

November 2, 2018

Summary of Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending June 30, 2019
(Three Months Ended September 30, 2018)

[Japanese GAAP]

Company name: istyle Inc.	Stock exchange listings: TSE First Section
Securities code: 3660	URL: http://www.istyle.co.jp/
Representative: Tetsuro Yoshimatsu, Representative Director, CEO	
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Scheduled date of filing of Quarterly Report:	November 6, 2018
Scheduled date of dividend payment:	-
Preparation of supplementary materials for financial results:	Yes
Holding of financial results briefing:	None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Three Months Ended September 30, 2018 (July 1, 2018 – September 30, 2018)

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended September 30, 2018	7,722	16.4	304	(50.1)	318	(49.7)	183	(45.0)
Three months ended September 30, 2017	6,634	74.9	610	90.4	632	123.9	332	84.9

Note: Comprehensive income (million yen) Three months ended September 30, 2018: 377 (-%)

Three months ended September 30, 2017: 0 (down 99.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended September 30, 2018	2.84	2.61
Three months ended September 30, 2017	5.25	5.14

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	21,851	11,884	52.6
As of June 30, 2018	21,911	12,008	53.0

Reference: Total equity As of September 30, 2018: 11,490 million yen

As of June 30, 2018: 11,604 million yen

Total equity = Shareholders' equity + total accumulated other comprehensive income

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2018	-	0.00	-	0.50	0.50
Fiscal year ending June 30, 2019	-				
Fiscal year ending June 30, 2019 (forecasts)		0.00	-	0.00	0.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending June 30, 2019 (Jul. 1, 2018 – Jun. 30, 2019)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	36,100	26.8	1,800	(15.3)	1,735	(19.2)	925	(21.8)	14.35

Note: Revisions to the most recently announced earnings forecast: None

* Notes

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

- 1) Changes in accounting policies due to revisions in accounting standards, others: None
- 2) Changes in accounting policies other than 1) above: None
- 3) Changes in accounting-based estimates: None
- 4) Restatements: None

(4) Number of shares outstanding (common shares)

1) Number of shares issued (including treasury shares) at end of period

As of September 30, 2018: 67,017,600 shares As of June 30, 2018: 66,927,600 shares

2) Number of treasury shares at end of period

As of September 30, 2018: 2,693,508 shares As of June 30, 2018: 2,693,452 shares

3) Average number of shares outstanding during the period

Three months ended September 30, 2018: 64,258,884 shares Three months ended September 30, 2017: 63,194,551 shares

* The current quarterly summary report is not subject to the quarterly review procedures by certified public accountants or auditing corporations.

* Cautionary statement with respect to forecasts and other matters

(Note concerning forward-looking statements)

- Earnings forecasts and other forward-looking statements in this report are based on assumptions judged to be valid and information available to the Company at the time of this report's preparation. Actual performance may differ significantly from these forecasts for a number of reasons. For the assumptions underlying the forecasts herein and other notice on the use of earnings forecasts, please refer to "Consolidated Operating Results Forecast and Information about Future Predictions" on page 4 in the accompanying material.

* This financial report is solely a translation of the original Japanese "Kessan Tanshin" document, which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.

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1. Operating Results and Financial Position

(1) Analysis of Operating Results

Based on our Medium-Term Business Plan announced on August 3, 2016, we defined the current fiscal year as a phase of expanding investment. Accordingly, we are aggressively investing human and financial resources with the goal of accelerating the turn to profitability of services in the next fiscal year, which is the final year of the Medium-Term Business Plan.

In the On Platform segment, our earnings mainstay, we strategically allocated sales resources to the new service *Brand Official* in this first quarter. For this reason, sales of advertising and other existing services in the On Platform segment increased only marginally, resulting in a year-on-year profit decline.

In the Others segment, although sales of operational investment securities were recorded in the first quarter of the previous fiscal year, no sales of operational investment securities were recorded in this first quarter. As a result, the segment recorded a sharp year-on-year profit decline.

As a result, the consolidated operating performance for this first quarter ended September 30, 2018, was as follows:

Net Sales:	7,722 million yen (16.4% year-on-year increase)
Operating Income:	304 million yen (50.1% year-on-year decrease)
Ordinary Income:	318 million yen (49.7% year-on-year decrease)
Income before income taxes:	348 million yen (43.6% year-on-year decrease)
Net Income attributable to owners of the parent company:	183 million yen (45.0% year-on-year decrease)

1) On Platform segment

The On Platform segment comprises services based on the beauty portal site *@cosme*, including B-to-B services and B-to-C services.

