companies with recourse	**¥ 24**	**$ 214**
As guarantor for loans of:		
Non-consolidated subsidiaries and affiliated companies	**84,223**	**750,718**
As a stockholder for future payment of:		
The mining royalty tax, interests and penalties of Cerro Verde S.A.A.	**2,857**	**25,466**
Total	**¥ 87,104**	**$ 776,398**

JCO Co., Ltd., a consolidated subsidiary of the Company, is preparing for decommissioning by dismantlement and decontamination of its facilities. Whenever the expenses for future loss can be reasonably estimated, JCO Co., Ltd. will provide the expenses.

Pursuant to the Agreement of Guarantees and Measures to Promote Investments with the Government of Peru (the "1998 Stability Agreement"), which was effective from 1999 through 2013, Sociedad Minera Cerro Verde S.A.A. ("Cerro Verde"), the Company's affiliated company accounted for by the equity method, has paid taxes based on the assumption that the mining royalty tax regime of 2004 did not apply to Cerro Verde.

In October 2013, the Peruvian national tax authority issued to Cerro Verde a payment order of taxes for the years 2006 through 2008, plus interests and penalties thereon, because the tax authority decided that the 1998 Stability Agreement did not exempt the Copper Sulfide Ores Development Project, which commenced in 2006 (the "Project"), from the mining royalty tax regime.

Although Cerro Verde has made an appeal to related agencies that the 1998 Stability Agreement exempted the Project, the Company's share of the payment being demanded in case such demand is validated is described above.

Cerro Verde had continued to pay taxes for 2009 and onward based on the same assumption that the 1998 Stability Agreement had been effective and had exempted the Project. Although the tax authority claims that the 1998 Stability Agreement also does not exempt the Project for 2009 or onward, the tax authority has not issued to Cerro Verde a payment order of taxes for such years.

14 Comprehensive Income

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Net unrealized holding gains on securities			
Increase during the year	**¥ 22,242**	¥ (38,582)	**$ 198,253**
Reclassification adjustments	**(1,115)**	1,464	**(9,939)**
Sub-total, before tax	**21,127**	(37,118)	**188,314**
Tax effect	**(4,765)**	10,890	**(42,473)**
Sub-total, net of tax	**¥ 16,362**	¥ (26,228)	**$ 145,841**
Deferred gains or losses on hedges			
Increase during the year	**¥ 1,176**	¥ (3,728)	**$ 10,482**
Reclassification adjustments	**3,447**	1,160	**30,725**
Sub-total, before tax	**4,623**	(2,568)	**41,207**
Tax effect	**(1,485)**	785	**(13,236)**
Sub-total, net of tax	**¥ 3,138**	¥ (1,783)	**$ 27,971**
Foreign currency translation adjustments			
Increase during the year	**¥ 16,365**	¥ (9,104)	**$ 145,869**
Reclassification adjustments	**517**	—	**4,608**
Sub-total, before tax	**16,882**	(9,104)	**150,477**
Tax effect	**(175)**	—	**(1,560)**
Sub-total, net of tax	**¥ 16,707**	¥ (9,104)	**$ 148,917**
Remeasurements of defined benefit plans			
Increase during the year	**¥ 4,722**	¥ (6,303)	**$ 42,089**
Reclassification adjustments	**1,811**	19	**16,143**
Sub-total, before tax	**6,533**	(6,284)	**58,232**
Tax effect	**(2,046)**	1,995	**(18,237)**
Sub-total, net of tax	**¥ 4,487**	¥ (4,289)	**$ 39,995**
Share of other comprehensive income of affiliated companies accounted for using equity method			
Increase during the year	**¥ (39,601)**	¥ (3,798)	**$ (352,982)**
Reclassification adjustments	**(45)**	(36)	**(401)**
Sub-total	**¥ (39,646)**	¥ (3,834)	**$ (353,383)**
Total other comprehensive income	**¥ 1,048**	¥ (45,238)	**$ 9,341**

15 Segment information

(1) General information about reported segments

(i) Basis of decision about reported segments

The reported segments of the Group refer to business units, for which separate financial information is available and that are subject to periodic reviews by the Board of Directors as the supreme, managerial decision-making body to determine the allocation of management resources and assess their respective operating results.

The Company currently has three business divisions—Mineral Resources Div., Non-Ferrous Metals Div., Materials Div.— in the pursuit of effective business operations by products and services. Each of these business divisions plans its own comprehensive strategies to be carried out in Japan and overseas for its own product and service lines and engages in diverse business activities.

The three aforementioned business divisions are classified as "business segments" of the Group.

The Group integrated these three business segments into three reported segments: "Mineral Resources" "Smelting & Refining," "Materials." In determining these reported segments, in accordance with the integration criteria and quantitative standards set forth in the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17 issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20 issued on March 21, 2008).

As described above, the Group consists of three segments identified by products and services based on the business divisions.

(ii) Types of products and services of each reported segment

In the Mineral Resources segment, the Group mainly engages in the exploration, development and production of non-ferrous metal resources in Japan and overseas, as well as sales of ores and other products.

In the Smelting & Refining segment, the Group mainly engages in smelting and sales of copper, nickel, ferro-nickel and zinc, as well as smelting and sales of precious metals such as gold, silver and platinum.

In the Materials segment, the Group mainly engages in manufacturing, processing and sales of semiconductor materials such as lead frames and tape materials, as well as of advanced materials such as pastes, powder materials (e.g., nickel powder), battery materials (e.g., nickel hydroxide, lithium nickel oxide) and crystalline materials (e.g., lithium tantalate, lithium niobate), manufacturing and sales of automotive exhaust processing catalysts, chemical catalysts, petroleum refinery and desulfurization catalysts, as well as autoclaved lightweight concrete (ALC) products.

(2) Basis of measurement regarding reported segment income (loss), segment assets and other material items
The accounting methods for each reported segment are basically the same as those set forth in Note 2, entitled the "Summary of significant accounting policies," excepting the allocation of the amount equivalent to the interest on the internal loan payable to each segment.
Inter-segment net sales are calculated based on the prices of arm's length transactions.

(3) Information about reported segment income (loss), segment assets and other material items
Segment information as of and for the years ended March 31, 2017 and 2016 are as follows:

Millions of yen

2017	Mineral Resources	Smelting & Refining	Materials	Total of reported segments	Others*1	Adjustment*2	Consolidated
Net sales:							
Outside customers	**¥ 77,857**	**¥ 543,079**	**¥ 159,913**	**¥ 780,849**	**¥ 5,297**	**¥ —**	**¥ 786,146**
Inter segment	**45,513**	**21,978**	**14,148**	**¥ 81,639**	**5,045**	**(86,684)**	**—**
Total	**¥ 123,370**	**¥ 565,057**	**¥ 174,061**	**¥ 862,488**	**¥ 10,342**	**¥ (86,684)**	**¥ 786,146**
Segment income (loss)	**¥ (53,594)**	**¥ 33,258**	**¥ 12,066**	**¥ (8,270)**	**¥ (65)**	**¥ 6,770**	**¥ (1,565)**
Segment assets	**¥ 468,981**	**¥ 671,938**	**¥ 205,425**	**¥ 1,346,344**	**¥ 20,741**	**¥ 317,933**	**¥ 1,685,018**
Segment liabilities	**¥ 155,441**	**¥ 300,310**	**¥ 124,429**	**¥ 580,180**	**¥ 15,311**	**¥ 65,406**	**¥ 660,897**
Other items:							
Depreciation	**¥ 16,095**	**¥ 17,822**	**¥ 9,089**	**¥ 43,006**	**¥ 388**	**¥ 838**	**¥ 44,232**
Amortization of goodwill	**121**	**—**	**23**	**144**	**—**	**—**	**144**
Interest income	**816**	**836**	**80**	**1,732**	**1**	**11,043**	**12,776**
Interest expense	**1,207**	**3,740**	**364**	**5,311**	**10**	**(279)**	**5,042**
Equity in earnings (losses) of affiliated companies	**(93,628)**	**4,240**	**3,644**	**(85,744)**	**—**	**(228)**	**(85,972)**
Investment in equity-method affiliated companies	**142,787**	**96,776**	**27,134**	**266,697**	**—**	**25,914**	**292,611**
Capital expenditures	**92,012**	**10,885**	**18,807**	**121,704**	**727**	**3,519**	**125,950**

*1 The "Others" segment refers to businesses other than those included in the reported segments and other profit-seeking business directly operated by Head Office divisions/departments. Other businesses include real estate businesses and technical engineering.
*2 Notes to the various items of the "Adjustment" segment are below. (i–viii)

Millions of yen

2016	Mineral Resources	Smelting & Refining	Materials	Total of reported segments	Others*1	Adjustment*2	Consolidated
Net sales:							
Outside customers	¥ 70,448	¥ 622,523	¥ 158,302	¥ 851,273	¥ 4,134	¥ —	¥ 855,407
Inter segment	49,303	19,409	13,295	82,007	11,157	(93,164)	—
Total	¥ 119,751	¥ 641,932	¥ 171,597	¥ 933,280	¥ 15,291	¥ (93,164)	¥ 855,407
Segment income (loss)	¥ (44,317)	¥ 25,258	¥ 5,972	¥ (13,087)	¥ (828)	¥ 1,151	¥ (12,764)
Segment assets	¥ 315,902	¥ 657,742	¥ 189,302	¥ 1,162,946	¥ 20,767	¥ 447,087	¥ 1,630,800
Segment liabilities	¥ 25,528	¥ 297,361	¥ 100,127	¥ 423,016	¥ 10,526	¥ 121,263	¥ 554,805
Other items:							
Depreciation	¥ 13,972	¥ 21,673	¥ 8,014	¥ 43,659	¥ 386	¥ 2,096	¥ 46,141
Amortization of goodwill	135	—	23	158	—	—	158
Interest income	344	280	130	754	—	10,038	10,792
Interest expense	123	4,119	372	4,614	19	240	4,873
Equity in earnings (losses) of affiliated companies	(79,720)	2,885	2,856	(73,979)	—	756	(73,223)
Investment in equity-method affiliated companies	146,649	93,250	29,127	269,026	—	56,799	325,825
Capital expenditures	11,648	15,230	21,632	48,510	366	2,137	51,013

*1 The "Others" segment refers to businesses other than those included in the reported segments and other profit-seeking business directly operated by Head Office divisions/departments. Other businesses include real estate businesses and technical engineering.

*2 Notes to the various items of the "Adjustment" segment are below. (i–viii)

	Thousands of U.S. dollars						
2017	Mineral Resources	Smelting & Refining	Materials	Total of reported segments	Others*1	Adjustment*2	Consolidated
Net sales:							
Outside customers	**$ 693,975**	**$4,840,708**	**$1,425,377**	**$ 6,960,060**	**$ 47,213**	**$ —**	**$ 7,007,273**
Inter segment	**405,678**	**195,900**	**126,107**	**727,685**	**44,969**	**(772,654)**	**—**
Total	**$1,099,653**	**$5,036,608**	**$1,551,484**	**$ 7,687,745**	**$ 92,182**	**$ (772,654)**	**$ 7,007,273**
Segment income (loss)	**$ (477,707)**	**$ 296,444**	**$ 107,550**	**$ (73,713)**	**$ (580)**	**$ 60,343**	**$ (13,950)**
Segment assets	**$4,180,239**	**$5,989,286**	**$1,831,045**	**$12,000,570**	**$184,874**	**$2,833,880**	**$15,019,324**
Segment liabilities	**$1,385,516**	**$2,676,798**	**$1,109,092**	**$ 5,171,406**	**$136,474**	**$ 582,993**	**$ 5,890,873**
Other items:							
Depreciation	**$ 143,462**	**$ 158,856**	**$ 81,014**	**$ 383,332**	**$ 3,458**	**$ 7,470**	**$ 394,260**
Amortization of goodwill	**1,079**	**—**	**205**	**1,284**	**—**	**—**	**1,284**
Interest income	**7,273**	**7,452**	**713**	**15,438**	**9**	**98,431**	**113,878**
Interest expense	**10,759**	**33,336**	**3,244**	**47,339**	**90**	**(2,487)**	**44,942**
Equity in earnings (losses) of affiliated companies	**(834,549)**	**37,793**	**32,481**	**(764,275)**	**—**	**(2,032)**	**(766,307)**
Investment in equity-method affiliated companies	**1,272,725**	**862,608**	**241,858**	**2,377,191**	**—**	**230,983**	**2,608,174**
Capital expenditures	**820,144**	**97,023**	**167,635**	**1,084,802**	**6,480**	**31,367**	**1,122,649**

*1 The "Others" segment refers to businesses other than those included in the reported segments and other profit-seeking business directly operated by Head Office divisions/departments. Other businesses include real estate businesses and technical engineering.

*2 Notes to the various items of the "Adjustment" segment are below. (i–viii)

(i) Adjustments for segment income

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Head Office expenses not allocated to each reported segment*1	**¥ (674)**	¥ (90)	**$ (6,009)**
Internal interest expense	**269**	562	**2,398**
Eliminations of inter-segmental transactions among the reported segments	**2,802**	267	**24,975**
Non-operating income/expenses not allocated to each reported segment*2	**4,373**	412	**38,979**
Total	**¥ 6,770**	¥ 1,151	**$ 60,343**

*1 Head Office expenses not allocated to each reported segment mainly consist of general administrative expenses and R&D expenses, which are not attributable to the reported segments.

*2 Non-operating income/expenses not allocated to each reported segment mainly consist of foreign exchange gains/losses and interest expenses, which are not attributable to the reported segments.

(ii) Adjustments for segment assets and liabilities

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Corporate assets not allocated to each reported segment*1	**¥ 506,417**	¥ 482,978	**$ 4,513,923**
Offset and eliminations of inter-segmental receivables among the reported segments, including those toward Head Office divisions/departments	**(188,484)**	(98,562)	**(1,680,043)**
Total	**¥ 317,933**	¥ 384,416	**$ 2,833,880**

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Corporate liabilities not allocated to each reported segment*1	**¥ 264,533**	¥ 197,656	**$ 2,357,902**
Offset and eliminations of inter-segmental payables among the reported segments, including those toward Head Office divisions/departments	**(199,127)**	(139,064)	**(1,774,909)**
Total	**¥ 65,406**	¥ 58,592	**$ 582,993**

*1 Corporate assets and liabilities not allocated to each reported segment mainly refer to the assets and liabilities under the control of the Administration Dept. at the Head Office, which are not allocated to the reported segments.

(iii) Adjustments on depreciation refer to depreciation at the Head Office divisions/departments, which are not allocated to the reported segments.

(iv) Adjustments on interest income consist of interest income at the Head Office divisions/departments, which is not allocated to the reported segments, and eliminations of transactions among the reported segments.

(v) Adjustments on interest expense consist of interest expense at the Head Office divisions/departments, which are not allocated to the reported segments, and eliminations of transactions among the reported segments.

(vi) Adjustments on equity in earnings (losses) of affiliated companies refer to the deduction of unrealized income relating to the inter-segmental transactions among the reported segments.

(vii) Adjustments on investment in equity-method affiliated companies represent the amount corresponding to “Foreign currency translation adjustments.”

(viii) Adjustments on capital expenditures refer to increases thereof at the Head Office divisions/departments, which are not allocated to the reported segments.

(4) From the current consolidated fiscal year, certain assets and liabilities are netted in the same segment to manage the financial condition of each segment more appropriately.

The segment information for the previous fiscal year is prepared based on the methods after this change.

Related information

(1) Information about geographic areas

(i) Sales

2017						Millions of yen
	Japan	East Asia	Southeast Asia	North America	Others	Total
	¥ 472,427	**¥ 148,879**	**¥ 64,752**	**¥ 82,588**	**¥ 17,500**	**¥ 786,146**

2016						Millions of yen
	Japan	East Asia	Southeast Asia	North America	Others	Total
	¥ 515,177	¥ 175,901	¥ 70,140	¥ 73,384	¥ 20,805	¥ 855,407

2017						Thousands of U.S. dollars
	Japan	East Asia	Southeast Asia	North America	Others	Total
	$ 4,210,955	**$ 1,327,026**	**$ 577,164**	**$ 736,144**	**$ 155,984**	**$ 7,007,273**

- Net sales are segmented by country or region according to customers’ location data.
- Regions are segmented based on their geographical proximity, and only those countries for which the net sales amount accounts for more than 10% of the net sales stated in the consolidated statements of operations are separately listed.
- Major countries or regions that belong to the segments are as follows:
  - East Asia: China, Taiwan, Hong Kong, South Korea, etc.
  - Southeast Asia: Indonesia, Malaysia, Thailand, Vietnam, etc.
  - North America: United States, Mexico and Canada
  - Others: Australia, India, Germany, Italy, Turkey, etc.

(ii) Property, plant and equipment

2017							Millions of yen
	Japan	East Asia	Philippines	Southeast Asia	United States	Others	Total
	¥ 155,693	**¥ 404**	**¥ 216,057**	**¥ —**	**¥ 106,438**	**¥ 4,864**	**¥ 483,456**

2016							Millions of yen
	Japan	East Asia	Philippines	Southeast Asia	United States	Others	Total
	¥ 152,008	¥ 7,112	¥ 222,680	¥ 2,004	¥ 64,280	¥ 5,450	¥ 453,534

2017							Thousands of U.S. dollars
	Japan	East Asia	Philippines	Southeast Asia	United States	Others	Total
	$ 1,387,762	**$ 3,601**	**$ 1,925,813**	**$ —**	**$ 948,730**	**$ 43,355**	**$ 4,309,261**

- Regions are segmented based on their geographical proximity, and only those countries for which the property, plant and equipment amount accounts for more than 10% of the property, plant and equipment stated in the consolidated balance sheets are separately listed.
- Major countries or regions that belong to the segments are as follows:
  - East Asia: China and Taiwan
  - Southeast Asia: Malaysia and Singapore
  - Others: Australia, Solomon Islands, Peru, Chile and Brazil

(2) Information about major customers

	Millions of yen		Thousands of U.S. dollars	
	2017	2016	**2017**	
Customer's designation or name	**Sales**	Sales	**Sales**	Related reported segments
Sumitomo Corporation	**¥ 104,256**	¥ 133,912	**$ 929,281**	Smelting & Refining, Materials
MITSUI & CO., LTD.	**¥ —**	¥ 63,915	**$ —**	Smelting & Refining
Panasonic Corporation	**¥ 80,054**	¥ —	**$ 713,557**	Smelting & Refining, Materials

(3) Information about impairment loss of fixed assets by reported segment

Millions of yen

2017	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Loss on impairment of fixed assets	**¥ —**	**¥ —**	**¥ 3,331**	**¥ —**	**¥ 130**	**¥ 3,461**

Millions of yen

2016	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Loss on impairment of fixed assets	¥ —	¥ 143	¥ 670	¥ —	¥ —	¥ 813

Thousands of U.S. dollars

2017	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Loss on impairment of fixed assets	**$ —**	**$ —**	**$ 29,691**	**$ —**	**$ 1,158**	**$ 30,849**

(4) Information about unamortized balance of goodwill by reported segment

Millions of yen

2017	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Balance at end of year	**¥ 130**	**¥ —**	**¥ 31**	**¥ —**	**¥ —**	**¥ 161**

Millions of yen

2016	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Balance at end of year	¥ 268	¥ —	¥ 54	¥ —	¥ —	¥ 322

Thousands of U.S. dollars

2017	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Balance at end of year	**$ 1,159**	**$ —**	**$ 276**	**$ —**	**$ —**	**$ 1,435**

16 Asset retirement obligations

(1) Asset retirement obligations that are recorded in the consolidated balance sheets

With regard to mines and quarries in operation in Japan, the Company is required by the Mining Safety Act, the Law on Special Measures for Mine Damages Caused by the Metal Mining Industry, etc., the Quarrying Act and leasing agreements to undertake mine pollution prevention activities for post-use specified facilities and to restore such facilities to their original condition. Based on these requirements, the Company records as asset retirement obligations a rational estimate of the expenses required for mine pollution prevention activities and any removal expenses.

