



July 26, 2019

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Notice Concerning Disposal of Treasury Shares as Restricted Stock Remuneration

DIGITAL HEARTS HOLDINGS Co., Ltd. (hereinafter referred to as the “Company”) announces that the Company passed a resolution at its Board of Directors’ Meeting held today to implement disposal of treasury shares (the “Disposal of Treasury Shares” or “Disposal”). The details are as follows:

1. Overview of the Disposal

(1) Date of disposal	August 23, 2019
(2) Class and number of shares to be disposed of	Common shares of the Company; 130,222 shares
(3) Disposal price	1,074 yen per share
(4) Total disposal price	139,858,428 yen
(5) Recipients of allotment and number of the recipients and number of shares to be disposed of	Four directors of the Company; 126,498 shares Two employees of subsidiary; 3,724 shares

2. Purpose and Reason of the Disposal

At the Board of Directors’ Meeting held on May 19, 2017, the Company passed a resolution to introduce a new remuneration plan for the Company’s directors (the “eligible directors”), the stock-based compensation plan with restriction on transfer (the “Plan”), for the purpose of providing incentives to the eligible directors for the continuous enhancement of the corporate value of the Company and promoting the improved sharing of its values with the shareholders. In addition, at the 4th Ordinary General Meeting of Shareholders held on June 27, 2017, it was approved that, based on the Plan, total amount of 260 million yen or less per year of monetary claims (including the limit for outside directors in an annual amount of 20 million yen; and excluding the salary for the director-employees), which will be properties contributed in kind of the eligible directors to receive shares with restriction on transfer, shall be provided to the eligible directors, and that the restriction period regarding the restricted stocks shall be determined by the Board of Directors to be in the range of one to five years.

Additionally, based on the approval of the above 4th Ordinary General Meeting of Shareholders held on June 27, 2017, the Board of Directors of the Company and the Board of Directors of DIGITAL HEARTS Co., Ltd., the Company’s wholly owned subsidiary (the “Subsidiary”), have decided to introduce a stock-based compensation plan with restriction on transfer similar to that of the Company (the combination of the stock-based compensation plans of the Company and the Subsidiary hereinafter collectively referred to as the “Plan”) also to the employees of the Company and the Subsidiary (together with the Company’s directors, collectively the “Directors, etc.”)

An overview of the Plan is described below.

[Overview of the Plan]

The eligible directors will receive the common shares issued or disposed from the Company, for the price of all the monetary claims as properties contributed in kind. The total number of common shares that the Company will newly issue or dispose of under the Plan shall be limited to 260,000 shares per year and the amount to be paid in per share shall be the closing price of the common shares of the Company at the Tokyo Stock Exchange (TSE) on the previous business day of the date of resolution of the Board of Directors' Meeting. If trading is not closed on the said day, the closing price on the most recent trading day before the resolution date shall be applied.

In addition, the issue or disposal of the common shares of the Company under the Plan shall be subject to an agreement for allotment of shares with restriction on transfer (the "Allotment Agreement"), between the Company and Directors, etc. and the Allotment Agreement shall include the provisions (1) that, for a specified period of time, the Directors, etc. may not transfer, create collateral rights on or dispose of the common shares of the Company allocated to them and (2) that upon the occurrence of certain events, the Company shall acquire the said common shares without compensation.

Having comprehensively considered the purpose of the Plan, the Company's business situations, the duties of the Directors, etc. and various other factors, the Company resolved to provide monetary claims totaling 139,858,428 yen (the "Monetary Remuneration Claims") and grant 130,222 common shares, with the aim of further motivating each Directors, etc. The Company has set a three-year period of transfer restriction in view of incentivizing the Directors, etc. for the mid-to long-term corporate value enhancement.

For the Disposal of the Treasury Share this time, the Directors, etc., recipients of the allotment, under the Plan, will pay in all the Monetary Remuneration Claims as properties contributed in kind and undertake the disposal of the common shares of the Company. This time, outside directors are not included in the scope of the eligible directors.