In this first quarter, we strategically allocated human resources to sales of *Brand Official*, a new service positioned as the next earnings pillar. Sales of advertising and other existing services in the On Platform segment increased only marginally as a result, and combined with an increase in various expenses, led to a year-on-year profit decline. However, profits were ahead of our forecasts.

Our outlook for *Brand Official* is that it will take some time to win orders. We therefore expect the service to begin making a substantial earnings contribution from the second half of the current fiscal year.

As a result, the consolidated operating performance for this first quarter was as follows:

Net Sales:	1,828 million yen (3.8% year-on-year increase)
Segment Profit:	531 million yen (15.8% year-on-year decrease)

2) Beauty Service segment

The Beauty Service segment comprises mainly retail services in Japan, such as the operation of the domestic cosmetics E-Commerce site *@cosme shopping*, the operation of the cosmetics specialty shop *@cosme store*, and

the planning, development, and marketing of private brands.

E-Commerce sales were brisk due to ongoing efforts to carry more products with a high *@cosme* ranking, which resulted in an extensive product range. However, an increase in delivery and warehouse-related expenses lowered profit margins.

Among retail stores in Japan, we expanded Kcosme Beauté Marier Toyama Store (acquired by M&A in 2017), which reopened as an *@cosme store* on September 21, 2018. The store was closed for expansion and remodeling for almost a month, but other stores recorded solid sales and profit growth. In July 2018, we revised employees' salary structure to boost motivation and ensure that we have a stable work force. Although this resulted in higher personnel expenses, we believe the increase can be absorbed over the full year by sales growth, which we expect to achieve by growth of existing stores and opening new stores.

The number of domestic stores stood at 25 as of the end of this first quarter versus 24 a year earlier.

As a result, the consolidated operating performance for this first quarter was as follows:

Net Sales:	3,361 million yen (22.2% year-on-year increase)
Segment Profit:	138 million yen (10.5% year-on-year increase)

3) Global segment

The Global segment comprises business operations outside Japan, such as E-Commerce, retail stores, and media and other services.

Cosmetics E-Commerce sales in China were brisk and wholesale sales to duty-free shops in South Korea grew in this first quarter.

Our second retail store in Hong Kong (tmtplaza store) opened on September 1, 2018, bringing the number of overseas stores to four in Taiwan and two in Hong Kong. Of these, sales of the Star House Flagship store in Hong Kong, which opened on June 8, 2018, have been especially strong, making a large contribution to earnings.

Goodwill amortization of the three overseas companies whose income statements were consolidated from the first quarter of the previous fiscal year totaled 93 million yen in this first quarter. However, the segment absorbed this expense to post a profit.

As a result, the consolidated operating performance for this first quarter was as follows:

Net Sales:	2,236 million yen (34.6% year-on-year increase)
Segment Profit:	46 million yen (8 million yen segment loss in previous fiscal year)

4) Others

The Others segment consists of a temporary staffing agency for beauty consultants and salespersons, and investment and consulting projects for companies in various stages of development, including new startups.

In this first quarter ended September 30, 2018, the temporary staffing agency recorded solid growth, but profit declined in the Investment and Consultation business, as a result of the fact that it had sold off operational investment securities in the first quarter of the previous year but conducted no such sell off during this first quarter. Sales of operational investment securities are non-recurring, because the decision to sell depends on the market value of the asset.

As a result, the consolidated operating performance for this first quarter was as follows:

Net Sales:	297 million yen (35.9% year-on-year decrease)
Segment Profit:	36 million yen (86.2% year-on-year decrease)

(2) Consolidated Financial Position

1) Assets, Liabilities and Net Assets

(Assets)

Total assets as of September 30, 2018, were 21,851 million yen, a decrease of 60 million yen from June 30, 2018.

Current assets as of September 30, 2018, were 12,668 million yen, a decrease of 385 million yen from June 30, 2018. This was mainly due to a 621 million yen increase in merchandise, and decreases of 1,208 million yen in cash and deposits, and other factors.