For the domestic facilities of the Group in Japan, the Company makes rational estimates of the costs of demolishing and conducting surveys in accordance with requirements regarding special removal methods and obligations to conduct environmental surveys under asbestos damage prevention regulations of asbestos-related regulations and occupational health and safety regulations of dioxin-related regulations, and posts these amounts as asset retirement obligations.

Sumitomo Metal Mining Pogo LLC, Sumitomo Metal Mining Arizona Inc., SMM Morenci Inc., Sumitomo Metal Mining Oceania Pty. Ltd., Coral Bay Nickel Corporation and Taganito HPAL Nickel are subject to the U.S. GAAP or International Financial Reporting Standards, as well as the mining laws and regulations of the United States, Australia and the Republic of the Philippines, respectively. Based on its business plans, the Company determines asset retirement obligations by making rational estimates of its obligations under such regulations of restoring operating mines and smelters to their original condition and the expenses of fulfilling these obligations. Asset retirement obligations are calculated based on determining the estimated period until expenditure, the remaining useful life of facilities and the mine life (13 to 69) and discounted by the rates of 1.5% to 11.0%.

The asset retirement obligations as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year	**¥ 7,831**	¥ 7,525	**$ 69,801**
Adjustment due to passage of time	**399**	421	**3,556**
Decrease due to fulfillment of obligations	**—**	(57)	**—**
Increase due to change in estimates	**(32)**	64	**(285)**
Others	**942**	(30)	**8,396**
Foreign exchange adjustment	**(155)**	(92)	**(1,381)**
Balance at end of year	**¥ 8,985**	¥ 7,831	**$ 80,087**

(2) Asset retirement obligations other than those recorded in the balance sheets

The Group is required under leasing agreements to restore certain facilities on borrowed buildings and sites to their original condition at the time of removal. In cases where the period of use for lease assets is unclear or for which no relocation plans are in existence, asset retirement obligations cannot be rationally estimated.

Furthermore, certain sites at our facilities employ hazardous substances specified under the Water Pollution Control Act, and at the time of removing its facilities the Company is required to conduct soil remediation surveys in accordance with the Soil Contamination Countermeasures Law. However, as the responsibility for fulfilling this obligation is estimated to be deferred, the timing for performing such surveys is unclear.

Therefore, asset retirement obligations cannot be rationally estimated. Consequently, no corresponding asset retirement obligations are included in these obligations.

17 Information for certain leases

(1) Finance leases

Lease assets — Primarily, the production management server at the headquarters (machinery and equipment)

For lease assets related to finance leases that do not transfer ownership, depreciation of leased assets is computed over the lease period using the straight-line method with no residual value.

(2) Operating leases

Future minimum lease payments as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Due within one year	**¥ 241**	¥ 247	**$ 2,148**
Due after one year	**1,257**	1,498	**11,204**
Total	**¥ 1,498**	¥ 1,745	**$ 13,352**

18 Business combination

(Business divestitures)

The Company's subsidiary SH Materials Co., Ltd. ("SH Materials") sold all the shares of SH Asia Pacific, Pte. Ltd. ("SH Asia Pacific") on March 17, 2017. From the next fiscal year, SH Asia Pacific and its subsidiaries (Malaysian SH Electronics Sdn. Bhd., SH Electronics Taiwan Co., Ltd., SH Electronics Suzhou Co., Ltd., SH Electronics Chengdu Co., Ltd., SH Precision Chengdu Co., Ltd.) will be excluded from consolidated financial statements.

(1) Outline of transaction

(i) Purchaser company

Chang Wah Electromaterials Inc. and Chang Wah Technology Co., Ltd.

(ii) Contents of divested business

Lead frame business

(iii) Main reason for determining the separating business

The lead frame market shifted from a period of high growth to maturation. In addition, commoditization of lead frames as a product has proceeded and the competition in the lead frame industry is getting more intense with the rise of Chinese companies.

Under such circumstances, the Company decided to withdraw from the business.

(iv) Date of business divestiture

March 17, 2017

(v) Legal form of business divestiture

Stock transfer paid in properties such as cash

(2) Outline of applied accounting treatment

(i) The amount of transfer gain

Gain on sales or liquidation of subsidiaries and affiliated companies: ¥2,604 million (US$23,211 thousand)

(ii) Book values of assets and liabilities separated

	Millions of yen	Thousands of U.S. dollars
	2017	**2017**
Current assets	**¥ 16,731**	**$ 149,131**
Non - Current assets	**5,259**	**46,876**
Total amount of assets	**21,990**	**196,007**
Current liabilities	**8,593**	**76,593**
Long-term liabilities	**30**	**267**
Total amount of liabilities	**¥ 8,623**	**$ 76,860**

(iii) Accounting treatment

The difference between sales amounts of shares and book values of shares estimated in consolidated financial statements is allocated as "Gain on sales or liquidation of subsidiaries and affiliated companies" in statements of operations.

(3) Reported segments including separated divestiture

Materials segment

(4) Estimated effect on consolidated statements of operations

Net sales: ¥20,887 million (US$186,175 thousand)

Operating income: ¥2,442 million (US$21,767 thousand)

19 Related party transaction

(1) Related party transaction

Related party transaction for the years ended March 31, 2017 and 2016 are as follows:

2017

Name of related party	Location	Capital investment	Segment	Voting interest	Description of the business relationship	Transaction detail	Amounts		Accounts	Balance	
		Thousands of U.S. dollars					Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Sierra Gorda S.C.M.	Santiago, Chile	**$1,959,400**	Mineral Resources	Indirectly **45.0%**	Debt guarantee and pledge as security for the loan etc. from the financial institution and others	Debt guarantee*1	**¥ 83,373**	**$743,141**	—	¥ —	$ —
						Pledge as security*2	**63,612**	**567,002**	—	—	—
					Loans	Loans*3	—	—	Long-term loans receivable*4	**41,639**	**371,147**
					Loans	Interest receivables	**9,946**	**88,653**	Other long-term receivables	**36,461**	**324,993**

*1 The Company guarantees the loan etc. from the financial institution.

*2 The Company pledges its owned shares in Sierra Gorda S.C.M. as security for the loan from the financial institution to finance developments of the Sierra Gorda copper project. The amounts of security are the debt balance as of March 31, 2017 and 2016.

*3 The Company determined terms and conditions of loan based on market interest rates, etc. The amounts include exchange gains and losses.

*4 In consolidated balance sheets, long-term loans receivable is reduced by ¥60,889 million (US$542,731 thousand) as equity in losses (earnings) of affiliated companies. The amounts include exchange gains and losses.

2016

Name of related party	Location	Capital investment	Segment	Voting interest	Description of the business relationship	Transaction detail	Amounts	Accounts	Balance
		Thousands of U.S. dollars					Millions of yen		Millions of yen
Sierra Gorda S.C.M.	Santiago, Chile	$1,659,400	Mineral Resources	Indirectly 45.0%	Debt guarantee and pledge as security for the loan etc. from the financial institution and others	Debt guarantee*1	¥89,948	—	¥ —
						Pledge as security*2	71,739	—	—
					Loans	Loans*3	—	Long-term loans receivable	106,084
					Loans	Interest receivables	10,405	Other long-term receivables	26,706

*1 The Company guarantees the loan etc. from the financial institution.

*2 The Company pledges its owned shares in Sierra Gorda S.C.M. as security for the loan from the financial institution to finance developments of the Sierra Gorda copper project. The amounts of security are the debt balance as of March 31, 2017 and 2016.

*3 The Company determined terms and conditions of loan based on market interest rates, etc. The amounts include exchange gains and losses.

(2) Condensed financial information of major affiliated companies

Pursuant to the relevant accounting standards, condensed financial information of major affiliated companies which are disclosed for the years ended December 31, 2016 and 2015 are as follows:

Sociedad Minera Cerro Verde S.A.A.

	Millions of yen		Thousands of U.S. dollars
	2016/12	2015/12	**2016/12**
Total current assets	**¥ 141,945**	¥ 127,342	**$ 1,265,220**
Total long-term assets	**747,530**	819,144	**6,663,072**
Total current liabilities	**34,205**	66,112	**304,885**
Total long-term liabilities	**291,541**	338,183	**2,598,636**
Total net assets	**563,729**	542,191	**5,024,770**
Net sales	**259,372**	135,112	**2,311,899**
Net income before tax	**65,708**	9,632	**585,685**
Net income	**37,087**	4,031	**330,573**

Sierra Gorda S.C.M.

	Millions of yen		Thousands of U.S. dollars
	2016/12	2015/12	**2016/12**
Total current assets	**¥ 37,685**	¥ 33,230	**$ 335,903**
Total long-term assets	**427,810**	687,588	**3,813,263**
Total current liabilities	**68,403**	54,348	**609,707**
Total long-term liabilities	**584,349**	577,797	**5,208,566**
Total net assets	**(187,257)**	88,673	**(1,669,106)**
Net sales	**69,473**	34,686	**619,244**
Net loss before tax	**(395,495)**	(157,068)	**(3,525,225)**
Net loss	**(287,554)**	(112,221)	**(2,563,098)**

20 Earnings per share

Reconciliation of the difference between basic and diluted net income per share for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Basic net income (loss) per share calculation			
Numerator:			
Net income (loss) attributable to owners of the parent	**¥ (18,540)**	¥ (309)	**$ (165,255)**
Denominator (thousands of shares):			
Weighted average number of shares	**551,619**	551,653	**—**
Basic net income (loss) per share (yen and U.S. dollars)	**¥ (33.61)**	¥ (0.56)	**$ (300.00)**
Diluted net income per share calculation			
Numerator:			
Net income (loss) attributable to owners of the parent	**¥ (18,540)**	¥ (309)	**$ (165,255)**
Adjusted net income (loss)	**—**	—	**—**
Denominator (thousands of shares):			
Weighted average number of shares	**551,619**	551,653	**—**
Assumed conversion of convertible bonds	**—**	—	**—**
Adjusted weighted average number of shares	**551,619**	551,653	**—**
Diluted net income per share*1 (yen and U.S. dollars)	**¥ —**	¥ —	**$ —**

*1 Diluted net income per share for the year ended March 31, 2017 and 2016 is not calculated because of the net loss for the year although dilutive bonds exist.

21 Subsequent events

(1) Consolidation of shares and change in number of shares constituting one unit

At a meeting of board members held on May 24, 2017, the Company resolved to propose a consolidation of shares at the 92nd ordinary general meeting of shareholders (hereafter "the general meeting of shareholders") held on June 27, 2017. At the same time, the Company issued a resolution concerning a change to the number of shares constituting one unit, on the condition that the proposal for the consolidation of shares is approved at the general meeting of shareholders.

(i) Purpose of consolidation and change in number of shares constituting one unit

Acting under a plan to aggregate sales units for stock trading, stock exchanges nationwide are undertaking efforts to consolidate the unit of trading (number of shares constituting one unit) of ordinary shares of domestic companies listed on national stock exchanges to 100 shares.

As a company listed on the Tokyo Stock Exchange, the Company has decided to change the number of shares constituting one unit from 1,000 shares to 100 shares. And the Company has decided to implement a consolidation of 2 shares of the Company's stock into 1 share, for the purpose of adjusting the number of shares constituting one unit (the purchase amount per number of shares constituting one unit) to an appropriate level.

(ii) Details of the consolidation

(a) Type of shares to be consolidated: Common stock

(b) Consolidation ratio: Shares will be consolidated at a ratio of 1 share per 2 shares held by shareholders who are recorded in the final Register of Shareholders on September 30 (effectively September 29), 2017, with October 1, 2017 as the effective date of the consolidation.

(c) Number of shares decreased due to consolidation

Total number of issued shares prior to consolidation (March 31, 2017)	581,628,031 shares
Number of shares decreased due to the consolidation	290,814,016 shares
Total number of issued shares following consolidation	290,814,015 shares

Note: The "number of shares decreased due to the consolidation" and "total number of issued shares following consolidation" are theoretical values calculated from the "total number of issued shares prior to consolidation" under the share consolidation ratio.

(iii) Handling of fractions of less than 1 share

When the consolidation results in a fraction of a share, the Company will dispose of the fractional shares in bulk in accordance with the provisions of Article 235 of the Companies Act, and will pay the proceeds of the sale to shareholders in proportion to the fractions held.

(iv) Total number of authorized shares to be issued following consolidation: 500 million shares (prior to consolidation: 1 billion shares) The provisions of the Articles of Incorporation that stipulate the total number of authorized shares to be issued will be deemed as having been amended as above, as of the effective date of the consolidation (October 1, 2017).

(v) Details of the change in number of shares constituting one unit

The number of shares constituting one unit will be changed from 1,000 shares to 100 shares as of the effective date of the consolidation.

(vi) Schedule of consolidation of shares and change in number of shares constituting one unit

Meeting of the Board of Directors	May 24, 2017
General Meeting of Shareholders	June 27, 2017
Effective date of consolidation of shares and change in number of shares constituting one unit	October 1, 2017

(vii) Effect on per share information

Per share information for the years ended March 31, 2017 and 2016 on the assumption that the consolidation of shares had been implemented as of April 1, 2015, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Net assets per share	**¥ 3,486.92**	¥ 3,563.82	**$ 31,080**
Net income (loss) per share	**(67.22)**	(1.12)	**(599.00)**

Note: Diluted net income per share for the year ended March 31, 2017 and 2016 is not calculated because of the net loss for the year although dilutive bonds exist.

(2) Completion of acquisition of interest in a gold project in Canada

On June 20, 2017, the Company completed procedures for acquisition of a 27.75% interest of the Cote Gold Project in Ontario, Canada through SMM Gold Cote Inc., a subsidiary of the Company. This 27.75% interest is a 30.0% interest of IAMGOLD Corporation, which owns a 92.5% interest of the overall project.

(i) Reason of acquisition

In its long-term vision, the Company is aiming to increase its attributable gold production to 30 tonnes per year. The acquisition of interest in the project represents a step forward in its efforts to attain this goal.

(ii) Percentage of shares subject to be acquired

27.75% of the overall Cote Gold Project in Ontario, Canada

(iii) Percentage of shares after acquisition

The Company has a 27.75% interest of the project.

(iv) Acquisition price

US$195 million

(v) Timing of acquisition

June 20, 2017

(3) Appropriation of retained earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2017, was approved at a shareholders' meeting held on June 27, 2017:

	Millions of yen	Thousands of U.S. dollars
Year-end dividends of ¥6.00 per share	**¥ 3,310**	**$ 29,504**

Independent Auditor's Report

KPMG

Independent Auditor's Report

To the Board of Directors of Sumitomo Metal Mining Co., Ltd.:

We have audited the accompanying consolidated financial statements of Sumitomo Metal Mining Co., Ltd. and its consolidated subsidiaries , which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sumitomo Metal Mining Co., Ltd. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter
Without qualifying our opinion, we draw attention to the followings:
(1) As discussed in Note 20 to the consolidated financial statements, on May 31, 2016, through SMM Morenci Inc., the Company's subsidiary, the Company completed procedures for acquisition of an additional interest in the Morenci Copper Mine in Arizona, USA, owned by a subsidiary of Freeport-McMoRan Inc.
(2) As discussed in Note 20 to the consolidated financial statements, JCO Co., Ltd., a consolidated subsidiary of the Company, is preparing for the decommissioning by dismantlement and decontamination of its facilities. As regards this plan, JCO Co., Ltd. provided the expenses of ¥9,770 million (86,752 thousands of U.S. dollars) for future losses that can be reasonably estimated in the first quarter of the year ending March 31,2017.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August 10, 2016
Tokyo, Japan

Consolidated Balance Sheets

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

ASSETS

	Millions of yen		Thousands of U.S. dollars (Note1)
As of March 31, 2016 and 2015	**2016**	2015	**2016**
Current assets:			
Cash and cash equivalents (Notes 3 and 8)	**¥ 197,825**	¥ 177,720	**$ 1,756,571**
Time deposits (Note 3)	**5,049**	4,944	**44,832**
Notes and accounts receivable (Note 3):			
Trade	**94,101**	110,287	**835,562**
Unconsolidated subsidiaries and affiliated companies	**4,803**	5,931	**42,648**
Allowance for doubtful accounts	**(598)**	(396)	**(5,310)**
Inventories (Note 6)	**161,974**	201,423	**1,438,235**
Deferred tax assets (Note 9)	**1,455**	3,765	**12,920**
Other current assets	**74,470**	42,187	**661,250**
Total current assets	**539,079**	545,861	**4,786,708**
Investments and long-term receivables:			
Investment securities (Notes 3, 4 and 8):			
Unconsolidated subsidiaries and affiliated companies	**325,905**	386,869	**2,893,847**
Others	**132,602**	205,622	**1,177,429**
Allowance for losses on investments	**—**	(50,683)	**—**
Long-term loans receivable (Notes 3 and 8)			
Unconsolidated subsidiaries and affiliated companies	**122,236**	106,111	**1,085,384**
Others	**3,988**	36,780	**35,411**
Other long-term receivables (Note 8)	**40,626**	26,593	**360,735**
Allowance for doubtful accounts	**(200)**	(201)	**(1,776)**
Total investments and long-term receivables	**625,157**	711,091	**5,551,030**
Property, plant and equipment (Note 8):			
Land	**29,320**	29,252	**260,345**
Buildings and structures	**282,616**	275,653	**2,509,465**
Machinery and equipment	**596,369**	589,168	**5,295,409**
Construction in progress	**34,242**	40,256	**304,049**
	942,547	934,329	**8,369,268**
Accumulated depreciation	**(489,013)**	(464,956)	**(4,342,150)**
Net property, plant and equipment	**453,534**	469,373	**4,027,118**
Deferred tax assets (Note 9)	**3,648**	3,156	**32,392**
Other assets	**9,382**	10,765	**83,306**
Total assets	**¥ 1,630,800**	¥ 1,740,246	**$ 14,480,554**