3. Overview of the Allotment Agreement

(1) Transfer restriction period: August 23, 2019 to August 23, 2022

(2) Conditions for removing the restrictions and the Company's share acquisition without compensation

a. Expiration of the restriction period

The Company shall remove the restrictions on all the allotted shares upon expiration of the restriction period, on the condition that the Directors, etc. have continued to serve as director, executive officer, corporate auditor, employee, or an equivalent position of the Company or any of its group companies throughout that period.

b. Resignation or retirement from the position due to expiration of the term of office or other justifiable reason(s)

If the Directors, etc., before expiration of the restriction period, resign or retire from the position as director, executive officer, corporate auditor, employee, or an equivalent position of the Company or any of its group companies, due to expiration of the term of office, death, mandatory retirement or other justifiable reason(s), the Company shall remove the restrictions immediately thereafter. However, if the eligible directors resign or retire from their positions due to death, the restrictions shall be removed immediately after the Company recognizes the death. In addition, the allotted shares for which the transfer restrictions have not been removed immediately after this removal under the above provisions shall be acquired by the Company without compensation, as a matter of course.

(3) Calculation of the number of the allotted shares for which the restrictions will be removed

The Company shall remove the restrictions on the shares, held by the Directors, etc., immediately after the resignation or retirement prescribed in (2) b. However, if the number of months is less than 12 from the month that includes of the resolution date for disposal of the allotted shares to the month of the resignation or retirement date from the position as director, the number of the allotted shares for which the restrictions will be removed shall be obtained by multiplying the number of the allotted shares by the number calculated by dividing the number of months of the term of office on a

monthly basis by 12. Shares less than one unit shall be rounded down.

(4) Management of the shares

In order to prevent the eligible directors from transferring, creating collateral rights on, or disposing of the allotted shares during the restriction period, the allocated shares, during that period, shall be managed under the dedicated accounts that the Directors, etc. open with Nomura Securities Co., Ltd. The Company has signed a contract with Nomura Securities for the management of the accounts for the allotted shares held by each Director, etc. in order to ensure the effectiveness of the transfer restriction on the allotted shares. Furthermore, the eligible directors shall agree with the details of the management of their accounts.

(5) Treatment in case of organizational restructuring

During the restriction period, if a matter relating to a merger agreement under which the Company will become a dissolving company, a share exchange agreement or a share transfer plan under which the Company will become a wholly-owned subsidiary, or any other matter in association with organizational restructuring is approved at the General Meeting of Shareholders of the Company, or at the Company’s Board of Directors’ Meeting if approval by the General Meeting of Shareholders is not required, the Company shall remove the restrictions on the allotted shares held by the eligible directors as of the date of the approval, upon the resolution by the Board of Directors. However, if the number of months is less than 12 from the month including the date of resolution for disposal of the allotted shares to the month of the date of that approval, the Company shall remove the restrictions regarding the number of shares determined by multiplying the number of the allotted shares by the number calculated by dividing that number of months above by 12 (shares less than one unit shall be rounded down.), immediately prior to the previous business day of the effective date of organizational restructuring. In addition, all the allotted shares for which the transfer restrictions have not been removed as of the previous business day of the effective date of organizational restructuring shall be acquired by the Company without compensation on that previous business day above, as a matter of course.

4. Calculation basis and details of payment amount

Disposal of the Treasury Shares undertaken by the recipients is carried out using monetary claims provided to the eligible directors, as property contributed in kind, for the purpose of granting restricted stock compensation for the period between July 1, 2019, and June 30, 2020, and by using pecuniary claims provided to the employees of the Subsidiary, as property contributed in kind, for the purpose of granting restricted stock compensation for the period between April 1, 2019, and March 31, 2020, based on the Plan. To ensure there is no arbitrariness in the valuation of the Disposal of Treasury Shares, the Company set 1,074 yen of disposal price, the closing price of common shares of the Company on the TSE First Section on July 25, 2019 (the previous business day of the date of resolution by the Board of Directors). The Company concluded that this price is reasonable on the basis that it is the market stock price immediately prior to the date of resolution by its board of directors’ meeting and this price is not particularly advantageous to the recipients.

(Reference) [Restricted Stock (RS) Management Flow under the Plan]