Fixed assets as of September 30, 2018 were 9,184 million yen, an increase of 325 million yen from June 30, 2018. This was mainly due to increases in “other intangible assets” of 372 million yen, and other factors.

(Liabilities)

Total liabilities as of September 30, 2018, were 9,968 million yen, an increase of 64 million yen from June 30, 2018.

Current liabilities decreased by 1,583 million yen from June 30, 2018 to 5,768 million yen, including a 541 million yen increase in the current portion of long-term debt and a 189 million yen increase in notes and accounts payable – trade, and a 1,800 million yen decrease in short-term debt and 532 million yen decrease in income taxes payable, and other factors.

Fixed liabilities as of September 30, 2018 were 4,200 million yen, an increase of 1,648 million yen from June 30, 2018. This was mainly due to an increase in long-term debt of 1,617 million yen, and other factors.

(Net Assets)

Total net assets as of September 30, 2018, were 11,884 million yen, a decrease of 124 million yen from June 30, 2018.

This was primarily due to a 150 million yen increase in retained earnings and 143 million yen increase in foreign currency translation adjustments, and 455 million yen decrease in capital surplus, and other factors.

(3) Consolidated Operating Results Forecast and Information about Future Predictions

Earnings results of this first quarter were ahead of our forecast, but we are planning larger-than-expected promotion-related expenses on *@cosme Beauty Day*, a 24-hour special E-Commerce sale scheduled to commence at 12:00 noon on December 3, 2018.

At this stage, we estimate promotion-related costs totaling approximately 500 million yen including the cost of television commercials, significantly higher than our initial budget of around 200 million yen.

The purpose of the promotion is to increase the number of users that log in to *@cosme*, and stimulate the use of E-Commerce. By encouraging users to log into *@cosme*, including use of the smartphone app, we can provide

content personalized for each user. By doing so, we expect to stimulate user activity within *@cosme* and increase usage frequency. We believe that this will enhance the value of *@cosme* not only as an advertising medium, but also as a platform.

We will also accelerate the gathering of purchase data by encouraging the use of E-Commerce. We can analyze the whole process from user trends in *@cosme* through to E-Commerce purchases, because *@cosme* and E-Commerce are linked by user ID. We plan to launch the analysis service as a feature of *Brand Official* by the end of the current fiscal year.

Regarding our consolidated operating results forecast for the fiscal year ending June 30, 2019, we plan to absorb the additional promotional spending by the difference between results and forecasts in this first quarter and growth of each segment. However, any major changes to the consolidated operating results forecast released in the Summary of Consolidated Financial Results August 3, 2018 for FY 2018 will be announced without delay.

2. Consolidated Financial Statements and Relevant Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of June 30, 2018	As of Sept. 30, 2018
	Amount	Amount
Assets		
Current assets		
Cash and deposits	6,183	4,976
Notes and accounts receivable - trade	2,707	2,769
Merchandise	2,286	2,906
Operational investment securities	999	1,530
Other	901	509
Allowance for doubtful receivables	(12)	(10)
Allowance for investment loss	(12)	(13)
Total current assets	13,053	12,668
Fixed assets		
Tangible assets	988	1,033
Intangible assets		
Goodwill	3,462	3,419
Software	1,977	1,857
Other	190	563
Total intangible assets	5,630	5,839
Investments and other assets		
Investment securities	979	987
Other	1,262	1,324
Total investments and other assets	2,240	2,312
Total fixed assets	8,859	9,184
Total assets	21,911	21,851

(Millions of yen)		
	As of June 30, 2018	As of Sept. 30, 2018
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable – trade	1,617	1,805
Short-term debt	1,800	-
Current portion of long-term debt	1,312	1,853
Income taxes payable	662	130
Provision for bonuses	236	155
Other	1,724	1,825
Total current liabilities	7,351	5,768
Fixed liabilities		
Long-term debt	2,505	4,122
Other	47	78
Total fixed liabilities	2,552	4,200
Total liabilities	9,904	9,968
Net assets		
Shareholders' equity		
Capital stock	3,556	3,564
Capital surplus	3,513	3,057
Retained earnings	4,770	4,920
Treasury stock	(280)	(280)
Total shareholders' equity	11,559	11,262
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	38	79
Foreign currency translation adjustments	7	150
Total accumulated other comprehensive income	44	229
Subscription rights to shares	74	76
Non-controlling interests	330	318
Total net assets	12,008	11,884
Total liabilities and net assets	21,911	21,851