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

LIABILITIES AND NET ASSETS

As of March 31, 2016 and 2015	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note1) 2016
Current liabilities:			
Bank loans (Notes 3 and 8)	**¥ 77,590**	¥ 80,360	**$ 688,954**
Long-term debt due within one year (Notes 3 and 8)	**34,933**	18,734	**310,185**
Notes and accounts payable:			
Trade (Note 3)	**37,822**	34,388	**335,837**
Unconsolidated subsidiaries and affiliated companies (Note 3)	**7,611**	2,379	**67,581**
Others	**12,083**	25,574	**107,290**
Accrued income taxes	**3,840**	30,729	**34,097**
Accrued expenses	**3,791**	4,806	**33,662**
Advances received	**416**	516	**3,694**
Accrued restructuring charges	**417**	1,236	**3,703**
Accrued environmental measures	**338**	4,243	**3,001**
Deferred tax liabilities (Note 9)	**195**	25	**1,732**
Other current liabilities	**46,231**	35,435	**410,504**
Total current liabilities	**225,267**	238,425	**2,000,240**
Long-term liabilities:			
Long-term debt (Notes 3 and 8)	**288,036**	295,000	**2,557,592**
Deferred tax liabilities (Note 9)	**15,912**	28,571	**141,289**
Accrued environmental measures	**325**	534	**2,886**
Accrued restructuring charges	**904**	1,220	**8,027**
Other accruals	**257**	251	**2,282**
Net defined benefit liability (Note 10)	**14,128**	7,763	**125,448**
Asset retirement obligations (Note 16)	**7,831**	7,525	**69,535**
Other long-term liabilities	**2,145**	2,012	**19,046**
Total long-term liabilities	**329,538**	342,876	**2,926,105**
Contingent liabilities (Note 13)			
Net assets (Note 12):			
Shareholders' equity:			
Common stock			
Authorized -1,000,000,000 shares			
Issued - 581,628,031 shares	**93,242**	93,242	**827,935**
Capital surplus	**86,067**	86,066	**764,225**
Retained earnings	**744,886**	770,020	**6,614,154**
Treasury stock, at cost	**(32,827)**	(32,753)	**(291,485)**
Total shareholders' equity	**891,368**	916,575	**7,914,829**
Accumulated other comprehensive income:			
Net unrealized holding gains on securities	**20,225**	46,679	**179,586**
Deferred gains or losses on hedges	**(1,587)**	247	**(14,091)**
Foreign currency translation adjustments	**77,274**	87,288	**686,148**
Remeasurements of defined benefit plans	**(4,322)**	435	**(38,377)**
Total accumulated other comprehensive income	**91,590**	134,649	**813,266**
Non-controlling interests	**93,037**	107,721	**826,114**
Total net assets	**1,075,995**	1,158,945	**9,554,209**
Total liabilities and net assets	**¥ 1,630,800**	¥ 1,740,246	**$ 14,480,554**

Consolidated Statements of Operations

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2016 and 2015	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note1) 2016
Net sales (Note 15)	**¥ 855,407**	¥ 921,334	**$7,595,516**
Costs and expenses:			
Cost of sales	**741,545**	747,077	**6,584,488**
Selling, general and administrative expenses (Note 11)	**54,142**	48,478	**480,749**
Total costs and expenses	**795,687**	795,555	**7,065,237**
Operating income	**59,720**	125,779	**530,279**
Other income (expenses):			
Interest and dividend income	**13,800**	10,218	**122,536**
Interest expenses	**(4,873)**	(3,968)	**(43,269)**
Loss on sale and disposal of property, plant and equipment	**(380)**	(577)	**(3,374)**
Loss on impairment of fixed assets (Note 7)	**(813)**	(614)	**(7,219)**
Exchange gain (loss)	**(6,800)**	19,977	**(60,380)**
Provision for environmental measures	**(131)**	(2,861)	**(1,163)**
Maintenance cost for ceased projects	**(605)**	(535)	**(5,372)**
Casualty loss	**(100)**	(168)	**(888)**
Equity in earnings (losses) of affiliated companies	**(73,223)**	23,943	**(650,178)**
Loss from valuation of derivative instruments	**(194)**	(130)	**(1,723)**
Reversal (Provision) for allowance for losses on investments	**16,350**	(44,474)	**145,178**
Provision for restructuring charges	**(53)**	(2,449)	**(471)**
Other, net	**(2,139)**	(880)	**(18,992)**
Total other income (expenses)	**(59,161)**	(2,518)	**(525,315)**
Income before income taxes	**559**	123,261	**4,964**
Income taxes (Note 9):			
Current	**16,977**	46,407	**150,746**
Deferred	**3,379**	(1,058)	**30,004**
Total income taxes	**20,356**	45,349	**180,750**
Net income (loss)	**(19,797)**	77,912	**(175,786)**
Net loss attributable to non-controlling interests	**19,488**	13,201	**173,042**
Net income (loss) attributable to owners of the parent	**¥ (309)**	¥ 91,113	**$ (2,744)**

	Yen 2016	Yen 2015	U.S. dollars (Note1) 2016
Amounts per share of common stock:			
Net income (loss) (Note 19)			
—Basic	**¥ (0.56)**	¥ 165.11	**$ (0.00)**
—Diluted	**—**	149.44	**—**
Cash dividends applicable to the year	**31.00**	48.00	**0.28**

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

Consolidated Statements of Comprehensive Income

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note1)
For the years ended March 31, 2016 and 2015	**2016**	2015	**2016**
Net income (loss)	**¥ (19,797)**	¥ 77,912	**$ (175,786)**
Other comprehensive income			
Net unrealized holding gains (losses) on securities	**(26,228)**	15,277	**(232,889)**
Deferred gains (losses) on hedges	**(1,783)**	125	**(15,832)**
Foreign currency translation adjustments	**(9,104)**	27,975	**(80,838)**
Remeasurements of defined benefit plan	**(4,289)**	490	**(38,084)**
Share of other comprehensive income of affiliated companies accounted for using equity method	**(3,834)**	42,118	**(34,044)**
Total other comprehensive income	**(45,238)**	85,985	**(401,687)**
Comprehensive income (Note 14)	**(65,035)**	163,897	**(577,473)**
Comprehensive income attributable to:			
Owners of the parent	**(43,369)**	164,893	**(385,091)**
Non-controlling interests	**(21,666)**	(996)	**(192,382)**

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

Consolidated Statements of Changes in Net Assets

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

						Shareholders' Equity
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
For the years ended March 31, 2016 and 2015	(thousands)					Millions of yen
Balance at April 1, 2014	581,628	¥ 93,242	¥ 86,062	¥ 704,824	¥ (31,978)	¥ 852,150
Cumulative effect of changes in accounting policies		—	—	(2,062)	—	(2,062)
Increase resulting from changes in accounting policies of affiliated companies		—	—	429	—	429
Restated balance at April 1, 2014	581,628	93,242	86,062	703,191	(31,978)	850,517
Cash dividends paid		—	—	(24,284)	—	(24,284)
Net income		—	—	91,113	—	91,113
Acquisition of treasury stock		—	—	—	(778)	(778)
Sale of treasury stock		—	4	—	3	7
Net changes of items other than shareholders' equity		—	—	—	—	—
Balance at April 1, 2015	581,628	¥ 93,242	¥ 86,066	¥ 770,020	¥ (32,753)	¥ 916,575
Cash dividends paid		**—**	**—**	**(24,825)**	**—**	**(24,825)**
Net loss		**—**	**—**	**(309)**	**—**	**(309)**
Acquisition of treasury stock		**—**	**—**	**—**	**(79)**	**(79)**
Sale of treasury stock		**—**	**1**	**—**	**5**	**6**
Net changes of items other than shareholders' equity		**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2016	**581,628**	**¥ 93,242**	**¥ 86,067**	**¥ 744,886**	**¥ (32,827)**	**¥ 891,368**

					Shareholders' Equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
For the year ended March 31, 2016					Thousands of U.S. dollars (Note 1)
Balance at April 1, 2015	$ 827,935	$ 764,216	$ 6,837,329	$ (290,828)	$ 8,138,652
Cash dividends paid	**—**	**—**	**(220,431)**	**—**	**(220,431)**
Net loss	**—**	**—**	**(2,744)**	**—**	**(2,744)**
Acquisition of treasury stock	**—**	**—**	**—**	**(701)**	**(701)**
Sale of treasury stock	**—**	**9**	**—**	**44**	**53**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2016	**$ 827,935**	**$ 764,225**	**$ 6,614,154**	**$ (291,485)**	**$ 7,914,829**

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

Consolidated Statements of Changes in Net Assets (continued)

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

	Accumulated other comprehensive income						
For the years ended March 31, 2016 and 2015	Net unrealized holding gains on securities	Deferred gains on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumu-lated other comprehensive income	Non-controlling interests	Total net assets
							Millions of yen
Balance at April 1, 2014	¥ 31,335	¥ 100	¥ 29,466	¥ 120	¥ 61,021	¥ 105,882	¥1,019,053
Cumulative effect of changes in accounting policies	—	—	—	—	—	—	(2,062)
Increase resulting from changes in accounting policies of affiliated companies	—	—	—	—	—	—	429
Restated balance at April 1, 2014	31,335	100	29,466	120	61,021	105,882	1,017,420
Cash dividends paid	—	—	—	—	—	—	(24,284)
Net income	—	—	—	—	—	—	91,113
Acquisition of treasury stock	—	—	—	—	—	—	(778)
Sale of treasury stock	—	—	—	—	—	—	7
Net changes of items other than shareholders' equity	15,344	147	57,822	315	73,628	1,839	75,467
Balance at April 1, 2015	¥ 46,679	¥ 247	¥ 87,288	¥ 435	¥ 134,649	¥ 107,721	¥1,158,945
Cash dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**(24,825)**
Net loss	**—**	**—**	**—**	**—**	**—**	**—**	**(309)**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(79)**
Sale of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**6**
Net changes of items other than shareholders' equity	**(26,454)**	**(1,834)**	**(10,014)**	**(4,757)**	**(43,059)**	**(14,684)**	**(57,743)**
Balance at March 31, 2016	**¥ 20,225**	**¥ (1,587)**	**¥ 77,274**	**¥ (4,322)**	**¥ 91,590**	**¥ 93,037**	**¥1,075,995**

	Accumulated other comprehensive income						
For the year ended March 31, 2016	Net unrealized holding gains on securities	Deferred gains on hedges	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumu-lated other comprehensive income	Non-controlling interests	Total net assets
							Thousands of U.S. dollars (Note 1)
Balance at April 1, 2015	$ 414,482	$ 2,193	$ 775,067	$ 3,863	$1,195,605	$ 956,500	$10,290,757
Cash dividends paid	**—**	**—**	**—**	**—**	**—**	**—**	**(220,431)**
Net loss	**—**	**—**	**—**	**—**	**—**	**—**	**(2,744)**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(701)**
Sale of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**53**
Net changes of items other than shareholders' equity	**(234,896)**	**(16,284)**	**(88,919)**	**(42,240)**	**(382,339)**	**(130,386)**	**(512,725)**
Balance at March 31, 2016	**$ 179,586**	**$ (14,091)**	**$ 686,148**	**$ (38,377)**	**$ 813,266**	**$ 826,114**	**$ 9,554,209**

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

Consolidated Statements of Cash Flows

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note1)
For the years ended March 31, 2016 and 2015	**2016**	2015	**2016**
Cash flows from operating activities:	**¥ 559**	¥ 123,261	**$ 4,964**
Income before income taxes			
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	**46,141**	38,125	**409,705**
Loss on impairment of fixed assets	**813**	614	**7,219**
Loss on sale and disposal of property, plant and equipment	**380**	577	**3,374**
Loss from valuation of derivative instruments	**194**	130	**1,723**
Decrease (Increase) in allowance for losses on investments	**(16,350)**	50,683	**(145,178)**
Interest and dividend income	**(13,800)**	(10,218)	**(122,536)**
Interest expense	**4,873**	3,968	**43,269**
Equity in losses (earnings) of affiliated companies	**73,223**	(23,943)	**650,178**
Casualty loss	**100**	168	**888**
Decrease (Increase) in trade received	**16,415**	(11,417)	**145,756**
Decrease (Increase) in inventories	**37,948**	(40,833)	**336,956**
Increase (Decrease) in trade payables	**18,128**	(14,557)	**160,966**
Others	**(7,982)**	3,252	**(70,877)**
Sub-total	**160,642**	119,810	**1,426,407**
Interest and dividend received	**10,647**	29,984	**94,539**
Interest paid	**(5,364)**	(3,545)	**(47,629)**
Payments for maintenance costs for ceased projects	**(605)**	(535)	**(5,372)**
Payments for recovery costs	**(100)**	(168)	**(888)**
Payments for income taxes	**(45,516)**	(25,543)	**(404,156)**
Net cash provided by operating activities	**119,704**	120,003	**1,062,901**
Cash flows from investing activities:			
Payments for acquisition of property, plant and equipment	**(42,880)**	(58,614)	**(380,750)**
Proceeds from sale of property, plant and equipment	**775**	809	**6,881**
Payments for acquisition of intangible assets	**(455)**	(117)	**(4,040)**
Proceeds from sale of intangible assets	**—**	30	**—**
Payments for purchases of investment securities	**(702)**	(1,506)	**(6,233)**
Proceeds from sales of investment securities	**2**	5,016	**18**
Payments for purchase of securities of subsidiaries and affiliated companies	**(25,523)**	(13,556)	**(226,629)**
Payments into time deposits	**(553)**	(4,398)	**(4,910)**
Proceeds from withdrawal of time deposits	**208**	57	**1,847**
Payments for loans lended	**(25,079)**	(33,373)	**(222,687)**
Collection of loans repaid	**394**	403	**3,498**
Others	**937**	225	**8,320**
Net cash used in investing activities	**(92,876)**	(105,024)	**(824,685)**
Cash flows from financing activities:			
Net decrease (increase) in bank loans	**(1,664)**	928	**(14,775)**
Proceeds from long-term debt	**37,299**	747	**331,193**
Repayments of long-term debt	**(21,035)**	(19,281)	**(186,779)**
Contribution from non-controlling interests	**10,507**	5,386	**93,296**
Increase in treasury stocks	**(73)**	(771)	**(648)**
Cash dividends paid	**(24,825)**	(24,284)	**(220,431)**
Cash dividends paid to non-controlling interests	**(4,212)**	(1,772)	**(37,400)**
Net cash provided by (used in) financing activities	**(4,003)**	(39,047)	**(35,544)**
Effect of changes in exchange rate on cash and cash equivalents	**(2,720)**	(795)	**(24,151)**
Net increase (decrease) in cash and cash equivalents	**20,105**	(24,863)	**178,521**
Cash and cash equivalents at beginning of year	**177,720**	202,583	**1,578,050**
Cash and cash equivalents at end of year	**¥197,825**	¥ 177,720	**$1,756,571**

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

Notes to Consolidated Financial Statements

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1 Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRSs").

The accounts of the Company's overseas subsidiaries and affiliated companies are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile and make necessary amendments for consolidated financial statements required by Practical Issues Task Force No. 18 and No. 24 issued by ASBJ. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of Sumitomo Metal Mining Co., Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Act. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥112.62 to US$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2 Summary of significant accounting policies

Consolidation — The consolidated financial statements include the accounts of the Company and its significant subsidiaries (68 subsidiaries in 2016, 68 in 2015). All significant inter-company balances and transactions have been eliminated. Investments in affiliated companies of which the Company has the ability to exercise significant influence over financial and operating policies, are accounted for by the equity method (16 affiliated companies in 2016, 16 in 2015).

Investments in the remaining unconsolidated subsidiaries and affiliated companies are carried at cost because of their immaterial effect on the consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling interests, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

Goodwill (consolidation difference between the investment cost and the underlying equity in its net assets at the date of acquisition) is amortized over five years on a straight-line basis. With respect to subsidiaries in the United States, goodwill is amortized over twenty years on a straight-line basis.

Cash and cash equivalents and cash flow statements — Cash on hand, readily available bank deposits, negotiable certificates of deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Allowance for doubtful accounts — The allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt with respect to ordinary accounts, plus an estimate of uncollectible amount determined by reference to specific doubtful accounts from customers who are experiencing financial difficulties.

Allowance for losses on investments — The allowance for losses on investments is provided for the loss on investments in affiliates and others based on the amount to be required considering the financial position of the affiliates.

Investment securities — Securities are classified into two categories based on the intent of holding: available-for-sale securities; and securities issued by unconsolidated subsidiaries and affiliated companies.

Available-for-sale securities with available fair values (marketable securities) are stated at fair values. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. The cost of securities sold is determined by the moving-average method. Other available-for-sale securities with no available fair values (non-marketable securities) are stated at moving-average cost. Securities issued by unconsolidated subsidiaries and affiliated companies other than those accounted for by the equity method are carried at cost.

Derivatives and hedge accounting — Derivative instruments are stated at fair value. Changes in the fair values are recognized as gains and losses unless derivative transactions are used for hedging purposes.

If derivative transactions are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative transactions until the related losses or gains on the hedged items are recognized.

If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Company evaluates hedge effectiveness monthly by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

Foreign currency translation — Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates except for account components of net assets, which are translated at historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

Inventories — Inventories are mainly stated at the lower of cost determined by the first-in first-out (FIFO) method or net selling value of inventories regarded as the decreased profitability of assets, whose write-downs are included in cost of sales.

Property, plant and equipment — Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is computed by the straight-line method, based on the estimated useful lives of respective assets.

The depreciation period generally ranges from 2 years to 60 years for buildings and structures and 2 years to 22 years for machinery and equipment.

Accrued restructuring charges — Accrued restructuring charges are provided by the Company and its consolidated subsidiaries to cover the costs of business reconstruction.

Accrued environmental measures — Accrued environmental measures are estimated and recorded to provide for future potential costs, such as costs related to the disposal of polychlorinated biphenyl (PCB) and lead.

Retirement benefits — In calculating projected benefits obligations the benefits formula basis is used to attribute the expected benefit to the respective years. Actuarial gains and losses are recognized in expenses using the straight-line method over 10 years within the average remaining service years commencing from the following period.

Prior service costs are recognized in expenses using the straight- line method over 10 years within the average remaining service period.

Some domestic consolidated subsidiaries use the simplified method for the calculation of projected benefit obligations.

Research and development expense — Research and development expense is charged to income as incurred.

Accounting for certain lease transactions — Finance leases, except for certain immaterial leases, are capitalized and depreciated over the lease term.

Income taxes — Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases, and measured using the statutory tax rates which will be in effect when the differences are expected to be realized.

Sales — Sales of merchandise and finished products are recognized when the products are shipped to customers.

Change in accounting policies — The Company and its consolidated domestic subsidiaries have adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013 (hereinafter, "Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 (hereinafter, "Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 (hereinafter, "Statement No. 7")) (together, the "Business Combination Accounting Standards"), from the current year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests." Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No. 21, article 44-5 (4) of Statement No. 22 and article 57-4 (4) of Statement No. 7 with application from the beginning of the current year prospectively.

There is no effect on the consolidated financial statements of the current year.

Accounting standards issued but not yet effective — "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No. 26")

(1) Overview

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets," which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

- (i) Treatment for an entity that does not meet any of the criteria in types 1 to 5;
- (ii) Criteria for types 2 and 3;
- (iii) Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
- (iv) Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current year; and
- (v) Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date

Effective from the beginning of the year ending March 31, 2017

(3) Effects of application of the Guidance

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effect of the new guidance on the consolidated financial statements.

Amount per share of common stock — Basic net income per share is computed based on the weighted-average number of shares of common stock issued during each year.

Diluted net income per share assumes that outstanding convertible bonds were converted into common stock at the beginning of the period at the current conversion price.

Cash dividends per share represent the actual amount applicable to the respective year.

3 Notes to financial instruments

(1) Status of financial instruments

(i) Policies on the handling of financial instruments

The Group procures the funds necessary for its capital expenditure, investment and loan plans mainly through bank loans and the issuance of bonds. Short-term operating funds are funded through bank loans as required. In the event of a need for new funds, the Group, in principle, looks to the issuance of short-term bonds (commercial paper). This is supplemented by bank loans and the use of liquidation schemes applicable to notes and accounts receivable. The Group takes great care to monitor the status of its funding needs and financial position. This is to ensure that the Group does not overly rely on specific procurement methods and financial instruments. Accordingly, steps are taken to ensure a balanced funding portfolio from both the short and long term as well as direct and indirect financing perspectives.

Temporary surplus funds are utilized only for highly safe financial assets for which there is a low probability of a loss of principal.

Derivative transactions are only used to avoid the risks attributable to fluctuations in the prices of non-ferrous metals as well as foreign currency exchange and interest rates. The Group does not engage in derivative translations for speculative purposes.

(ii) Details of and risks associated with financial instruments

Notes and accounts receivable, which are trade receivables, are exposed to the credit risk of customers. In addition, foreign currency-denominated trade receivables, which are generated by global business operations, are also exposed to fluctuations in foreign currency exchange rates. Turning to the metals business, trade receivables are also exposed to the risk of movements in the prices of non-ferrous metals. Investment securities, which largely represent shares of companies with whom the Group trades or has formed an equity alliance, are exposed to the risk of changes in their market prices.

Notes and accounts payable, which are trade obligations, generally have maturity dates of one year or less. In similar fashion to trade receivables, trade obligations in the metals business are subject to the risk of movements in the prices of non-ferrous metals. A certain portion of trade obligations are related to the import of raw and other materials and as such are denominated in foreign currencies. On this basis, they too are open to the risk of fluctuations in the foreign currency exchange rates. Within loans and bonds payable, bank loans payable primarily represent funding applicable to operating transactions while long-term loans (with a maximum maturity up to January 6, 2031) and bonds mainly concern funding relating to capital expenditures. A certain portion of loans and bonds payable is provided on a floating rate of interest basis. Accordingly, this portion is exposed to the risk of fluctuation in interest rates.

Derivative transactions employed in an effort to offset the aforementioned risks include forward foreign currency exchange rate contracts; forward and option transaction agreements; interest rate swap transaction agreements; and interest rate cap transaction agreements, which seek to provide hedges for the risks of fluctuations in the foreign currency exchange rates of trade receivables and trade obligations; the prices of non-ferrous metals applicable to non-ferrous metal trade receivables and trade obligations; and interest rates applicable to loans and bonds payable, respectively. For hedging instruments and hedged items, hedging policy, the method of assessing the effectiveness of hedges and other details in connection with hedge accounting, refer to the "Derivatives and hedge accounting" described in the Note 2 Summary of significant accounting policies.

(iii) Risk management systems relating to financial instruments

(a) Management of credit risk (risk relating to nonperformance of a contract obligation by a counterparty, etc.)

With respect to trade receivables, each operating department and division within the Group is guided by its own set of management rules and regulations. Sales and marketing departments and divisions regularly monitor the status of customers, managing due dates and balances on an individual customer basis. In this manner, every effort is made to ensure early detection and the mitigation of concerns regarding collection due to deterioration in financial standing or other factors. With respect to the use of derivative transactions, steps are taken to engage in transactions with highly rated financial institutions only. These steps are taken with the aim of mitigating counterparty risk.

The maximum amount of the credit risk is shown in the value of financial assets on the balance sheet which are subject to credit risk.

(b) Management of market risks (risks associated with fluctuations in the price of non-ferrous metals, foreign currency exchange as well as interest rates, etc.)

The Group employs commodity forward transaction and commodity option transaction agreements, which seek to provide hedges for the risks of fluctuations in the prices of imported raw materials with respect to non-ferrous metals as well as the sales prices of commodity metals and copper concentrate on international commodities markets.

At the same time, the Group utilizes forward foreign currency exchange rate contracts in an effort to offset the risks of movements in foreign currency exchange rates in connection with trade receivables and obligations denominated in foreign currencies, interest rate swap transaction agreements, and interest rate cap transaction agreements aimed at hedging the risks of fluctuations in interest rate.

With respect to investment securities, the Group regularly monitors fair values as well as the financial status of issuers (counterparties), and reviews its holdings on a continuous basis taking into consideration its relationships with counterparties.

As for derivative transactions, in accordance with derivative transaction management rules and regulations that outline the purpose and objectives of derivative transactions while providing authority and setting limits and scope, individual departments and divisions are responsible for formulating operating rules with respect to the implementation of derivative transactions, executing and booking transactions and reconciling balances with counterparties on a regular basis. Consolidated subsidiaries also adhere to the Company's derivative transaction management rules and regulations while working to build the aforementioned management structure under which derivative transactions are managed.

(c) Management of liquidity risks associated with the procurement of funds (the risk of being unable to make payments on due dates)

The Group manages liquidity risk by preparing and updating a cash management plan six months in advance based on reports from each department and division. Certain domestic consolidated subsidiaries have adopted a cash management system and are efficiently maintaining appropriate levels of liquidity and cash on hand.

(iv) Supplementary explanation for fair values, etc. of financial instruments

Fair values of financial instruments are determined by market prices. If no market price is available, the fair value is based on the value that is calculated in a reasonable manner. The determination of such values contains variable factors and as such the adoption of wide ranging and differing assumptions may cause values to change. In addition, with respect to contract and other amounts applicable to derivative transactions outlined as follows in "2. Fair values, etc. of financial instruments" such amounts themselves do not indicate the size of market risks associated with derivative transactions.

(2) Fair values, etc. of financial instruments

Amounts on the consolidated balance sheets, fair values and the differences between the two as of March 31, 2016 and 2015 are shown as follows. Certain financial instruments were excluded from the following table as the fair values were not available (refer to the table shown in (ii) below).

	Millions of yen			Thousands of U.S. dollars		
2016	Book values of Consolidated Balance Sheets	Fair Values	Difference	Book values of Consolidated Balance Sheets	Fair Values	Difference
Cash and cash equivalents	**¥ 197,825**	**¥ 197,825**	**¥ —**	**$1,756,571**	**$1,756,571**	**$ —**
Time deposits	**5,049**	**5,049**	**—**	**44,832**	**44,832**	**—**
Notes and accounts receivable	**98,904**	**98,904**	**—**	**878,210**	**878,210**	**—**
Investment securities	**252,007**	**307,085**	**55,078**	**2,237,675**	**2,726,736**	**489,061**
Long-term loans receivable	**126,224**	**131,166**	**4,942**	**1,120,796**	**1,164,677**	**43,881**
Total Assets	**¥ 680,009**	**¥ 740,029**	**¥ 60,020**	**$6,038,084**	**$6,571,026**	**$ 532,942**
Notes and accounts payable	**45,433**	**45,433**	**—**	**403,419**	**403,419**	**—**
Bank loans and long-term debt due within one year	**112,523**	**112,536**	**13**	**999,139**	**999,254**	**115**
Long-term debt due after one year	**288,036**	**291,074**	**3,038**	**2,557,591**	**2,584,567**	**26,976**
Total Liabilities	**445,992**	**449,043**	**3,051**	**3,960,149**	**3,987,240**	**27,091**
Derivative transactions	**¥ (1,664)***1	**¥ (1,761)***1	**¥ (97)**	**$ (14,775)***1	**$ (15,637)***1	**$ (862)**

	Millions of yen		
2015	Book values of Consolidated Balance Sheets	Fair Values	Difference
Cash and cash equivalents	¥ 177,720	¥ 177,720	¥ —
Time deposits	4,944	4,944	—
Notes and accounts receivable	116,218	116,218	—
Investment securities	292,595	374,350	81,755
Long-term loans receivable	142,891	146,354	3,463
Total Assets	¥ 734,368	¥ 819,586	¥ 85,218
Notes and accounts payable	36,767	36,767	—
Bank loans and long-term debt due within one year	99,094	99,094	—
Long-term debt due after one year	295,000	296,362	1,362
Total Liabilities	430,861	432,223	1,362
Derivative transactions	¥ 63*1	¥ (424)*1	¥ (487)

*1 Net receivables and obligations arising from derivative transactions are shown as a net amount and items for which aggregated results lead to net obligations are shown in parentheses.

(i) Fair values of financial instruments, and matters pertaining to securities and derivative transactions

Assets

(a) Cash and cash equivalents

The book values approximate to the fair values due to their high liquidity.

(b) Time deposits

The book values approximate to the fair values due to their high liquidity.

(c) Notes and accounts receivable

The book values approximate to the fair values due to short-term maturities of these instruments.

(d) Investment securities

The fair values of investment securities are based on the market prices of securities exchanges on which shares are listed.

For details regarding securities on an individual holding purpose basis refer to the Note 4 Securities.

(e) Long-term loans receivable

The fair values of floating-rate long-term loans receivable are based on their book values because the fair values of floating-rate long-term loans receivable reflect market interest rates within a short period of time and closely approximate their book values. The fair values of fixed-rate long-term loans receivable are based on a method of calculation whereby the total principal and interest are discounted at the contracted rates as adjusted considering the market rate.

Liabilities

(a) Notes and accounts payable

The book values approximate to the fair values due to short-term settlement of these instruments.

(b) Bank loans

The book values approximate to the fair values due to short-term settlement of these instruments.

(c) Bonds

The fair values are based on market prices.

(d) Long-term debt

The discounted cash flow method was used to estimate the fair values, based on marginal borrowing rates as discount rate.

Derivative transactions

Refer to the Note 5 Derivative transactions.

(ii) The financial instruments excluded from the above table as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
	Book values of Consolidated Balance Sheets	Book values of Consolidated Balance Sheets	Book values of Consolidated Balance Sheets
Unlisted equity securities	**¥ 196,722**	¥ 289,458	**$ 1,746,777**

These instruments are not included in "Investment securities" (refer to above table) as the fair values are not available.

(iii) The aggregate maturities subsequent to March 31, 2016 and 2015 for financial assets are as follows:

	Millions of yen				Thousands of U.S. dollars			
2016	Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due over 10 years	Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due over 10 years
Cash and cash equivalents	**¥197,825**	**¥ —**	**¥ —**	**¥ —**	**$1,756,571**	**$ —**	**$ —**	**$ —**
Time deposits	**5,049**	**—**	**—**	**—**	**44,832**	**—**	**—**	**—**
Notes and accounts receivable	**98,904**	**—**	**—**	**—**	**878,210**	**—**	**—**	**—**
Long-term loans receivable	**—**	**1,351**	**18,187**	**106,686**	**—**	**11,996**	**161,490**	**947,310**
Total	**¥301,778**	**¥ 1,351**	**¥ 18,187**	**¥106,686**	**$2,679,613**	**$ 11,996**	**$ 161,490**	**$947,310**

	Millions of yen			
2015	Due within 1 year	Due after 1 year and within 5 years	Due after 5 years and within 10 years	Due over 10 years
Cash and cash equivalents	¥177,720	¥ —	¥ —	¥ —
Time deposits	4,944	—	—	—
Notes and accounts receivable	116,218	—	—	—
Long-term loans receivable	—	33,667	107,584	1,640
Total	¥298,882	¥ 33,667	¥ 107,584	¥ 1,640

(iv) The amount scheduled to be repaid after March 31, 2016 of long-term debt

Refer to the Note 8 Bank loans and long-term debt.

4 Securities

(1) The following tables summarize acquisition costs and book values (available fair values) as of March 31, 2016 and 2015:

Available-for-sale securities

Securities with book values (available fair values) exceeding acquisition costs

	Millions of yen					
	2016			2015		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 55,032**	**¥ 89,818**	**¥ 34,786**	¥ 78,596	¥ 145,589	¥ 66,993

	Thousands of U.S. dollars		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	**$ 488,652**	**$ 797,532**	**$ 308,880**

Securities with book values (available fair values) not exceeding acquisition costs

	Millions of yen					
	2016			2015		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 28,428**	**¥ 22,556**	**¥ (5,872)**	¥ 6,343	¥ 5,381	¥ (962)

	Thousands of U.S. dollars		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	**$ 252,424**	**$ 200,284**	**$ (52,140)**

(2) The following table summarizes book values of the securities with no available fair values as of March 31, 2016 and 2015:

Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unlisted equity securities	**¥ 20,088**	¥ 54,418	**$ 178,370**

(3) Total sales of available-for-sale securities sold during the year ended March 31, 2016 amounted to ¥2 million (US$18 thousand) and related gains amounted to ¥2 million (US$18 thousand).

No losses on sales of available-for-sale securities were recognized for the period.

Total sales of available-for-sale securities sold during the year ended March 31, 2015 amounted to ¥20 million (US$166 thousand) and related gains amounted to ¥10 million (US$83 thousand).

No losses on sales of available-for-sale securities were recognized for the period.

(4) Impairment losses on available-for-sale securities amounted to ¥1,463 million (US$12,991 thousand) during the year ended March 31, 2016.

There was no impairment loss on available-for-sale securities during the year ended March 31, 2015.

If the fair value of available-for-sale securities declines by over 50% compared to the acquisition cost thereof, the Company and its consolidated subsidiaries write down the book value of such securities. If the fair value of available-for-sale securities declines between 30% and 50% compared to the acquisition cost thereof, the Company and its consolidated subsidiaries write down the book value of the securities considering the possibilities for recovery of the fair value.

5 Derivative transactions

The following tables summarize the market value information as of March 31, 2016 and 2015 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen							
	2016				2015			
	Contracted amount and others				Contracted amount and others			
	Total	Over 1 year	Fair value	Recognized gains (losses)	Total	Over 1 year	Fair value	Recognized gains (losses)
Currency:								
Forward contracts:								
Buy position—U.S. dollars	**¥ 7,676**	**¥ —**	**¥ (26)**	**¥ (26)**	¥ 11,300	¥ —	¥ (22)	¥ (22)
Total	**¥ 7,676**	**¥ —**	**¥ (26)**	**¥ (26)**	¥ 11,300	¥ —	¥ (22)	¥ (22)
Interest:								
Interest rate cap contracts:								
Buy position	**¥ 1,350**	**¥ —**	**¥ 14**	**¥ (1,336)**	¥ 1,350	¥ —	¥ 136	¥ (1,214)
Total	**¥ 1,350**	**¥ —**	**¥ 14**	**¥ (1,336)**	¥ 1,350	¥ —	¥ 136	¥ (1,214)
Commodity:								
Forward contracts:								
Sell position—Metal	**¥ 1,231**	**¥ —**	**¥ 559**	**¥ 559**	¥ 792	¥ —	¥ (501)	¥ (501)
Buy position—Metal	**5,264**	**—**	**—**	**—**	454	—	—	—
Option contracts:								
Sell position								
Call option—Metal	**—**	**—**	**—**	**—**	20,893	—	(60)	(60)
Buy position								
Put option—Metal	**—**	**—**	**—**	**—**	13,020	—	151	151
Total	**¥ 6,495**	**¥ —**	**¥ 559**	**¥ 559**	¥ 35,159	¥ —	¥ (410)	¥ (410)

	Thousands of U.S. dollars			
	2016			
	Contracted amount and others			
	Total	Over 1 year	Fair value	Recognized gains (losses)
Currency:				
Forward contracts:				
Buy position—U.S. dollars	$ **68,158**	$ **—**	$ **(231)**	$ **(231)**
Total	$ **68,158**	$ **—**	$ **(231)**	$ **(231)**
Interest:				
Interest rate cap contracts:				
Buy position	$ **11,987**	$ **—**	$ **124**	$ **(11,863)**
Total	$ **11,987**	$ **—**	$ **124**	$ **(11,863)**
Commodity:				
Forward contracts:				
Sell position—Metal	$ **10,931**	$ **—**	$ **4,964**	$ **4,964**
Buy position—Metal	**46,741**	**—**	**—**	**—**
Option contracts:				
Sell position				
Call option—Metal	**—**	**—**	**—**	**—**
Buy position				
Put option—Metal	**—**	**—**	**—**	**—**
Total	$ **57,672**	$ **—**	$ **4,964**	$ **4,964**

Derivative transactions for which hedge accounting has been applied for the years ended March 31, 2016 and 2015 consisted of the following:

			Millions of yen		
			Contracted amount and others		
2016			Total	Over 1 year	Fair Value
Type of transaction	Type of derivative transaction	Major hedged items			
Interest	Interest rate swap contracts:				
	Paid fixed/received floating	Long-term loans	¥ **3,885**	¥ **1,295**	¥ **(4)**
	Total		¥ **3,885**	¥ **1,295**	¥ **(4)**
Commodity	Forward contracts:				
	Sell position—Metal	Accounts receivable	¥ **12,503**	¥ **—**	¥ **(452)**
	Buy position—Metal	Accounts receivable, Accounts payable	**27,616**	**1,190**	**(2,074)**
	Option contracts:				
	Sell position				
	Call position—Metal*1	Accounts receivable	**16,951**	**—**	**319**
	Total		¥ **57,070**	¥ **1,190**	¥ **(2,207)**
Interest	Interest rate swap contracts*2:				
	Paid fixed/received floating	Long-term loans	¥ **11,542**	¥ **3,847**	¥ **(97)**
	Total		¥ **11,542**	¥ **3,847**	¥ **(97)**

*1 Commodity call option contracts are based on zero cost option contracts. There is no transfer of option fees.

*2 The interest rate swap contracts are used as hedges and meet certain hedging criteria. The net amount to be paid or received under these interest rate swap contracts is added to or deducted from the interests on the assets or liabilities for which these interest rate swap contracts were executed.
Main items hedged are long-term loans.