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Three months ended Sept. 30, 2017	Three months ended Sept. 30, 2018
	Amount	Amount
Net sales	6,634	7,722
Cost of sales	3,322	4,074
Gross profit	3,312	3,648
Selling, general and administrative expenses	2,702	3,344
Operating income	610	304
Non-operating income		
Interest income	0	1
Gain on investments in partnership	5	-
Foreign exchange gains	13	16
Equity in gains of affiliates	3	-
Other	4	6
Total non-operating income	26	22
Non-operating expenses		
Interest expenses	3	5
Loss on investments in partnership	-	2
Equity in losses of affiliates	-	2
Other	0	0
Total non-operating expenses	4	8
Ordinary income	632	318
Extraordinary income		
Gain on sales of investment securities	-	30
Total extraordinary income	-	30
Extraordinary loss		
Impairment loss	14	-
Other	2	-
Total extraordinary loss	16	-
Income before income taxes	616	348
Total income taxes	277	163
Net income	340	185
Net income attributable to non-controlling interests	8	2
Net income attributable to owners of the parent company	332	183

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended Sept. 30, 2017	Three months ended Sept. 30, 2018
	Amount	Amount
Net income	340	185
Other comprehensive income		
Net unrealized gain on available-for-sale securities	(308)	41
Foreign currency translation adjustments	41	151
Share of other comprehensive income of associates accounted for using equity method	(71)	-
Total other comprehensive income	(339)	193
Comprehensive income	0	377
Comprehensive income attributable to		
Owners of the parent	(9)	367
Non-controlling interests	9	11

(3) Notes on Consolidated Financial Statements

(Notes on the Going-concern Assumption)

Not applicable

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable

(Additional information)

The company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) from the beginning of this quarter. As a result, deferred tax assets are indicated under "investments and other assets", and deferred tax liabilities are indicated under "fixed liabilities".

(Segment Information)

Three months ended September 30, 2017 (July 1, 2017 through September 30, 2017)

1. Net sales and income/loss by reportable segment

	Reportable segment					Adjustments (note 1)	(Millions of yen) Amounts on the consolidated statements of income (note 2)
	<i>On Platform</i>	<i>Beauty Service</i>	<i>Global</i>	<i>Others</i>	Total		
Net sales							
Sales to outside customers	1,760	2,749	1,661	464	6,634	-	6,634
Inter-segment sales and transfers	3	3	9	2	16	(16)	-
Total	1,763	2,752	1,669	465	6,650	(16)	6,634
Segment profit (loss)	631	125	(8)	258	1,006	(396)	610

Notes: 1. Adjustments in Segment profit (loss) in the amount of (396) million yen include 2 million yen elimination of inter-segment transactions and (399) million yen corporate expense not allocated to any reportable segment.

2. Segment profit (loss) is adjusted to correspond with operating income reported on the consolidated statements of income for the corresponding period.

2. Information about Impairment Loss on Fixed Assets, Goodwill, etc.

(Significant impairment losses related to fixed assets)

For the Beauty Service segment, impairment losses are recorded in relation with one store that is scheduled to close. The amount of the above impairment losses is 14 million yen for this first quarter.

(Significant changes in goodwill amounts)

Goodwill in the Global segment has increased by 1,692 million yen as a result of the acquisition of shares of MUA Inc. as a new consolidated subsidiary in this first quarter.

(Significant gain on negative goodwill)

Not applicable

Three months ended September 30, 2018 (July 1, 2018 through September 30, 2018)

1. Net sales and income/loss by reportable segment

	Reportable segment					(Millions of yen)	
	<i>On Platform</i>	<i>Beauty Service</i>	<i>Global</i>	<i>Others</i>	Total	Adjustments (note 1)	Amounts on the consolidated statements of income (note 2)
Net sales							
Sales to outside customers	1,828	3,361	2,236	297	7,722	-	7,722
Inter-segment sales and transfers	4	42	19	2	67	(67)	-
Total	1,832	3,403	2,254	300	7,789	(67)	7,722
Segment profit (loss)	531	138	46	36	751	(447)	304

Notes: 1. Adjustments in Segment profit (loss) in the amount of (447) million yen include 2 million yen elimination of inter-segment transactions and (449) million yen corporate expense not allocated to any reportable segment.