Millions of yen

2015			Contracted amount and others Total	Over 1 year	Fair Value
Type of transaction	Type of derivative transaction	Major hedged items			
Interest	Interest rate swap contracts:				
	Paid fixed/received floating	Long-term loans	¥ 6,909	¥ 4,145	¥ (32)
	Total		¥ 6,909	¥ 4,145	¥ (32)
Commodity	Forward contracts:				
	Sell position—Metal	Accounts receivable	¥ 18,775	¥ —	¥ (505)
	Buy position—Metal	Accounts receivable, Accounts payable	17,880	2,757	700
	Option contracts:				
	Sell position				
	Call position—Metal*1	Accounts receivable	1,700	—	196
	Total		¥ 38,355	¥ 2,757	¥ 391
Interest	Interest rate swap contracts*2:				
	Paid fixed/received floating	Long-term loans	¥ 20,523	¥ 12,314	¥(487)
	Total		¥ 20,523	¥ 12,314	¥(487)

*1 Commodity call option contracts are based on zero cost option contracts. There is no transfer of option fees.

*2 The interest rate swap contracts are used as hedges and meet certain hedging criteria. The net amount to be paid or received under these interest rate swap contracts is added to or deducted from the interests on the assets or liabilities for which these interest rate swap contracts were executed.
Main items hedged are long-term loans.

Thousands of U.S. dollars

2016			Contracted amount and others Total	Over 1 year	Fair Value
Type of transaction	Type of derivative transaction	Major hedged items			
Interest	Interest rate swap contracts:				
	Paid fixed/received floating	Long-term loans	**$ 34,497**	**$ 11,499**	**$ (36)**
	Total		**$ 34,497**	**$ 11,499**	**$ (36)**
Commodity	Forward contracts:				
	Sell position—Metal	Accounts receivable	**$ 111,019**	**$ —**	**$(4,013)**
	Buy position—Metal	Accounts receivable, Accounts payable	**245,214**	**10,567**	**(18,416)**
	Option contracts:				
	Sell position				
	Call position—Metal*1	Accounts receivable	**150,515**	**—**	**2,833**
	Total		**$ 506,748**	**$ 10,567**	**$ (19,596)**
Interest	Interest rate swap contracts*2:				
	Paid fixed/received floating	Long-term loans	**$ 102,486**	**$ 34,159**	**$ (861)**
	Total		**$ 102,486**	**$ 34,159**	**$ (861)**

*1 Commodity call option contracts are based on zero cost option contracts. There is no transfer of option fees.

*2 The interest rate swap contracts are used as hedges and meet certain hedging criteria. The net amount to be paid or received under these interest rate swap contracts is added to or deducted from the interests on the assets or liabilities for which these interest rate swap contracts were executed.
Main items hedged are long-term loans.

6 Inventories

Inventories as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen 2016	2015	Thousands of U.S. dollars 2016
Merchandise and finished products	**¥ 47,648**	¥ 75,188	**$ 423,087**
Work in process	**60,197**	57,962	**534,514**
Raw materials and supplies	**54,129**	68,273	**480,634**
Total	**¥ 161,974**	¥ 201,423	**$ 1,438,235**

7 Loss on impairment of fixed assets

(1) Loss on impairment of fixed assets for the year ended March 31, 2016 consisted of the following:

2016			Millions of yen	Thousands of U.S. dollars
Location	Major use	Asset category	**Loss**	**Loss**
Ome City, Tokyo Metropolis, Japan	Manufacturing facilities for thin-film paste	Machinery and other assets	**¥ 233**	**$ 2,069**
Isa City, Kagoshima Prefecture, Japan	Manufacturing facilities for sapphire substrates	Machinery and other assets	**348**	**3,090**
Jiangsu, China	Manufacturing facilities for lead frames	Machinery and other assets	**64**	**568**
Hyuga City, Miyazaki Prefecture, Japan	Manufacturing facilities for ferronickel	Machinery and other assets	**143**	**1,270**
Kaohsiung, Taiwan	Building for thin-film paste manufacturing	Building	**25**	**222**
Total			**¥ 813**	**$ 7,219**

The Company categorizes its operating assets by such business units as plants and manufacturing processes based on the divisions of managerial accounting.

Loss on impairment was recognized for the following reasons:

(i) The book values of manufacturing facilities for thin-film paste were reduced to their recoverable amounts because the sales volume of ITO target will not be expected to recover.

The values in use of assets were used as recoverable amounts for the measurement of impairment losses.

Since future cash flow was expected to be negative, it was assumed that there was no recoverable value.

(ii) The book values of manufacturing facilities for sapphire substrates were reduced to their recoverable amounts due to the withdrawal from sapphire substrate business.

The net sales price (fair value less cost to sell) of the assets was used as the recoverable amount for the measurement of impairment loss. As sale of these assets was expected to be difficult, the net sales price was assessed as zero.

(iii) The book values of manufacturing facilities for lead frames were reduced to their recoverable amounts due to the adverse market environment.

The net sales price (fair value less cost to sell) of the assets was used as the recoverable amount for the measurement of impairment loss. It was based on third-party appraisal or by similar means.

(iv) The book values of manufacturing facilities for ferronickel were reduced to their recoverable amounts because one of the electric furnaces was mothballed.

The values in use of assets were used as recoverable amounts for the measurement of impairment losses.

Since the resuming of the furnace is not yet determined, it was assumed that there was no recoverable value.

(v) The book value of the building for thin-film paste manufacturing was reduced to its recoverable amount due to the relocation of the factory.

The net sales price (fair value less cost to sell) of the asset was used as the recoverable amount for the measurement of impairment loss. As sale of the asset was expected to be difficult, the net sales price was assessed as zero.

(2) Loss on impairment of fixed assets for the year ended March 31, 2015 consisted of the following:

2015			Millions of yen
Location	Major use	Asset category	Loss
Kako-gun, Hyogo Prefecture, Japan	Manufacturing facilities for prime western grade zinc	Building and structures and machinery and other assets	¥ 612
Niihama City, Ehime Prefecture, Japan	Manufacturing facilities for certain copper-clad polyimide film substrates	Machinery and other assets	1
Selangor, Malaysia	Office electronics	Other assets	1
Total			¥ 614

The Company categorizes its operating assets by such business units as plants and manufacturing processes based on the divisions of managerial accounting.

Loss on impairment was recognized for the following reasons:

(i) The book values of manufacturing facilities for prime western grade zinc were reduced to their recoverable amount because the production of zinc at the Harima Smelter will be discontinued.

The values in use of assets were used as recoverable amounts for the measurement of impairment losses.

Since future cash flow was expected to be negative, it was assumed that there was no recoverable value.

(ii) The book values of manufacturing facilities for certain copper-clad polyimide film substrates were reduced to their recoverable amounts due to the expectations that these facilities would cease to operate.

The net sales price (fair value less cost to sell) of the asset was used as the recoverable amount for the measurement of impairment loss. As sale of these assets was expected to be difficult, the net sales price was assessed as zero.

(iii) The book values of office electronics were reduced to their recoverable amounts due to the expectation that they would no longer be in use.

The net sales price (fair value less cost to sell) of the assets was used as the recoverable amount for the measurement of impairment loss. As sale of these assets was expected to be difficult, the net sales price was assessed as zero.

8 Bank loans and long-term debt

Bank loans are generally represented by short-term notes (most of which are unsecured) and bank overdrafts, and bore interest at annual weighted average rate of 1.01% and 0.74% as of March 31, 2016 and 2015, respectively.

(1) Long-term debt as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Long-term loans:			
Due within one year *1	**¥ 24,933**	¥ 18,734	**$ 221,391**
Due after one year, maturing through 2031 *2	**248,036**	245,000	**2,202,415**
0.48% domestic bonds due in 2016	**10,000**	10,000	**88,794**
0.77% domestic bonds due in 2018	**30,000**	30,000	**266,383**
1.26% domestic bonds due in 2021	**10,000**	10,000	**88,794**
Total	**322,969**	313,734	**2,867,777**
Amount due within one year	**(34,933)**	(18,734)	**(310,185)**
Total	**¥ 288,036**	¥ 295,000	**$ 2,557,592**

*1 Weighted average interest rate at March 31, 2016 is 1.33%

*2 Weighted average interest rate at March 31, 2016 is 0.82%

(2) The aggregate annual maturities of long-term debt as of March 31, 2016 are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 34,933	$ 310,185
2018	15,098	134,061
2019	46,854	416,036
2020	117,990	1,047,682
2021	21,522	191,103
Thereafter	86,572	768,710
Total	¥ 322,969	$ 2,867,777

(3) Assets pledged as collateral for bank loans and long-term debt as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash and cash equivalents	**¥ 1**	¥ 1	**$ 9**
Property, plant and equipment, at net book value and other assets	**39,153**	42,477	**347,656**
Investment securities	**34,654**	93,690	**307,707**
Long-term loans receivable	**25,227**	26,914	**224,001**
Others	**338**	376	**3,001**
Total	**¥ 99,373**	¥ 163,458	**$ 882,374**

9 Income taxes

Income taxes in the accompanying consolidated statements of income comprise corporation taxes, inhabitants' taxes and enterprise taxes. Consolidated overseas subsidiaries are subject to income taxes of the countries in which they are domiciled.

The following table summarizes the significant differences between the statutory tax rate and the Company's and its consolidated subsidiaries' effective tax rate for financial statement purposes for the years ended March 31, 2016 and 2015:

	2016	2015
Statutory tax rate	**33.1%**	—%
Loss of consolidated subsidiaries	**4,387.3**	—
Permanently nontaxable dividends received	**(2,783.4)**	—
Effect of eliminating intercompany dividends received	**2,285.7**	—
Difference of statutory tax rate in subsidiaries	**1,541.1**	—
Decrease (Increase) in valuation allowance	**(709.3)**	—
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**(486.1)**	—
Difference in local tax system	**(197.9)**	—
Undistributed earnings of foreign subsidiaries	**(169.2)**	—
Tax credit	**(133.3)**	—
Effect of mining taxes	**(118.1)**	—
Permanently non-deductible items, including entertainment expenses	**34.5**	—
Others	**(42.9)**	—
Effective tax rate	**3,641.5%**	—%

Information for the year ended March 31, 2015 is not provided because the difference between the effective tax rate and the statutory tax rate is immaterial.
(Adjustment of deferred tax assets and liabilities based on enacted changes in tax laws and rates)
On March 31, 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 were changed from 32.3% to 30.9% and 30.6%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates, net deferred tax liabilities (after deducting deferred tax assets) decreased by ¥288 million (US$2,557 thousand) and deferred gains (losses) on hedges decreased by ¥37 million (US$329 thousand) as of March 31, 2016, deferred income tax expense recognized for the year ended March 31, 2016 increased by ¥206 million (US$1,829 thousand), net unrealized gains on securities increased by ¥531 million (US$4,715 thousand) as of March 31, 2016.

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Deferred tax assets:			
Net defined benefit liability	**¥ 6,786**	¥ 5,299	**$ 60,256**
Overseas exploration costs	**5,370**	4,310	**47,682**
Unrealized profits	**2,836**	2,778	**25,182**
Asset retirement obligations	**2,157**	112	**19,153**
Net operating losses carry forwards	**2,079**	5,596	**18,460**
Loss on impairment of fixed assets	**1,542**	1,973	**13,692**
Contribution gains on securities to employee retirement benefits trust	**1,238**	1,183	**10,993**
Allowance for bonus payable	**1,084**	1,335	**9,625**
Allowance for losses on investments	**—**	12,671	**—**
Others	**6,310**	9,144	**56,030**
Gross deferred tax assets	**29,402**	44,401	**261,073**
Less valuation allowance	**(4,616)**	(20,624)	**(40,988)**
Deferred tax assets after deducting valuation allowance	**24,786**	23,777	**220,085**
Deferred tax liabilities:			
Depreciation	**(11,592)**	(11,671)	**(102,930)**
Net unrealized holding gains on available-for-sale securities	**(9,585)**	(20,426)	**(85,109)**
Reserve for losses on overseas investment	**(4,973)**	(4,953)	**(44,157)**
Accumulated earnings of overseas subsidiaries	**(4,507)**	(3,039)	**(40,020)**
Deferred gains on properties for tax purpose	**(1,899)**	(2,068)	**(16,862)**
Reserve for explorations	**(1,402)**	(1,184)	**(12,449)**
Gains on securities contributed to employee retirement benefits trust	**(535)**	(472)	**(4,750)**
Others	**(1,297)**	(1,639)	**(11,517)**
Deferred tax liabilities	**(35,790)**	(45,452)	**(317,794)**
Net deferred tax assets (liabilities)	**¥ (11,004)**	¥ (21,675)	**$ (97,709)**

10 Retirement benefits and pension costs

(1) Outline of retirement benefits and pension costs

The Company and certain consolidated subsidiaries have a defined benefit pension plan and a defined contribution pension plan.

The defined benefit pension plan is based upon years of service, compensation at the time of severance and other factors.

Such retirement benefits are provided through a lump-sum benefit or a funded pension plan. The Company has a retirement benefit trust. Some domestic consolidated subsidiaries use the simplified method for the calculation of projected benefit obligations. Also, certain consolidated subsidiaries enroll in multiemployer pension plans. Such plans are recognized as defined contribution plans.

(2) Defined benefit plans

The detailed notes relating to retirement benefit plans for the 12-month period ended March 31, 2016 and 2015 are as follows:

(i) Movements in retirement benefit obligations, excluding plans to which the simplified method is applied

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year	**¥ 59,972**	¥ 52,921	**$ 532,516**
The cumulative effect of an accounting change	**—**	3,279	**—**
Restated balance at beginning of year	**59,972**	56,200	**532,516**
Service costs	**2,051**	1,921	**18,212**
Interest costs	**550**	679	**4,884**
Actuarial gains and losses	**3,211**	2,798	**28,512**
Benefits paid	**(2,282)**	(1,928)	**(20,263)**
Prior service costs	**(19)**	58	**(169)**
Others	**93**	244	**826**
Balance at end of year	**¥ 63,576**	¥ 59,972	**$ 564,518**

(ii) Movements in plan assets, excluding plans to which the simplified method is applied

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year	**¥ 53,370**	¥ 49,323	**$ 473,895**
Expected return on plan assets	**1,156**	1,034	**10,265**
Actuarial gains and losses	**(3,332)**	3,326	**(29,586)**
Contributions paid by the employer	**818**	857	**7,263**
Benefits paid	**(1,281)**	(1,170)	**(11,375)**
Balance at end of year	**¥ 50,731**	¥ 53,370	**$ 450,462**

(iii) Movements in liability (asset) for retirement benefits to which the simplified method is applied

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year	**¥ 830**	¥ 1,272	**$ 7,370**
Retirement benefit costs	**642**	(32)	**5,701**
Benefits paid	**(200)**	(220)	**(1,776)**
Contributions paid by the employer	**(178)**	(190)	**(1,581)**
Balance at end of year	**¥ 1,094**	¥ 830	**$ 9,714**

(iv) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Funded retirement benefit obligations	**¥ 66,858**	¥ 63,567	**$ 593,660**
Plan assets	**(54,555)**	(57,452)	**(484,417)**
	¥ 12,303	¥ 6,115	**$ 109,243**
Unfunded retirement benefit obligations	**1,636**	1,317	**14,527**
Total net liability for retirement benefits at end of year	**¥ 13,939**	¥ 7,432	**$ 123,770**
Liability for retirement benefits	**¥ 14,128**	¥ 7,763	**$ 125,448**
Asset for retirement benefits	**(189)**	(331)	**(1,678)**
Total net liability for retirement benefits at end of year	**¥ 13,939**	¥ 7,432	**$ 123,770**

(v) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Service costs	**¥ 2,051**	¥ 1,921	**$ 18,212**
Interest costs	**550**	679	**4,884**
Expected return on plan assets	**(1,156)**	(1,034)	**(10,265)**
Net actuarial gains and losses amortization	**(135)**	102	**(1,199)**
Prior service costs amortization	**154**	191	**1,367**
Retirement benefit costs based on the simplified method	**642**	(32)	**5,701**
Total retirement benefit costs for the year	**¥ 2,106**	¥ 1,827	**$ 18,700**

(vi) Other comprehensive income on defined retirement benefit plans, before tax

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Prior service costs	**¥ (154)**	¥ (133)	**$ (1,367)**
Actuarial gains and losses	**6,438**	(645)	**57,165**
Total	**¥ 6,284**	¥ (778)	**$ 55,798**

(vii) Accumulated other comprehensive income on defined retirement benefit plans, before tax

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unrecognized prior service costs	**¥ 47**	¥ 201	**$ 417**
Unrecognized actuarial gains and losses	**5,161**	(1,220)	**45,827**
Total	**¥ 5,208**	¥ (1,019)	**$ 46,244**

(viii) Plan assets

(a) Plan assets consisted of the following:

	2016	2015
Bonds	**35.7%**	32.4%
Equity securities	**53.8**	58.0
Cash and cash equivalents	**4.7**	4.5
Others	**5.8**	5.1
Total	**100.0**	100.0

Plan assets include the retirement benefit trusts that were established in regards to lump-sum payment plans of 35.1% at March 31, 2016 and 36.4% at March 31, 2015.

(b) Long-term expected rate of return

Current and target asset allocations, and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

Assumptions used in calculating the above numbers are as follows:

		2016	2015
Discount rate	(Mainly)	**0.5%**	0.9%
Expected long-term return on plan assets	(Mainly)	**3.5%**	3.5%

(c) Defined contribution plans

The amounts of required contributions to the defined contribution plans of the Company and certain consolidated subsidiaries for the years ended March 31, 2016 and 2015 were ¥404 million (US$3,587 thousand) and ¥327 million, respectively.

(d) Multiemployer pension plans

The amounts of required contributions to the multiemployer plans which are recognized as defined contribution plans for the years ended March 31, 2016 and 2015 were ¥70 million (US$622 thousand) and ¥81 million, respectively.

The funded status of the multiemployer pension plans at March 31, 2015 and 2014, to which contributions were recorded as net periodic retirement benefit costs, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Plan assets	**¥ 329,141**	¥ 349,753	**$ 2,922,580**
Actuarial liability based on pension plan finance calculation and minimum actuarial reserve	**361,482**	386,624	**3,209,749**
Balance*	**¥ (32,341)**	¥ (36,871)	**$ (287,169)**

* The principle factor relating to the balance was the prior service costs in pension financing which were –¥32,939 million (–US$292,479 thousand) at March 31, 2015 and –¥35,835 million at March 31, 2014. The multiemployer pension plan (The Tokyo-to Kensetsu-gyou Employees' Pension Insurance), in which Igeta Heim Co., Ltd. had been enrolled, was dissolved on November 20, 2015, with the approval of the Minister of Health, Labour and Welfare who acted to return the contracted-out portion to the government, which has been handling it since December 2015. Consequently, it is not included in those assets at March 31, 2015. The impact of dissolution of the plan on operating income and loss before income taxes was immaterial.

The percentages of the Group's contributions to the multiemployer pension plans at March 31, 2015 and 2014 were 0.40% and 0.45%, respectively.

11 Research and development expense

Research and development expense included in selling, general and administrative expenses for the years ended March 31, 2016 and 2015 are ¥5,772 million (US$51,252 thousand) and ¥5,865 million, respectively.

12 Net assets

Net assets comprise three subsections, which are shareholders' equity, accumulated other comprehensive income, and non-controlling interests.