2. Segment profit (loss) is adjusted to correspond with operating income reported on the consolidated statements of income for the corresponding period.

2. Information about Impairment Loss on Fixed Assets, Goodwill, etc.

(Significant impairment losses related to fixed assets)

Not applicable

(Significant changes in goodwill amounts)

Not applicable

(Significant gain on negative goodwill)

Not applicable

(Significant subsequent events)

(Issuance of subscription rights to shares (stock options involving consideration))

At its Board of Directors Meeting held on September 18, 2018, the Company resolved to issue the 17th series Subscription rights to shares for the Company's employees and a Director of a subsidiary, and the 18th series Subscription rights to shares for the Company's Directors pursuant to Articles 236, 238, and 240 of the Companies Act.

Subscription rights to shares are issued on October 4, 2018

The details of the Subscription rights to shares issued are as follows:

The 17th series Subscription rights to shares (Board of Directors resolution dated September 18, 2018)

Date of resolution	September 18, 2018
Category and number of persons granted	Seventeen employees of the Company One Director of a subsidiary
Number of subscription rights to shares	2,810 units
Class and number of shares granted	Common shares: 281,000 shares (Note 1)
Amount to be paid for exercise	127 yen (Note 2)
Exercise period	From October 1, 2020, to March 31, 2022
Issuance price of shares upon exercise and amount of capitalization	Issuance price 127 yen Capitalization 64 yen
Exercise conditions	(Note 3)
Matters related to transfer of subscription rights to shares	(Note 4)
Matters related to issuance of subscription rights to shares upon reorganization	(Note 5)

Notes: 1. The number of shares underlying each unit of the subscription rights to shares ("number of shares granted") shall be 100 common shares of the Company.

If the Company carries out a share split (including gratis allotment of the Company's common shares, the same applies hereinafter) or share consolidation after the allotment date of the subscription rights to shares, the number of shares to be issued shall be adjusted according to the following formula, provided that it shall only apply to shares underlying subscription rights to shares unexercised at that point, and fractional shares resulting from the adjustment shall be discarded.

$$\begin{array}{ccccc} \text{Number of shares granted} & & & & \text{Ratio of share split} \\ \text{after adjustment} & = & \text{Number of shares granted} & \times & \text{or share consolidation} \\ & & \text{before adjustment} & & \end{array}$$

If the Company carries out a merger, share split, share consolidation, or capital reduction, or any other similar cases requiring adjustment of the number of shares granted after the allotment date of the subscription rights to shares, the adjustment shall be made appropriately within a reasonable range.

2. The amount of property to be contributed for the exercise of the subscription rights to shares shall be the amount per share to be paid for exercise (“exercise price”) multiplied by the number of shares granted.

The exercise price shall be 127 yen, which is 10% of the closing price of the Company’s shares at the Tokyo Stock Exchange on September 14, 2018, i.e, the trading day preceding the date of resolution by the Board of Directors on the issuance of the subscription rights to shares.

If the Company carries out a share split or share consolidation after the allotment date of the subscription rights to shares, the exercise price shall be adjusted according to the following formula, and any fractions resulting from the adjustment shall be rounded up.

$$\begin{array}{ccccc} \text{Exercise price} & & & & 1 \\ \text{after adjustment} & = & \text{Exercise price} & \times & \frac{\text{Ratio of share split}}{\text{or share consolidation}} \\ & & \text{before adjustment} & & \end{array}$$

If the Company issues new shares or disposes of its treasury shares at a price below fair value after the allotment date of the subscription rights to shares (excluding issuance of new shares and disposal of treasury shares for the exercise of subscription rights to shares, or transfer of treasury shares due to share exchange), the exercise price shall be adjusted according to the following formula, and any fractions resulting from the adjustment shall be rounded up.

$$\begin{array}{ccccccc} & & \text{Number of} & \text{Number of shares} & & \text{Amount per share} & \\ & & \text{shares already} & \text{to be issued} & \times & \text{to be paid} & \\ \text{Exercise} & & \text{Exercise price} & & & & \\ \text{price after} & = & \text{before} & & & & \\ \text{adjustment} & & \text{adjustment} & \times & \frac{\text{Per share fair value before issuance}}{\text{Number of shares already issued} + \text{Number of shares to be issued}} & & \end{array}$$

“Number of shares already issued” in the above formula shall be obtained by deducting the number of the Company’s treasury shares from the total number of the Company’s shares outstanding. If the Company disposes of its treasury shares, “Number of shares to be issued” shall be comprehended as “Number of shares to be disposed of.”

In addition to the above, if the Company merges with another company or carries out a share split, or any other similar cases requiring adjustment of exercise price after the allotment date of the subscription rights to shares, the adjustment shall be made appropriately within a reasonable range.

3. Exercise conditions

- (1) The holders of subscription rights (the “holders”) to shares may exercise them if they satisfy the conditions in the items below for each of the fiscal years ending June 30, 2020 and 2021, for the subscription rights to shares allotted to them up to the ratio stated in each item. In case fractional units of subscription rights to shares arise as a result of calculating the exercisable subscription rights to shares according to the applicable ratio, such fractional units shall be discarded at exercise.

- A) EBITDA is not less than 4,500 million yen: 25% of total number of subscription rights to shares allotted to the holder
- B) EBITDA is not less than 5,000 million yen: 25% of total number of subscription rights to shares allotted to the holder
- C) EBITDA is not less than 5,500 million yen: 50% of total number of subscription rights to shares allotted to the holder

The EBITDA above shall be obtained by adding depreciation and amortization (including amortization of goodwill) on the Company's consolidated statements of cash flows to operating income on the Company's consolidated statements of income post auditing and stated in the securities report submitted by the Company. In case of significant changes in the concept of reference figures as a result of applying international accounting standards, etc., the Company shall determine at its Board of Directors a separate indicator to be referred to within a reasonable range.

- (2) If the closing price of the Company's common shares at financial instrument exchanges falls below 50% of the closing price of the trading day preceding the resolution date for the issuance of the subscription rights to shares for five consecutive trading days during the period from the allotment date of the subscription rights to shares to the attainment of the conditions in each item in (1) above, the holder may not exercise the ratio of the subscription rights to shares for which the conditions in each item in (1) above is not attained at that point.
- (3) A holder shall be Director, Auditor, or employee of the Company, its subsidiary, or affiliate (subsidiaries and affiliates stipulated in the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements) also at the time of exercise of the subscription rights to shares, unless there are due reasons such as retirement upon expiry of term of office or mandatory retirement.
- (4) A successor of a holder may not exercise the subscription rights to shares.
- (5) If the Company's total shares outstanding will exceed the number of shares authorized to be issued as a result of exercise of the subscription rights to shares, those subscription rights to shares may not be exercised.
- (6) Fractional units of the subscription rights to shares may not be exercised.

4. Transfers of the subscription rights to shares shall be approved by the Company's Board of Directors.

5. Matters related to issuance of subscription rights to shares upon reorganization

If the Company carries out mergers (when the Company is the merged entity), absorption-type splits, incorporation-type splits, share exchanges, or share transfers (collectively, the "reorganization"), the holders shall be granted subscription rights to shares of each of the stock companies stipulated in Article 236, Paragraph 1, Item 8, (a) to (e) of the Companies Act (the "reorganized companies") for each instance in the following conditions on the effective date of the reorganization, provided that such issuance of subscription rights to shares of the reorganized companies under the conditions below is stipulated in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type split agreement, incorporation-type split plan, share exchange agreement, or share transfer plan.

- (1) Number of subscription rights to shares of the reorganized companies to be issued
The number of subscription rights to shares equivalent to those held by the holder shall be issued respectively.
- (2) Class of shares of the reorganized companies underlying the subscription rights to shares
Common shares of the reorganized companies
- (3) Number of shares of the reorganized companies underlying the subscription rights to shares
To be determined by applying 1. above upon considering the conditions of the reorganization.
- (4) Amount of property to be contributed for the exercise of the subscription rights to shares
The amount of property to be contributed for the exercise of the subscription rights to shares to be issued shall be obtained by multiplying the exercise price post-reorganization which is the result of adjustment of the exercise price in 2. above by the number of shares of the reorganized company underlying the subscription rights to shares to be determined according to 5. (3) above upon considering the conditions of the reorganization.
- (5) Exercisable period
The commencement date of the exercisable period of the subscription rights to shares stipulated above, or the effective date of the reorganization, whichever is later, up to the expiry date of the exercisable period of the subscription rights to shares stipulated above.
- (6) Matters related to increases in capital stock and legal capital surplus due to share issuance upon exercise of subscription rights to shares
To be determined by applying the stipulations of the subscription rights to shares.
- (7) Restrictions on acquiring subscription rights to shares through transfer
Restrictions on acquisitions through transfer shall be approved by the resolution of the reorganized companies' Board of Directors.
- (8) Other exercise conditions for subscription rights to shares
To be determined by applying 3. above.
- (9) Reasons and conditions for acquiring subscription rights to shares
To be determined by applying 4. above.
- (10) Any other conditions shall be determined by applying the conditions of the reorganized companies.