Under the Japanese Corporate Law (the "Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of dividend or excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit, or could be capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, all additional paid-in capital and all of the legal earning reserve may be transferred to other capital surplus and retained earnings, respectively, however which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

13 Contingent liabilities

Contingent liabilities as of March 31, 2016 are as follows:

	Millions of yen	Thousands of U.S. dollars
Notes and accounts receivable sold to factoring companies with recourse	**¥ 19**	**$ 169**
As guarantor for loans of:		
Non-consolidated subsidiaries and affiliated companies	**91,048**	**808,453**
As guarantor for the construction costs of:		
Electric facilities which provides electric power to Pogo Gold Mine	**225**	**1,998**
As a stockholder for future payment of:		
The mining royalty tax, interests and penalties of Cerro Verde S.A.A.	**3,387**	**30,075**
Total	**¥ 94,679**	**$ 840,695**

Pursuant to the Agreement of Guarantees and Measures to Promote Investments with the Government of Peru (the "1998 Stability Agreement"), which was effective from 1999 through 2013, Sociedad Minera Cerro Verde S.A.A. ("Cerro Verde"), the Company's affiliated company accounted for by the equity method, has paid taxes based on the assumption that the mining royalty tax regime of 2004 did not apply to Cerro Verde.

In October 2013, the Peruvian national tax authority issued to Cerro Verde a payment order of taxes for the years 2006 through 2008, plus interests and penalties thereon, because the tax authority decided that the 1998 Stability Agreement did not exempt the Copper Sulfide Ores Development Project, which commenced in 2006 (the "Project"), from the mining royalty tax regime.

Although Cerro Verde has made an appeal to related agencies that the 1998 Stability Agreement exempted the Project, the Company's share of the payment being demanded in case such demand is validated is described above.

Cerro Verde had continued to pay taxes for 2009 and onward based on the same assumption that the 1998 Stability Agreement had been effective and had exempted the Project. Although the tax authority claims that the 1998 Stability Agreement also does not exempt the Project for 2009 or onward, the tax authority has not issued to Cerro Verde a payment order of taxes for such years.

14 Comprehensive income

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Net unrealized holding gains on securities			
Increase during the year	**¥ (38,582)**	¥ 21,243	**$ (342,585)**
Reclassification adjustments	**1,464**	(10)	**12,999**
Sub-total, before tax	**(37,118)**	21,233	**(329,586)**
Tax effect	**10,890**	(5,956)	**96,697**
Sub-total, net of tax	**¥ (26,228)**	¥ 15,277	**$ (232,889)**
Deferred gains on hedges			
Increase during the year	**¥ (3,728)**	¥ 739	**$ (33,102)**
Reclassification adjustments	**1,160**	(575)	**10,300**
Sub-total, before tax	**(2,568)**	164	**(22,802)**
Tax effect	**785**	(39)	**6,970**
Sub-total, net of tax	**¥ (1,783)**	¥ 125	**$ (15,832)**
Foreign currency translation adjustments			
Increase during the year	**¥ (9,104)**	¥ 27,975	**$ (80,838)**
Reclassification adjustments	**—**	—	**—**
Sub-total, before tax	**(9,104)**	27,975	**(80,838)**
Sub-total, net of tax	**¥ (9,104)**	¥ 27,975	**$ (80,838)**
Remeasurements of defined benefit plans			
Increase during the year	**¥ (6,303)**	¥ 485	**$ (55,967)**
Reclassification adjustments	**19**	293	**169**
Sub-total, before tax	**(6,284)**	778	**(55,798)**
Tax effect	**1,995**	(288)	**17,714**
Sub-total, net of tax	**¥ (4,289)**	¥ 490	**$ (38,084)**
Share of other comprehensive income of affiliated companies accounted for using equity method			
Increase during the year	**¥ (3,798)**	¥ 42,123	**$ (33,724)**
Reclassification adjustments	**(36)**	(5)	**(320)**
Sub-total	**¥ (3,834)**	¥ 42,118	**$ (34,044)**
Total other comprehensive income	**¥ (45,238)**	¥ 85,985	**$ (401,687)**

15 Segment information

(1) General information about reported segments

(i) Basis of decision about reported segments

The reported segments of the Group refer to business units, for which separate financial information is available and that are subject to periodic reviews by the Board of Directors as the supreme, managerial decision-making body to determine the allocation of management resources and assess their respective operating results.

The Company currently has three business divisions—Mineral Resources Div., Non-Ferrous Metals Div., Materials Div.—in the pursuit of effective business operations by products and services. Each of these business divisions plans its own comprehensive strategies to be carried out in Japan and overseas for its own product and service lines and engages in diverse business activities.

The three aforementioned business divisions are classified as "business segments" of the Group.

The Group integrated these three business segments into three reported segments: "Mineral Resources" "Smelting & Refining", "Materials." In determining these reported segments, in accordance with the integration criteria and quantitative standards set forth in the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17 issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20 issued on March 21, 2008).

As described above, the Group consists of three segments identified by products and services based on the business divisions.

(ii) Types of products and services of each reported segment

In the Mineral Resources segment, the Group mainly engages in the exploration, development and production of non-ferrous metal resources in Japan and overseas, as well as sales of ores and other products.

In the Smelting & Refining segment, the Group mainly engages in smelting and sales of copper, nickel, ferro-nickel, zinc and lead, as well as smelting and sales of precious metals such as gold, silver and platinum.

In the Materials segment, the Group mainly engages in manufacturing, processing and sales of semiconductor materials such as lead frames, tape materials, substrates (electronic packaging materials used to make LCD panel integrated circuits) as well as of advanced materials such as pastes, powder materials (e.g., nickel powder), battery materials (e.g., nickel hydroxide, lithium nickel oxide) and crystalline materials (e.g., lithium tantalate, lithium niobate), manufacturing and sales of automotive exhaust processing catalysts, chemical catalysts, petroleum refinery and desulfurization catalysts, as well as autoclaved lightweight concrete (ALC) products.

(2) Basis of measurement regarding reported segment income (loss), segment assets and other material items
The accounting methods for each reported segment are basically the same as those set forth in Note 2, entitled the "Summary of significant accounting policies," excepting the allocation of the amount equivalent to the interest on the internal loan payable to each segment.
Inter-segment net sales are calculated based on the prices of arm's length transactions.

(3) Information about reported segment income (loss), segment assets and other material items
Segment information as of and for the years ended March 31, 2016 and 2015 are as follows:

Millions of yen

2016	Mineral Resources	Smelting & Refining	Materials	Total of reported segments	Others*1	Adjustment*2	Consolidated
Net sales:							
Outside customers	¥ 70,448	¥ 622,523	¥ 158,302	¥ 851,273	¥ 4,134	¥ —	¥ 855,407
Inter segment	49,303	19,409	13,295	82,007	11,157	(93,164)	—
Total	¥ 119,751	¥ 641,932	¥ 171,597	¥ 933,280	¥ 15,291	¥ (93,164)	¥ 855,407
Segment income (loss)	¥ (44,317)	¥ 25,258	¥ 5,972	¥ (13,087)	¥ (828)	¥ 1,151	¥ (12,764)
Segment assets	¥ 344,673	¥ 683,830	¥ 197,114	¥ 1,225,617	¥ 20,767	¥ 384,416	¥ 1,630,800
Segment liabilities	¥ 54,299	¥ 323,449	¥ 107,939	¥ 485,687	¥ 10,526	¥ 58,592	¥ 554,805
Other items:							
Depreciation	¥ 13,972	¥ 21,673	¥ 8,014	¥ 43,659	¥ 386	¥ 2,096	¥ 46,141
Amortization of goodwill	135	—	23	158	—	—	158
Interest income	344	280	130	754	—	10,038	10,792
Interest expense	123	4,119	372	4,614	19	240	4,873
Equity in earnings (losses) of affiliated companies	(79,720)	2,885	2,856	(73,979)	—	756	(73,223)
Investment in equity-method affiliated companies	146,649	93,250	29,127	269,026	—	56,799	325,825
Capital expenditures	11,648	15,230	21,632	48,510	366	2,137	51,013

Millions of yen

2015	Mineral Resources	Smelting & Refining	Materials	Total of reported segments	Others*1	Adjustment*2	Consolidated
Net sales:							
Outside customers	¥ 72,349	¥ 684,347	¥ 161,027	¥ 917,723	¥ 3,611	¥ —	¥ 921,334
Inter segment	41,442	25,944	13,179	80,565	13,755	(94,320)	—
Total	¥ 113,791	¥ 710,291	¥ 174,206	¥ 998,288	¥ 17,366	¥ (94,320)	¥ 921,334
Segment income	¥ 53,775	¥ 81,323	¥ 12,914	¥ 148,012	¥ (80)	¥ 26,294	¥ 174,226
Segment assets	¥ 402,391	¥ 701,040	¥ 179,143	¥ 1,282,574	¥ 18,796	¥ 438,876	¥ 1,740,246
Segment liabilities	¥ 28,683	¥ 371,970	¥ 90,232	¥ 490,885	¥ 8,969	¥ 81,447	¥ 581,301
Other items:							
Depreciation	¥ 10,615	¥ 18,044	¥ 7,392	¥ 36,051	¥ 327	¥ 1,747	¥ 38,125
Amortization of goodwill	118	—	23	141	—	—	141
Interest income	274	158	61	493	—	6,687	7,180
Interest expense	16	3,347	387	3,750	19	199	3,968
Equity in earnings of affiliated companies	8,920	10,943	3,755	23,618	—	325	23,943
Investment in equity-method affiliated companies	196,442	78,313	28,272	303,027	100	83,662	386,789
Capital expenditures	20,193	20,126	10,962	51,281	712	3,239	55,232

2016	Mineral Resources	Smelting & Refining	Materials	Total of reported segments	Others*1	Adjustment*2	Consolidated
							Thousands of U.S. dollars
Net sales:							
Outside customers	**$ 625,537**	**$5,527,642**	**$1,405,630**	**$ 7,558,809**	**$ 36,707**	**$ —**	**$ 7,595,516**
Inter segment	**437,782**	**172,341**	**118,052**	**728,175**	**99,068**	**(827,243)**	**—**
Total	**$1,063,319**	**$5,699,983**	**$1,523,682**	**$ 8,286,984**	**$135,775**	**$ (827,243)**	**$ 7,595,516**
Segment income (loss)	**$ (393,509)**	**$ 224,276**	**$ 53,028**	**$ (116,205)**	**$ (7,352)**	**$ 10,220**	**$ (113,337)**
Segment assets	**$3,060,495**	**$6,072,012**	**$1,750,257**	**$10,882,764**	**$184,400**	**$3,413,390**	**$14,480,554**
Segment liabilities	**$ 482,143**	**$2,872,039**	**$ 958,435**	**$ 4,312,617**	**$ 93,465**	**$ 520,263**	**$ 4,926,345**
Other items:							
Depreciation	**$ 124,063**	**$ 192,444**	**$ 71,160**	**$ 387,667**	**$ 3,427**	**$ 18,611**	**$ 409,705**
Amortization of goodwill	**1,199**	**—**	**204**	**1,403**	**—**	**—**	**1,403**
Interest income	**3,055**	**2,486**	**1,154**	**6,695**	**—**	**89,132**	**95,827**
Interest expense	**1,092**	**36,574**	**3,303**	**40,969**	**169**	**2,131**	**43,269**
Equity in earnings (losses) of affiliated companies	**(707,868)**	**25,617**	**25,360**	**(656,891)**	**—**	**6,713**	**(650,178)**
Investment in equity-method affiliated companies	**1,302,158**	**828,006**	**258,631**	**2,388,795**	**—**	**504,341**	**2,893,136**
Capital expenditures	**103,427**	**135,234**	**192,080**	**430,741**	**3,250**	**18,975**	**452,966**

*1 The "Others" segment refers to businesses other than those included in the reported segments and other profit-seeking business directly operated by Head Office divisions/departments. Other businesses include real estate businesses and technical engineering.

*2 Notes to the various items of the "Adjustment" segment are below. (i–viii)

(i) Adjustments for segment income

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Head Office expenses not allocated to each reported segment*1	**¥ (90)**	¥(1,461)	**$ (799)**
Internal interest expense	**562**	543	**4,990**
Eliminations of inter-segmental transactions among the reported segments	**267**	1,039	**2,371**
Non-operating income/expenses not allocated to each reported segment*2	**412**	26,173	**3,658**
Total	**¥1,151**	¥26,294	**$10,220**

*1 Head Office expenses not allocated to each reported segment mainly consist of general administrative expenses and R&D expenses, which are not attributable to the reported segments.

*2 Non-operating income/expenses not allocated to each reported segment mainly consist of foreign exchange gains/losses and interest expenses, which are not attributable to the reported segments.

(ii) Adjustments for segment assets and liabilities

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Corporate assets not allocated to each reported segment*1	**¥ 482,978**	¥ 471,716	**$ 4,288,563**
Offset and eliminations of inter-segmental receivables among the reported segments, including those toward Head Office divisions/departments	**(98,562)**	(32,840)	**(875,173)**
Total	**¥ 384,416**	¥ 438,876	**$ 3,413,390**

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Corporate liabilities not allocated to each reported segment*1	**¥ 197,656**	¥ 203,498	**$ 1,755,070**
Offset and eliminations of inter-segmental payables among the reported segments, including those toward Head Office divisions/departments	**(139,064)**	(122,051)	**(1,234,807)**
Total	**¥ 58,592**	¥ 81,447	**$ 520,263**

*1 Corporate assets and liabilities not allocated to each reported segment mainly refer to the assets and liabilities under the control of the Administration Dept. at the Head Office, which are not allocated to the reported segments.

(iii) Adjustments on depreciation refer to depreciation at the Head Office divisions/departments, which are not allocated to the reported business segments.

(iv) Adjustments on interest income consist of interest income at the Head Office divisions/departments, which is not allocated to the reported segments, and eliminations of transactions among the reported segments.

(v) Adjustments on interest expense consist of interest expense at the Head Office divisions/departments, which are not allocated to the reported segments, and eliminations of transactions among the reported segments.

(vi) Adjustments on equity in earnings (losses) of affiliated companies refer to the deduction of unrealized income relating to the inter-segmental transactions among the reported segments.

(vii) Adjustments on investment in equity-method affiliated companies represent the amount corresponding to "Foreign currency translation adjustments."

(viii) Adjustments on capital expenditures refer to increases thereof at the Head Office divisions/departments, which are not allocated to the reported segments.

Related information

(1) Information about geographic areas

(i) Sales

2016 — Millions of yen

	Japan	East Asia	Southeast Asia	North America	Others	Total
	¥ 515,177	**¥ 175,901**	**¥ 70,140**	**¥ 73,384**	**¥ 20,805**	**¥ 855,407**

2015 — Millions of yen

	Japan	East Asia	Southeast Asia	North America	Others	Total
	¥ 558,183	¥ 192,433	¥ 71,406	¥ 75,619	¥ 23,693	¥ 921,334

2016 — Thousands of U.S. dollars

	Japan	East Asia	Southeast Asia	North America	Others	Total
	$ 4,574,472	**$ 1,561,898**	**$ 622,802**	**$ 651,607**	**$ 184,737**	**$ 7,595,516**

*1 Net sales are segmented by country or region according to customers' location data.

*2 Regions are segmented based on their geographical proximity, and only those countries for which the net sales amount accounts for more than 10% of the net sales stated in the consolidated statements of income are separately listed.

*3 Major countries or regions that belong to the segments are as follows:

- East Asia: China, Taiwan, Hong Kong, South Korea, etc.
- Southeast Asia: Indonesia, Malaysia, Thailand, Vietnam, etc.
- North America: United States, Mexico and Canada
- Others: Australia, Germany, Italy, Turkey, etc.

(ii) Property, plant and equipment

2016 — Millions of yen

	Japan	East Asia	Philippines	Southeast Asia	United States	Others	Total
	¥ 152,008	**¥ 7,112**	**¥ 222,680**	**¥ 2,004**	**¥ 64,280**	**¥ 5,450**	**¥ 453,534**

2015 — Millions of yen

	Japan	East Asia	Philippines	Southeast Asia	United States	Others	Total
	¥ 141,791	¥ 8,484	¥ 244,572	¥ 2,028	¥ 66,484	¥ 6,014	¥ 469,373

2016 — Thousands of U.S. dollars

	Japan	East Asia	Philippines	Southeast Asia	United States	Others	Total
	$ 1,349,742	**$ 63,150**	**$ 1,977,269**	**$ 17,794**	**$ 570,769**	**$ 48,394**	**$ 4,027,118**

*1 Regions are segmented based on their geographical proximity, and only those countries for which the property, plant and equipment amount accounts for more than 10% of the property, plant and equipment stated in the consolidated balance sheets are separately listed.

*2 Major countries or regions that belong to the segments are as follows:

- East Asia: China and Taiwan
- Southeast Asia: Malaysia and Singapore
- Others: Australia, Solomon Islands, Peru, Chile and Brazil

(2) Information about major customers

	Millions of yen		Thousands of U.S. dollars	
	2016	2015	**2016**	
Customer's designation or name	**Sales**	Sales	**Sales**	Related reported segments
Sumitomo Corporation	**¥ 133,912**	¥ 136,925	**$ 1,189,061**	Smelting & Refining, Materials
MITSUI & CO., LTD.	**¥ 63,915**	¥ 75,918	**$ 567,528**	Smelting & Refining

(3) Information about impairment loss of fixed assets by reported segment

Millions of yen

2016	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Loss on impairment of fixed assets	**¥ —**	**¥ 143**	**¥ 670**	**¥ —**	**¥ —**	**¥ 813**

Millions of yen

2015	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Loss on impairment of fixed assets	¥ —	¥ 612	¥ 2	¥ —	¥ —	¥ 614

Thousands of U.S. dollars

2016	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Loss on impairment of fixed assets	**$ —**	**$ 1,270**	**$ 5,949**	**$ —**	**$ —**	**$ 7,219**

(4) Information about unamortized balance of goodwill by reported segment

Millions of yen

2016	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Balance at end of year	**¥ 268**	**¥ —**	**¥ 54**	**¥ —**	**¥ —**	**¥ 322**

Millions of yen

2015	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Balance at end of year	¥ 403	¥ —	¥ 77	¥ —	¥ —	¥ 480

Thousands of U.S. dollars

2016	Mineral Resources	Smelting & Refining	Materials	Others	Adjustment	Consolidated
Balance at end of year	**$ 2,380**	**$ —**	**$ 479**	**$ —**	**$ —**	**$ 2,859**

16 Asset retirement obligations

(1) Asset retirement obligations that are recorded in the consolidated balance sheets

With regard to mines and quarries in operation in Japan, the Company is required by the Mining Safety Act, the Law on Special Measures for Mine Damages Caused by the Metal Mining Industry, etc., the Quarrying Act and leasing agreements to undertake mine pollution prevention activities for post-use specified facilities and to restore such facilities to their original condition. Based on these requirements, the Company records as asset retirement obligations a rational estimate of the expenses required for mine pollution prevention activities and any removal expenses.