The 18th series Subscription rights to shares (Board of Directors resolution dated September 18, 2018)

Date of resolution	September 18, 2018
Category and number of persons granted	Two Directors of the Company
Number of subscription rights to shares	10,000 units
Class and number of shares granted	Common shares: 1,000,000 shares (Note 1)
Amount to be paid for exercise	127 yen (Note 2)
Exercise period	From October 1, 2020, to October 31, 2023
Issuance price of shares upon exercise and amount of capitalization	Issuance price 127 yen Capitalization 64 yen
Exercise conditions	(Note 3)
Matters related to transfer of subscription rights to shares	(Note 4)
Matters related to issuance of subscription rights to shares upon reorganization	(Note 5)

Notes: 1. The number of shares underlying each unit of the subscription rights to shares (“number of shares granted”) shall be 100 common shares of the Company.

If the Company carries out a share split (including gratis allotment of the Company’s common shares, the same applies hereinafter) or share consolidation after the allotment date of the subscription rights to shares, the number of shares to be issued shall be adjusted according to the following formula, provided that it shall only apply to shares underlying subscription rights to shares unexercised at that point, and fractional shares resulting from the adjustment shall be discarded.

$$\text{Number of shares granted after adjustment} = \text{Number of shares granted before adjustment} \times \text{Ratio of share split or share consolidation}$$

If the Company carries out a merger, share split, share consolidation, or capital reduction, or any other similar cases requiring adjustment of the number of shares granted after the allotment date of the subscription rights to shares, the adjustment shall be made appropriately within a reasonable range.

2. The amount of property to be contributed for the exercise of the subscription rights to shares shall be the amount per share to be paid for exercise (“exercise price”) multiplied by the number of shares granted.

The exercise price shall be 127 yen, which is 10% of the closing price of the Company’s shares at the Tokyo Stock Exchange on September 14, 2018, i.e., the trading day preceding the date of resolution by the Board of Directors on the issuance of the subscription rights to shares.

If the Company carries out a share split or share consolidation after the allotment date of the subscription rights to shares, the exercise price shall be adjusted according to the following formula, and any fractions resulting from the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of share split or share consolidation}}$$

If the Company issues new shares or disposes of its treasury shares at a price below fair value after the allotment date of the subscription rights to shares (excluding issuance of new shares and disposal of treasury shares for the exercise of subscription rights to shares, or transfer of treasury shares due to share exchange), the exercise price shall be adjusted according to the following formula, and any fractions resulting from the adjustment shall be rounded up.

$$\begin{array}{ccccccc} & & & \text{Number of} & \text{Number of shares} & & \text{Amount per share} \\ & & & \text{shares already} & \text{to be issued} & \times & \text{to be paid} \\ \text{Exercise} & & \text{Exercise price} & & & & \\ \text{price after} & = & \text{before} & & & & \\ \text{adjustment} & & \text{adjustment} & \times & \frac{\text{Per share fair value before issuance}}{\text{Number of shares already issued} + \text{Number of shares to be issued}} & & \end{array}$$

“Number of shares already issued” in the above formula shall be obtained by deducting the number of the Company’s treasury shares from the total number of the Company’s shares outstanding. If the Company disposes of its treasury shares, “Number of shares to be issued” shall be comprehended as “Number of shares to be disposed of.”

In addition to the above, if the Company merges with another company or carries out a share split, or any other similar cases requiring adjustment of exercise price after the allotment date of the subscription rights to shares, the adjustment shall be made appropriately within a reasonable range.

3. Exercise conditions

(1) The holders of subscription rights (the “holders”) to shares may exercise them if they satisfy the conditions in the items below for each of the fiscal years ending June 30, 2020, 2021, 2022, and 2023, for the subscription rights to shares allotted to them up to the ratio stated in each item. In case fractional units of subscription rights to shares arise as a result of calculating the exercisable subscription rights to shares according to the applicable ratio, such fractional units shall be discarded at exercise.

- A) EBITDA is not less than 5,500 million yen: 25% of total number of subscription rights to shares allotted to the holder
- B) EBITDA is not less than 6,000 million yen: 25% of total number of subscription rights to shares allotted to the holder
- C) EBITDA is not less than 7,000 million yen: 50% of total number of subscription rights to shares allotted to the holder

The EBITDA above shall be obtained by adding depreciation and amortization (including amortization of goodwill) on the Company’s consolidated statements of cash flows to operating income on the Company’s

consolidated statements of income post auditing and stated in the securities report submitted by the Company. In case of significant changes in the concept of reference figures as a result of applying international accounting standards, etc., the Company shall determine at its Board of Directors a separate indicator to be referred to within a reasonable range.

- (2) If the closing price of the Company's common shares at financial instrument exchanges falls below 50% of the closing price of the trading day preceding the resolution date for the issuance of the subscription rights to shares for five consecutive trading days during the period from the allotment date of the subscription rights to shares to the attainment of the conditions in each item in (1) above, the holder may not exercise the ratio of the subscription rights to shares for which the conditions in each item in (1) above is not attained at that point.
- (3) A holder shall be Director, Auditor, or employee of the Company, its subsidiary, or affiliate (subsidiaries and affiliates stipulated in the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements) also at the time of exercise of the subscription rights to shares, unless there are due reasons such as retirement upon expiry of term of office or mandatory retirement.
- (4) A successor of a holder may not exercise the subscription rights to shares.
- (5) If the Company's total shares outstanding will exceed the number of shares authorized to be issued as a result of exercise of the subscription rights to shares, those subscription rights to shares may not be exercised.
- (6) Fractional units of the subscription rights to shares may not be exercised.

4. Transfers of the subscription rights to shares shall be approved by the Company's Board of Directors.

5. Matters related to issuance of subscription rights to shares upon reorganization

If the Company carries out mergers (when the Company is the merged entity), absorption-type splits, incorporation-type splits, share exchanges, or share transfers (collectively, the "reorganization"), the holders shall be granted subscription rights to shares of each of the stock companies stipulated in Article 236, Paragraph 1, Item 8, (a) to (e) of the Companies Act (the "reorganized companies") for each instance in the following conditions on the effective date of the reorganization, provided that such issuance of subscription rights to shares of the reorganized companies under the conditions below is stipulated in the absorption-type merger agreement, incorporation-type merger agreement, absorption-type split agreement, incorporation-type split plan, share exchange agreement, or share transfer plan.

- (1) Number of subscription rights to shares of the reorganized companies to be issued

The number of subscription rights to shares equivalent to those held by the holder shall be issued respectively.

- (2) Class of shares of the reorganized companies underlying the subscription rights to shares

Common shares of the reorganized companies

- (3) Number of shares of the reorganized companies underlying the subscription rights to shares

To be determined by applying 1. above upon considering the conditions of the reorganization.

(4) Amount of property to be contributed for the exercise of the subscription rights to shares

The amount of property to be contributed for the exercise of the subscription rights to shares to be issued shall be obtained by multiplying the exercise price post-reorganization which is the result of adjustment of the exercise price in 2. above by the number of shares of the reorganized company underlying the subscription rights to shares to be determined according to 5. (3) above upon considering the conditions of the reorganization.

(5) Exercisable period

The commencement date of the exercisable period of the subscription rights to shares stipulated above, or the effective date of the reorganization, whichever is later, up to the expiry date of the exercisable period of the subscription rights to shares stipulated above.

(6) Matters related to increases in capital stock and legal capital surplus due to share issuance upon exercise of subscription rights to shares

To be determined by applying the stipulations of the subscription rights to shares.

(7) Restrictions on acquiring subscription rights to shares through transfer

Restrictions on acquisitions through transfer shall be approved by the resolution of the reorganized companies' Board of Directors.

(8) Other exercise conditions for subscription rights to shares

To be determined by applying 3. above.

(9) Reasons and conditions for acquiring subscription rights to shares

To be determined by applying 4. above.

(10) Any other conditions shall be determined by applying the conditions of the reorganized companies.