For the domestic facilities of the Group in Japan, the Company makes rational estimates of the costs of demolishing and conducting surveys in accordance with requirements regarding special removal methods and obligations to conduct environmental surveys under asbestos damage prevention regulations of asbestos-related regulations and occupational health and safety regulations of dioxin-related regulations, and posts these amounts as asset retirement obligations.

Sumitomo Metal Mining Pogo LLC, Sumitomo Metal Mining Arizona Inc., Sumitomo Metal Mining Oceania Pty. Ltd., Coral Bay Nickel Corporation and Taganito HPAL Nickel are subject to the U.S.GAAP or International Financial Reporting Standards, as well as the mining laws and regulations of the United States, Australia and the Republic of the Philippines, respectively. Based on its business plans, the Company determines asset retirement obligations by making rational estimates of its obligations under such regulations of restoring operating mines and smelters to their original condition and the expenses of fulfilling these obligations. Asset retirement obligations are calculated based on determining the estimated period until expenditure, the remaining useful life of facilities and the mine life (13 to 69) and discounted by the rates of 1.3% to 11.0%.

The asset retirement obligations as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year	**¥ 7,525**	¥ 6,030	**$ 66,818**
Newly recorded obligations	**—**	296	**—**
Adjustment due to passage of time	**421**	319	**3,738**
Decrease due to fulfillment of obligations	**(57)**	(93)	**(506)**
Increase due to change in estimates	**64**	130	**568**
Others	**(30)**	—	**(266)**
Foreign exchange adjustment	**(92)**	843	**(817)**
Balance at end of year	**¥ 7,831**	¥ 7,525	**$ 69,535**

(2) Asset retirement obligations other than those recorded in the balance sheets
The Group is required under leasing agreements to restore certain facilities on borrowed buildings and sites to their original condition at the time of removal. In cases where the period of use for lease assets is unclear or for which no relocation plans are in existence, asset retirement obligations cannot be rationally estimated. Furthermore, certain sites at our facilities employ hazardous substances specified under the Water Pollution Control Act, and at the time of removing its facilities the Company is required to conduct soil remediation surveys in accordance with the Soil Contamination Countermeasures Law. However, as the responsibility for fulfilling this obligation is estimated to be deferred, the timing for performing such surveys is unclear. Therefore, asset retirement obligations cannot be rationally estimated. Consequently, no corresponding asset retirement obligations are included in these obligations.

17 Information for certain leases

(1) Finance leases
Lease assets — Primarily, the production management server at the headquarters (machinery and equipment)
For lease assets related to finance leases that do not transfer ownership, depreciation of leased assets is computed over the lease period using the straight-line method with no residual value.

(2) Operating leases
Future minimum lease payments as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Due within one year	**¥ 247**	¥ 246	**$ 2,193**
Due after one year	**1,498**	1,145	**13,302**
Total	**¥ 1,745**	¥ 1,391	**$ 15,495**

18 Related party transaction

(1) Related party transaction

Related party transaction for the years ended March 31, 2016 and 2015 are as follows:

2016

Name of related party	Location	Capital investment	Segment	Voting interest	Description of the business relationship	Transaction detail	Amounts		Accounts	Balance	
		Thousands of U.S. dollars					Millions of yen	Thousands of U.S. dollars		Millions of yen	Thousands of U.S. dollars
Sierra Gorda S.C.M.	Santiago, Chile	**$1,659,400**	Mineral Resources	Indirectly **45.0%**	Debt guarantee and pledge as security for the loan etc. from the financial institution and others	Debt guarantee*1	**¥89,948**	**$798,686**	**—**	**¥ —**	**$ —**
						Pledge as security*2	**71,739**	**637,001**	**—**	**—**	**—**
					Loans	Loans*3	**—**	**—**	Long-term loans receivable	**106,084**	**941,964**

2015

Name of related party	Location	Capital investment	Segment	Voting interest	Description of the business relationship	Transaction detail	Amounts	Accounts	Balance
		Thousands of U.S. dollars					Millions of yen		Millions of yen
Sierra Gorda S.C.M.	Santiago, Chile	$ 1,214,302	Mineral Resources	Indirectly 45.0%	Debt guarantee and pledge as security for the loan etc. from the financial institution and others	Debt guarantee*1	¥100,164	—	¥ —
						Pledge as security*2	84,015	—	—
					Loans	Loans*3	36,318	Long-term loans receivable	106,110

*1 The Company guarantees the loan etc. from the financial institution.

*2 The Company pledges its owned shares in Sierra Gorda S.C.M. as security for the loan from the financial institution to finance developments of the Sierra Gorda copper project. The amounts of security are the debt balance as of March 31, 2016 and 2015.

*3 The Company determined terms and conditions of loan based on market interest rates, etc. The amounts include exchange gains and losses.

(2) Condensed financial information of major affiliated companies

Pursuant to the relevant accounting standards, condensed financial information of major affiliated companies which are disclosed for the years ended December 31, 2015 and 2014 are as follows:

Sociedad Minera Cerro Verde S.A.A.

	Millions of yen		Thousands of U.S. dollars
	2015/12	2014/12	**2015/12**
Total current assets	**¥ 127,342**	¥ 81,698	**$ 1,130,723**
Total long-term assets	**819,144**	614,174	**7,273,522**
Total current liabilities	**66,112**	66,618	**587,036**
Total long-term liabilities	**338,183**	90,941	**3,002,868**
Total net assets	**542,191**	538,313	**4,814,340**
Net sales	**135,112**	155,204	**1,199,716**
Net income before tax	**9,632**	65,181	**85,527**
Net income	**4,031**	39,947	**35,793**

Sierra Gorda S.C.M.

	Millions of yen		Thousands of U.S. dollars
	2015/12	2014/12	**2015/12**
Total current assets	**¥ 33,230**	¥ 54,168	**$ 295,063**
Total long-term assets	**687,588**	696,018	**6,105,381**
Total current liabilities	**54,348**	50,517	**482,579**
Total long-term liabilities	**577,797**	552,921	**5,130,501**
Total net assets	**88,673**	146,748	**787,365**
Net sales	**34,686**	—	**307,991**
Net income (loss) before tax	**(157,068)**	—	**(1,394,672)**
Net income (loss)	**(112,221)**	—	**(996,457)**

19 Earnings per share

Reconciliation of the difference between basic and diluted net income per share for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Basic net income per share calculation			
Numerator:			
Net income (loss) attributable to owners of the parent	**¥ (309)**	¥ 91,113	**$ (2,744)**
Denominator (thousands of shares):			
Weighted average number of shares	**551,653**	551,848	**—**
Basic net income (loss) per share (yen and U.S. dollars)	**¥ (0.56)**	¥ 165.11	**$ (5.00)**
Diluted net income (loss) per share calculation			
Numerator:			
Net income (loss) attributable to owners of the parent	**¥ (309)**	¥ 91,113	**$ (2,744)**
Adjusted net income (loss)	**—**	91,503	**—**
Denominator (thousands of shares):			
Weighted average number of shares	**551,653**	551,848	**—**
Assumed conversion of convertible bonds	**—**	60,459	**—**
Adjusted weighted average number of shares	**551,653**	612,307	**—**
Diluted net income per share (yen and U.S. dollars)	**¥ —***	¥ 149.44	**$ —***

* Diluted net income per share for the year ended March 31, 2016 is not calculated because of the net loss for the year although dilutive bonds exist.

20 Subsequent event

(1) Completion of acquisition of additional interest in the Morenci Copper Mine

On May 31, 2016, through SMM Morenci Inc., the Company's subsidiary, the Company completed procedures for acquisition of an additional interest in the Morenci Copper Mine in Arizona, USA, owned by a subsidiary of Freeport-McMoRan Inc.

(i) Reason of acquisition

Producing about 480,000 metric tons of copper a year, the Morenci Copper Mine is the largest copper mine in North America and has an attractive cost structure. This represents the expansion of copper business and the step to the goal in its long-term vision of achieving an annual copper production interest of 300,000 metric tons.

(ii) Percentage of shares to be acquired

The additional 13% interest in Morenci Copper Mine from owned by a subsidiary of Freeport-McMoRan Inc.

(iii) Percentage of shares after acquisition

The Company has the 25% interest of the mine.

(iv) Acquisition price

US$1 billion

(v) Timing of acquisition

On May 31, 2016

(vi) Financing procurement

- Method: Bank loans
- Timing: On June 28, 2016

(2) The expense for preparations for the decommissioning of facilities owned by JCO Co., Ltd.

JCO Co., Ltd., a consolidated subsidiary of the Company, is preparing for the decommissioning by dismantlement and decontamination of its facilities. As regards this plan, JCO Co., Ltd. provided the expenses of ¥9,770 million (US$86,752 thousand) for future losses that can be reasonably estimated in the first quarter of the year ending March 31, 2017.

(3) Appropriation of retained earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2016, was approved at a shareholders' meeting held on June 27, 2016:

	Millions of yen	Thousands of U.S. dollars
Year-end dividends of ¥10.00 per share	**¥ 5,516**	**$ 48,979**

INDEX TO THE UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Notice to Investors

The accompanying unaudited quarterly consolidated financial statements of the Group as of 31 December 2017 (with comparative information in respect of 31 March 2017) and for the nine-month periods ended 31 December 2017 and 2016, are an English translation of the unaudited quarterly consolidated financial statements contained in the quarterly securities report (*shihanki hokokusho*) of the Group filed on 14 February 2018 with the DKLFB. Such quarterly consolidated financial statements have not been audited or reviewed by the independent auditors of the Company.

There are certain differences in classifications of line items in the accompanying unaudited quarterly consolidated financial statements as compared with the audited annual consolidated financial statements of the Group contained in pages F-3 to F-64. In particular, items which are presented as "other income/expenses" in the audited annual consolidated financial statements have been presented as "non-operating income/expenses" and "extraordinary income/losses" in such unaudited quarterly consolidated financial statements; further, the balance sheet figures as of 31 March 2017 contained in such unaudited quarterly consolidated financial statements are not prepared or presented on completely the same basis as the balance sheet figures as of 31 March 2017 contained in the audited annual consolidated financial statements. The accompanying unaudited quarterly consolidated financial statements are not wholly comparable with the audited annual consolidated financial statements contained in this Offering Circular and should not be so compared.

1 [Consolidated Financial Statements]

(1) [Consolidated Balance Sheet]

(Millions of yen)

	FY2016 (as of March 31, 2017)	Third Quarter of FY2017 (as of December 31, 2017)
Assets		
Current assets		
Cash and deposits	81,317	131,446
Notes and accounts receivable-trade	103,886	*2 144,557
Securities	89,000	60,500
Merchandise and finished goods	57,704	46,125
Work in process	96,524	102,605
Raw materials and supplies	64,307	74,366
Other	101,650	51,914
Allowance for doubtful accounts	(735)	(647)
Total current assets	593,653	610,866
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	178,251	171,217
Machinery, equipment and vehicles, net	250,708	237,518
Tools, furniture and fixtures, net	2,348	3,214
Land	26,597	26,473
Construction in progress	25,552	42,008
Total property, plant and equipment	483,456	480,430
Intangible assets		
Mining right	44,060	62,245
Other	3,530	4,121
Total intangible assets	47,590	66,366
Investments and other assets		
Investment securities	422,226	444,464
Other	138,290	125,291
Allowance for doubtful accounts	(197)	(193)
Total investments and other assets	560,319	569,562
Total non-current assets	1,091,365	1,116,358
Total assets	1,685,018	1,727,224

(Millions of yen)

	FY2016 (as of March 31, 2017)	Third Quarter of FY2017 (as of December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	47,306	43,553
Short-term loans payable	96,940	58,975
Current portion of bonds	—	30,000
Income taxes payable	17,274	9,811
Provision for bonuses	3,435	1,663
Provision for furnace repair works	1,117	—
Provision for loss on business restructuring	600	361
Provision for environmental measures	232	1
Other provision	111	137
Other	43,828	66,641
Total current liabilities	210,843	211,142
Non-current liabilities		
Bonds payable	40,000	10,000
Long-term loans payable	358,564	340,776
Provision for directors' retirement benefits	23	27
Provision for loss on business restructuring	1,004	738
Allowance for decommissioning preparations	7,799	8,501
Provision for environmental measures	383	357
Other provision	80	109
Net defined benefit liability	9,118	8,896
Asset retirement obligations	8,985	9,112
Other	24,098	30,682
Total non-current liabilities	450,054	409,198
Total liabilities	660,897	620,340
Net assets		
Shareholders' equity		
Capital stock	93,242	93,242
Capital surplus	86,504	86,530
Retained earnings	718,072	770,366
Treasury shares	(32,877)	(32,946)
Total shareholders' equity	864,941	917,192
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	36,700	55,140
Deferred gains or losses on hedges	1,601	(525)
Foreign currency translation adjustment	57,950	47,198
Remeasurements of defined benefit plans	498	1,238
Total accumulated other comprehensive income	96,749	103,051
Non-controlling interests	62,431	86,641
Total net assets	1,024,121	1,106,884
Total liabilities and net assets	1,685,018	1,727,224

(2) [Consolidated Statements of Operations and Comprehensive Income]
[Consolidated Statements of Operations]
(For the Nine Months Ended December 31, 2016 and 2017)

(Millions of yen)

	Nine Months of FY2016 (from April 1, 2016, to December 31, 2016)	Nine Months of FY2017 (from April 1, 2017, to December 31, 2017)
Net sales	564,460	685,841
Cost of sales	482,121	572,757
Gross profit	82,339	113,084
Selling, general and administrative expenses		
Sales, transportation and sundry expenses	6,195	5,827
Salaries and allowances	8,275	7,623
Provision for bonuses	783	718
Retirement benefit expenses	800	671
Provision for directors' retirement benefits	1	2
Research and development expenses	4,103	4,094
Other	14,184	15,724
Total selling, general and administrative expenses	34,341	34,659
Operating profit	47,998	78,425
Non-operating income		
Interest income	9,583	10,044
Dividend income	2,745	3,384
Gain on valuation of derivatives	28	—
Foreign exchange gains	4,267	1,417
Share of profit of entities accounted for using equity method	—	6,026
Other	1,496	850
Total non-operating income	18,119	21,721
Non-operating expenses		
Interest expenses	3,590	4,933
Loss on valuation of derivatives	—	2,097
Share of loss of entities accounted for using equity method	85,275	—
Other	2,730	2,107
Total non-operating expenses	91,595	9,137
Ordinary profit (loss)	(25,478)	91,009
Extraordinary income		
Gain on sales of non-current assets	166	80
Gain on sales of investment securities	1,111	32
Gain on sales of shares of subsidiaries and associates	—	95
Gain on step acquisitions	—	693
Gain on liquidation of investment securities	5,866	—
Reversal of provision for environmental measures	—	15
Gain on liquidation of subsidiaries and associates	190	46
Total extraordinary income	7,333	961
Extraordinary losses		
Loss on sales of non-current assets	28	23
Loss on retirement of non-current assets	217	624
Loss on reduction of non-current assets	47	10
Impairment loss	—	1,069
Loss on sales of shares of subsidiaries and associates	—	46
Provision of allowance for decommissioning preparations	9,957	908
Provision for environmental measures	65	2
Provision for loss on business restructuring	—	32
Loss on disaster	47	45
Loss on liquidation of subsidiaries and associates	5	—
Total extraordinary losses	10,366	2,759
Profit (loss) before income taxes	(28,511)	89,211

(Millions of yen)

	Nine Months of FY2016 (from April 1, 2016, to December 31, 2016)	Nine Months of FY2017 (from April 1, 2017, to December 31, 2017)
Income taxes - current	16,744	19,802
Income taxes - deferred	(2,310)	944
Total income taxes	14,434	20,746
Profit (loss)	(42,945)	68,465
Profit (loss) attributable to non-controlling interests	(10,116)	3,484
Profit (loss) attributable to owners of parent	(32,829)	64,981

[Consolidated Statements of Comprehensive Income]
(For the Nine Months Ended December 31, 2016 and 2017)

(Millions of yen)

	Nine Months of FY2016 (from April 1, 2016, to December 31, 2016)	Nine Months of FY2017 (from April 1, 2017, to December 31, 2017)
Profit (loss)	(42,945)	68,465
Other comprehensive income		
Valuation difference on available-for-sale securities	16,408	18,417
Deferred gains or losses on hedges	1,303	(2,225)
Foreign currency translation adjustment	(12,136)	(6,036)
Remeasurements of defined benefit plans, net of tax	408	694
Share of other comprehensive income of entities accounted for using equity method	(71,556)	(6,107)
Total other comprehensive income	(65,573)	4,743
Comprehensive income	(108,518)	73,208
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(88,738)	71,283
Comprehensive income attributable to non-controlling interests	(19,780)	1,925

[Notes]

(Changes in the Scope of Consolidation or in the Scope of the Application of the Equity Method)

(Significant Changes in Scope of Consolidation)

SMM Gold Cote Inc. has been included in the scope of consolidation from the first quarter of fiscal 2017 due to new incorporation.

GRANOPT Co., Ltd., formerly an equity-method affiliate, became a consolidated subsidiary effective June 30, 2017 as the Company acquired the majority of its voting rights in conjunction with the acquisition of its shares during the first quarter of fiscal 2017.

Suzhou SH Precision Co., Ltd., Malaysian SH Precision Sdn. Bhd. and SH Precision Co., Ltd. have been excluded from the scope of consolidation effective June 30, 2017 due to sales in the first quarter of fiscal 2017.

SICOXS CORPORATION has been included in the scope of consolidation from the third quarter of fiscal 2017 due to the acquisition of its shares.

Ohkuchi Materials Co., Ltd., formerly a consolidated subsidiary, became an equity-method affiliate due to loss of control as the Company sold its shares during the third quarter of fiscal 2017.

(Changes in Accounting Policies)

There are no pertinent items.

(Application of Accounting Procedures Specific to Quarterly Consolidated Financial Statements)

(Calculation of Tax Expenses)

The tax expenses for consolidated subsidiaries are calculated by multiplying profit before income taxes for the nine months ended December 31, 2017 by the effective tax rates on profit before income taxes for the fiscal year ending March 31, 2018 including the third quarter of fiscal 2017, that are reasonably estimated upon the adoption of tax-effect accounting.

(Consolidated Balance Sheet)

1. Commitments and contingent liabilities

1) The Company granted guarantees for loans payable as a guarantor from financial institutions, signed up by the following subsidiaries and affiliates.

	FY2016 (as of March 31, 2017)	Third Quarter of FY2017 (as of December 31, 2017)
Sierra Gorda S.C.M.	¥83,373 million	¥76,830 million
MITSUI SUMITOMO METAL MINING BRASS & COPPER CO., LTD.	¥850	¥1,650
Total	¥84,223	¥78,480

2) Other commitments and contingent liabilities are as follows.

	FY2016 (as of March 31, 2017)	Third Quarter of FY2017 (as of December 31, 2017)
Payment for Sociedad Minera Cerro Verde S.A.A. in the amount corresponding to the Company's equity, in case the revocation of exemption measures for the payment of prior-year royalties is finalized	¥2,857 million Note 1	¥6,819 million Note 2
Total	¥2,857	¥6,819

JCO Co., Ltd., a consolidated subsidiary of the Company, is advancing measures to promote facility dismantlement and decontamination to prepare for the decommissioning of its facilities. Additional losses are anticipated to be incurred depending on the conditions of dismantlement and decontamination of its facilities in the future. Hence, the Company will post an allowance for decommissioning preparations each time such losses can be reasonably estimated.

(Note 1) Sociedad Minera Cerro Verde S.A.A. ("Cerro Verde"), an equity-method affiliate of the Company, had been making tax payments, assuming exemption from royalties levied on mining companies (enacted 2004), based on a tax rate stabilization agreement with the Peruvian government (valid from 1999 to 2013). However, Cerro Verde was given notice by Peruvian tax authorities in October 2013 to the effect that said agreement did not apply to the copper mine development project (commenced in 2006), and was demanded payment for the amount corresponding to prior royalties (from 2006 to 2008) and interest on overdue royalties. The Company has reported, as per the above, the amount of payment corresponding to the equity interest of the Company, in case the demand for payment becomes finalized.

(Note 2) Although Cerro Verde made appeals to Peruvian government agencies claiming the validity of the tax rate stabilization agreement, in October 2017, the Supreme Court of Peru rejected Cerro Verde's claims for exemption regarding the payment of royalties for 2008. Subsequently, Cerro Verde received notification of judgment to the effect that the decision by the Peruvian tax authorities was valid.

In light of this decision, Cerro Verde posted a total of U.S. $377 million for royalties, penalties and interest on overdue royalties for the period from December 2006 to 2008, which it had been disputing with the Peruvian tax authorities through judicial bodies, as well as royalties and other payments for the period from 2009 to 2013, which had similarly been disputed. Consequently, the Company posted ¥8,859 million (approximately U.S. $79 million), which is equivalent to its interests, as share of loss of entities accounted for using equity method in the first nine months of fiscal 2017. As a result, consolidated ordinary profit and profit attributable to owners of parent for the first nine months of fiscal 2017 decreased ¥8,859 million and ¥7,087 million, respectively.

Additionally, Cerro Verde has a total of U.S. $360 million in potentially unpaid penalties and interest on overdue royalties. The Company has reported, as per the above, the amount of payment corresponding to the equity interest of the Company, in case these additional amounts become finalized.

*2. Notes maturing at the end of the quarter

Notes maturing at the end of the quarter are accounted for as settled on the clearance date. As December 31, 2017 fell on a bank holiday, the notes maturing at the end of the quarter, as stated below, are included in the balance at the end of the quarter.

	FY2016 (as of March 31, 2017)	Third quarter of FY2017 (as of December 31, 2017)
Notes receivable-trade	— million	¥157 million

3. Notes and accounts receivable sold to factoring companies with recourse

	FY2016 (as of March 31, 2017)	Third Quarter of FY2017 (as of December 31, 2017)
Notes and accounts receivable sold to factoring companies with recourse	¥24 million	¥1 million

4. Discount on export notes receivable

	FY2016 (as of March 31, 2017)	Third Quarter of FY2017 (as of December 31, 2017)
Discount on export notes receivable	¥22 million	¥11 million

(Consolidated Statement of Cash Flows)

Consolidated Statement of Cash Flows have not been prepared for the nine months ended December 31, 2017. Depreciation (including amortization of intangible assets other than goodwill) and amortization of goodwill for the nine months ended December 31, 2017 are as follows.

	Nine Months of FY2016 (from April 1, 2016, to December 31, 2016)	Nine Months of FY2017 (from April 1, 2017, to December 31, 2017)
Depreciation	¥32,808 million	¥34,899 million
Amortization of goodwill	¥107	¥190

(Shareholders' Equity)

I. Nine Months Ended December 31, 2016 (from April 1, 2016, to December 31, 2016)

1. Matters Related to Dividends

(1) Cash dividends paid

Resolution	Class of shares	Total dividend amount (Millions of yen)	Dividend per share (Yen)	Date of record	Effective date	Source of dividends
Ordinary General Meeting of Shareholders held on June 27, 2016	Common stock	5,516	10	March 31, 2016	June 28, 2016	Retained earnings
Board meeting held on November 11, 2016	Common stock	2,758	5	September 30, 2016	December 6, 2016	Retained earnings

(2) Of dividends with a date of record falling in the period from the beginning of the fiscal year to the end of the third quarter of fiscal 2016, those with an effective date falling in the period after the end of the third quarter of fiscal 2016

There are no pertinent items.

2. Matters Related to Significant Changes in Shareholders' Equity

There are no pertinent items.

II. Nine Months Ended December 31, 2017 (from April 1, 2017, to December 31, 2017)

1. Matters Related to Dividends

(1) Cash dividends paid

Resolution	Class of shares	Total dividend amount (Millions of yen)	Dividend per share (Yen)	Date of record	Effective date	Source of dividends
Ordinary General Meeting of Shareholders held on June 27, 2017	Common stock	3,310	6	March 31, 2017	June 28, 2017	Retained earnings
Board meeting held on November 9, 2017	Common stock	9,377	17	September 30, 2017	December 6, 2017	Retained earnings

(Note) The Company carried out a consolidation of share at the ratio of 2 shares to 1 share on October 1, 2017. Dividend per share is shown in the amount prior to the consolidation of share.

(2) Of dividends with a date of record falling in the period from the beginning of the fiscal year to the end of the third quarter of fiscal 2017, those with an effective date falling in the period after the end of the third quarter of fiscal 2017

There are no pertinent items.

2. Matters Related to Significant Changes in Shareholders' Equity

There are no pertinent items.

(Segment Information and Others)

[Segment Information]

I. Nine Months Ended December 31, 2016 (from April 1, 2016, to December 31, 2016)

1. Information on Net Sales and Income (Loss) by Reported Segment

(Millions of yen)

	Mineral Resources	Smelting & Refining	Materials	Total of the Reported Segments	Other Businesses[1]	Adjustments[2]	Amounts Reported in the Consolidated Statements of Income[3]
Net sales:							
Outside customers	53,809	391,012	116,308	561,129	3,331	—	564,460
Inter-segment	33,362	14,357	9,840	57,559	3,765	(61,324)	—
Total	87,171	405,369	126,148	618,688	7,096	(61,324)	564,460
Segment income (loss)	(62,629)	20,575	7,747	(34,307)	463	8,366	(25,478)

(Notes)

1. The Other Businesses segment refers to other profit-seeking business activities that are under the control of the Head Office divisions/departments other than those included in the reported segments. Other Businesses include real estate and technical engineering businesses.
2. ¥8,366 million of adjustments for segment income (loss) are as follows:

(Millions of yen)

	Amount
Head Office expenses not allocated to each reported segment [a]	(633)
Interest on internal loans to be borne by each reported segment [b]	189
Eliminations of inter-segmental transactions among the reported segments	(45)
Non-operating income/expenses not allocated to each reported segment [c]	8,855
Total	8,366

a. The Head Office expenses not allocated to each reported segment consist mainly of expenses which are not attributable to the reported segments, and the balance resulting from the allocation of the amount corresponding to general and administrative expenses to each reported segment.

b. Interest on internal loans refers to an interest rate burden (in calculating segment income for internal administration purposes) to be borne by each business segment of the parent company, which does not financially assume interest expenses, in proportion to its internal loans as calculated in the balance sheet under management of each segment.

Interest on internal loans is obtained by multiplying the internal loans held by each segment of the parent company by “internal interest rate.”

Internal interest rate is set in view of the actual market interest rate.

The same amount as a total of the interest on internal loans reported by each segment is reported as a negative value in “Adjustments.” The interest on internal loans is offset in the total for all segments companywide. The interest on internal loans therefore has no effect on the Consolidated Financial Statements.

c. The non-operating income/expenses not allocated to each reported segment mainly consist of foreign exchange gains/losses and interest expenses, which are not attributable to the reported segments.

3. Segment income (loss) is adjusted with ordinary loss in the Consolidated Statement of Income.

II. Nine Months Ended December 31, 2017 (from April 1, 2017, to December 31, 2017)

1. Information on Net Sales and Income (Loss) by Reported Segment

(Millions of yen)

	Mineral Resources	Smelting & Refining	Materials	Total of the Reported Segments	Other Businesses[1]	Adjustments[2]	Amounts Reported in the Consolidated Statements of Income [3]
Net sales:							
Outside customers	88,542	471,361	121,693	681,596	4,245	—	685,841
Inter-segment	26,952	22,752	12,307	62,011	3,528	(65,539)	—
Total	115,494	494,113	134,000	743,607	7,773	(65,539)	685,841
Segment income	37,008	35,165	11,377	83,550	202	7,257	91,009

(Notes)

1. The Other Businesses segment refers to other profit-seeking business activities that are under the control of the Head Office divisions/departments other than those included in the reported segments. Other Businesses include real estate and technical engineering businesses.
2. ¥7,257 million of adjustments for segment income are as follows:

(Millions of yen)

	Amount
Head Office expenses not allocated to each reported segment [a]	(1,320)
Interest on internal loans to be borne by each reported segment [b]	272
Eliminations of inter-segmental transactions among the reported segments	(296)
Non-operating income/expenses not allocated to each reported segment [c]	8,601
Total	7,257

a. The Head Office expenses not allocated to each reported segment consist mainly of expenses which are not attributable to the reported segments, and the balance resulting from the allocation of the amount corresponding to general and administrative expenses to each reported segment.

b. Interest on internal loans refers to an interest rate burden (in calculating segment income for internal administration purposes) to be borne by each business segment of the parent company, which does not financially assume interest expenses, in proportion to its internal loans as calculated in the balance sheet under management of each segment.
Interest on internal loans is obtained by multiplying the internal loans held by each segment of the parent company by “internal interest rate.”
Internal interest rate is set in view of the actual market interest rate.
The same amount as a total of the interest on internal loans reported by each segment is reported as a negative value in “Adjustments.” The interest on internal loans is offset in the total for all segments companywide. The interest on internal loans therefore has no effect on the Consolidated Financial Statements.

c. The non-operating income/expenses not allocated to each reported segment mainly consist of foreign exchange gains/losses and interest expenses, which are not attributable to the reported segments.

3. Segment income is adjusted with ordinary profit in the Consolidated Statement of Income.

(Business Combinations, etc.)

1. Business combination through acquisition

   The Company acquired 51% of the shares of SICOXS CORPRATION, effective October 30, 2017. Accordingly, SICOXS CORPORATION has been included in the scope of consolidation from the third quarter of fiscal 2017.

   (1) Outline of the business combination

   1) Name and business description of the acquired company
      Name of the acquired company: SICOXS CORPORATION
      Business description: Development, manufacture and sales of SiC substrates for power semiconductors
   2) Primary reasons for the business combination
      The Company acquired shares of SICOXS CORPORATION, with a view to promoting investigation into the mass production of SiC substrates through a fusion of the SiC substrate manufacturing technology of SICOXS CORPORATION and the Company's substrate production technology, and to swiftly responding to market needs by leveraging the information gathering abilities and sales network in the electronics field of Kaga Electronics Co., Ltd., a joint investor in SICOXS CORPORATION.
   3) Date of the business combination
      October 30, 2017
   4) Legal form of the business combination
      Acquisition of shares for cash consideration
   5) Name of the company after the business combination
      SICOXS CORPORATION
   6) Percentage of voting rights acquired
      51%
   7) Main grounds for determining the acquiring company
      Due to the Company acquiring SICOXS CORPORATION through a share acquisition for cash consideration

   (2) Period of business results of the acquired company included in the consolidated financial statements
   From November 1, 2017 to December 31, 2017

   (3) Acquisition cost of the acquired company and the breakdown thereof
   Consideration paid for the acquisition: ¥559 million

   (4) Amount of goodwill, reason for recognition, amortization method and period
   The difference between the acquisition cost of SICOXS CORPORATION, the acquired company, and its net assets at fair value was recognized as a goodwill of ¥481 million. As excess earning power was not necessarily expected, the entire amount was posted as impairment loss for the first nine months of fiscal 2017.

2. Business divestiture

   The Company's subsidiary SH Materials Co., Ltd. transferred 49% of the shares of Ohkuchi Materials Co., Ltd. on October 2, 2017. Accordingly, Ohkuchi Materials Co., Ltd. has been excluded from the scope of consolidation from the beginning of the third quarter of fiscal 2017.

   (1) Outline of the business divestiture

   1) Name of the purchasing company
      Chang Wah Technology Co., Ltd.
   2) Description of the divested business
      Lead frame business
   3) Primary reason for the business divestiture
      The Company has decided to withdraw from the lead frame business, based on the changing business environment where the lead frame market itself has gone from a growth market to the mature phase, resulting in over-commoditization of lead frame products, and the emergence of Chinese local manufacturers has intensified competition for these products. As part of this withdrawal, SH Materials Co., Ltd. has transferred shares of Ohkuchi Materials Co., Ltd.
   4) Date of the business divestiture
      October 2, 2017
   5) Other information on the business divestiture including the legal form thereof
      Share transfer for which only assets such as cash were received as consideration

(2) Outline of the accounting treatment applied

1) Amount of transfer gain/loss

Loss on sales of shares of subsidiaries and associates: ¥46 million

2) Appropriate book values of assets and liabilities relating to the transferred business and the breakdown thereof

Current assets: ¥1,334 million
Non-current assets: ¥1,190 million
Total assets: ¥2,524 million
Current liabilities: ¥1,431 million
Total liabilities: ¥1,431 million

3) Accounting treatment

The difference between the book value of these transferred shares in the consolidated financial statements and the sales amount is recognized as “loss on sales of shares of subsidiaries and associates” under extraordinary losses.

(3) Reported segment including the divested business

Materials segment

(4) Estimated amount of profit/loss of the divested business on the consolidated statement of income for the first nine months of fiscal 2017

First nine months
Net sales: ¥0 million
Operating profit: ¥590 million

3. Transactions under common control

The Company’s subsidiary SH Materials Co., Ltd. transferred 51% of the shares of Ohkuchi Materials Co., Ltd. to the Company on October 2, 2017.

(1) Outline of the transaction

1) Name and business description of the combined company

Name of the company: Ohkuchi Materials Co., Ltd.
Business description: Manufacture and sales of lead frames

2) Date of the business combination

October 2, 2017

3) Legal form of the business combination

Share transfer for which only assets such as cash were received as consideration

4) Name of the company after the business combination

Ohkuchi Materials Co., Ltd.

5) Other information on the transaction

The Company has decided to withdraw from the lead frame business, based on the changing business environment where the lead frame market itself has gone from a growth market to the mature phase, resulting in over-commoditization of lead frame products, and the emergence of Chinese local manufacturers has intensified competition for these products. In order to facilitate the withdrawal from this business, SH Materials Co., Ltd. has transferred shares of Ohkuchi Materials Co., Ltd. to the Company.

(2) Outline of the accounting treatment applied

“Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013) have been applied, and the transaction has been accounted for as a transaction under common control.

(Earnings per Share)

The basis for the calculation of profit (loss) per share and diluted profit per share are as follows.

	Nine Months of FY2016 (from April 1, 2016, to December 31, 2016)	Nine Months of FY2017 (from April 1, 2017, to December 31, 2017)
(1) Profit (loss) per share (Yen)	(119.03)	235.62
(Basis for calculation)		
Profit (loss) attributable to owners of parent (Millions of yen)	(32,829)	64,981
Profit not attributable to common shareholders (Millions of yen)	—	—
Profit (loss) attributable to owners of parent of shares of common stock (Millions of yen)	(32,829)	64,981
Weighted average number of shares of common stock during the period (Thousands of shares)	275,812	275,789
(2) Diluted profit per share (Yen)	—	211.70
(Basis for calculation)		
Adjustment of profit attributable to owners of parent (Millions of yen)	—	214
[Including interest expenses after deducting the amount corresponding to taxes] (Millions of yen)	[—]	[214]
Increase in shares of common stock (Thousands of shares)	—	32,165
Of dilutive shares excluded from the calculation of diluted profit per share due to the absence of dilutive effects, those that have undergone significant changes from the end of the previous fiscal year	—	—

(Notes) 1. The Company carried out a consolidation of share at the ratio of 2 shares to 1 share on October 1, 2017. Accordingly, profit (loss) per share and diluted profit per share have been calculated on the assumption that the said consolidation of share was carried out at the beginning of the previous fiscal year.

2. Diluted profit per share for the first nine months of fiscal 2016 is not disclosed as loss per share was recorded even though there are potentially dilutive shares.

(Significant Subsequent Event)

On December 22, 2017, the United States tax reform bill was signed into law. Accordingly, effective January 1, 2018, the United States federal corporate tax rate is lowered from 35% to 21%; foreign tax credits are cut back; and tax on a deemed repatriation of accumulated foreign earnings is introduced in conjunction with the transition to a new territorial tax system.

The impact of this tax reform on the consolidated financial statements for the nine months of fiscal 2017 is estimated to be a ¥260 million decrease in deferred tax liabilities and a ¥218 million increase in income taxes payable under current liabilities, and a ¥3,151 million increase in deferred tax liabilities under non-current liabilities. Additionally, income taxes-current and income taxes-deferred (debtor) are expected to increase ¥216 million and ¥2,694 million, respectively.

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THE COMPANY

Registered office

Sumitomo Metal Mining Co., Ltd.
11-3 Shimbashi 5-chome
Minato-ku, Tokyo 105-8716
Japan

TRUSTEE AND CUSTODIAN

The Law Debenture Trust Corporation p.l.c.
Fifth Floor
100 Wood Street
London EC2V 7EX
United Kingdom

PRINCIPAL AGENT AND REGISTRAR

Mizuho Trust & Banking (Luxembourg) S.A.
1B, Rue Gabriel Lippmann
L-5365 Munsbach
Grand-Duché de Luxembourg

CUSTODIAN'S AGENT IN JAPAN

Mizuho Bank, Ltd.
5-5, Otemachi 1-chome
Chiyoda-ku, Tokyo 100-8176
Japan

SALES AGENT

Mizuho Bank (Switzerland) Ltd
Löwenstrasse 32
8021 Zurich
Switzerland

LEGAL ADVISERS

To the Managers as to English law

Clifford Chance Law Office
(Gaikokuho Kyodo Jigyo)
Palace Building, 3rd Floor
1-1, Marunouchi 1-chome
Chiyoda-ku, Tokyo 100-0005
Japan

To the Company as to Japanese law

Mori Hamada & Matsumoto
Marunouchi Park Building
6-1, Marunouchi 2-chome
Chiyoda-ku, Tokyo 100-8222
Japan

To the Trustee as to English law

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom

INDEPENDENT AUDITORS

KPMG AZSA LLC
AZSA Center Building
1-2, Tsukudo-cho
Shinjuku-ku, Tokyo 162-8551
Japan