

Notice: This document is an excerpt translation of the original Japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

Consolidated Financial Results for the Nine Months Ended December 31, 2021 (Based on Japanese GAAP)

February 10, 2022

Company name: NAKABAYASHI CO.,LTD
 Stock exchange listings: Tokyo
 Stock code: 7987 URL <https://www.nakabayashi.co.jp/>
 Representative: President and Representative Director Hideaki Yumoto
 Inquiries: Managing Executive Officer and General Kazunari Sakuta TEL 06-6943-5555
 Manager of Administration Division
 Scheduled date to file Quarterly Securities Report: February 14, 2022 -
 Scheduled date of commencement of dividend payment:
 Preparation of supplementary material on quarterly financial results: No
 Holding of quarterly financial results meeting: No

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

(1) Consolidated Operating Results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2021	45,425	(0.7)	796	(37.5)	1,241	(25.2)	453	(49.7)
Nine months ended December 31, 2020	45,761	(4.7)	1,275	5.3	1,659	11.9	900	(4.5)

(Note) Comprehensive income: Nine months ended December 31, 2021: ¥584million [(54.7%)]
 Nine months ended December 31, 2020: ¥1,290million [(15.2%)]

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended December 31, 2021	17.55		-	
Nine months ended December 31, 2020	34.91		-	

(2) Consolidated financial position

	Total assets		Net assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of December 31, 2021	58,377		28,007		44.0	
As of March 31, 2021	57,113		28,046		45.2	

(Reference) Equity: As of December 31, 2021 ¥25,710million
 As of March 31, 2021 ¥25,821million

2. Cash dividends

	Dividend per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen				
Year ended March 31, 2021	-	10.00	-	12.00	22.00
Year ended March 31, 2022	-	10.00	-	-	-
Year ending March 31, 2022 (Forecast)	-	-	-	12.00	22.00

(Note) Revisions of dividend forecasts from recently announced figures: No

3. Forecast of consolidated financial results for the year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	65,000	2.1	2,650	3.9	3,100	2.5	1,600	3.1	61.95

(Note) Revisions of forecasts of financial results from recently announced figures: No

4. Notes

(1) Changes in significant subsidiaries during the nine months ended December 31, 2021
(changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Application of special accounting methods for preparing quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2021	28,794,294 shares	As of March 31, 2021	28,794,294 shares
-------------------------	-------------------	----------------------	-------------------

Number of treasury shares at the end of the period

As of December 31, 2021	2,955,707 shares	As of March 31, 2021	2,993,787 shares
-------------------------	------------------	----------------------	------------------

Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended December 31, 2021	25,823,392 shares	Nine months ended December 31, 2020	25,786,165 shares
-------------------------------------	-------------------	-------------------------------------	-------------------

※This financial results report is not subject to the audit by a certificated public accountant or an auditing firm.

※Explanation and other special notes concerning the appropriate use of business performance forecasts.

(Cautionary Statement with Respect to Forward-Looking Statements)

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Actual results, etc. may differ materially from the forecasts due to various factors. For notes on the assumptions underlying the earnings forecasts and the earnings forecasts, please refer to "1. Qualitative Information on Quarterly Financial Results, (3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information" on page 3.

○Accompanying Materials-Contents

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of results of operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information	3
2. Quarterly Consolidated Financial Statements and Major Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
(Notes Relating to Assumptions for the Going Concern)	8
(Notes on Substantial Changes in the Amount of Shareholders' Equity)	8
(Changes in Accounting Policies)	8
(Additional Information)	8
(Significant Subsequent Events)	9
3. Other	11

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of results of operations

In the third quarter of the fiscal year under review (April 1, 2021 to December 31, 2021), the Japanese economy saw a decline in the number of new infectious diseases and the resumption of socio-economic activities due to the cancellation of the declaration of an emergency, due to the progress of vaccination for a new and prolonged pandemic of corona infectious diseases. However, the outlook remains uncertain, including for the global economy, due to factors such as the sharp rise in crude oil prices.

Under these circumstances, we formulated our third medium-term management plan (April 1, 2021 to March 31, 2024), "ad+ venture 70" (Adventure 70). As conventional business models and processes change dramatically depending on the New normal and DX, we have set 70 new targets to increase corporate value and are working to achieve the targets. To this end, we are working to optimize the allocation of management resources and create synergies among business segments and Group companies as a whole. As a concrete policy required in the era of post-corona, our Group aims to become a leading company in the "Life-related industries" (Note), an industry field that will play a central role in the future, and will advance initiatives to strengthen existing businesses and enter new businesses. Specifically, it refers to the following five fields (1) health and medical care (2) environment (including renewable energy) (3) life and welfare (4) agriculture (5) culture.

(NOTE) "Life-related industries" is a concept advocated by Professor Yoshinori Hiroi of Kyoto University

On July 1, 2021, Sanlemon Co., Ltd. which manufactures and sells mid-to-high-priced stuffed toys and OEMs, was made a subsidiary. The Group aims to create synergies and strengthen profitability by expanding its product lineup in existing businesses, developing new markets, and strengthening the Group's proposal capabilities. At the same time, by developing new product categories that lead to a healing of minds and health, the Group will strengthen the "Life-related industries"(3) life and welfare fields.

On November 30, 2021, the Company issued a plan to select the "Prime market" in the new market segment and to conform to the listing maintenance standards. The status of compliance with the listing maintenance standards of the prime market as of our transition record date does not satisfy the standards for the average daily trading value. However, we believe that moving to the prime market is essential to enhancing our business value, achieving sustainable growth and enhancing corporate value over the medium to long term. Based on this belief, we will take measures to satisfy the listing maintenance standards with respect to the average daily trading value. Accordingly, on the same day, the Company announced the "Notice of Conclusion of Share Exchange Agreement (Simplified Share Exchange) for Nakabayashi Co., Ltd. to make Kokusai Chart Co., Ltd. a wholly owned subsidiary." We plan to conduct a share exchange with an effective date of March 1, 2022. By making it a wholly owned subsidiary, we will improve our corporate value through streamlining our production system, strengthening existing areas, developing new products, utilizing human resources, speeding up decision-making, and reducing the cost of maintaining our public listing.

Net sales sales declined 0.7% year on year, while Operating profit and Ordinary profit also declined due to a deterioration in the cost of sales ratio caused by higher raw material prices and labor costs, as well as higher SG&A expenses.

In addition, Extraordinary income recorded 229 million yen, including Gain on sale of non-current assets, and Extraordinary losses recorded 320 million yen, including Provision for loss on Anti-Monopoly Act.

Consequently, Profit attributable to owners of parent amounted to 453 million yen.

Our Group's operating results for the first three quarters of the current fiscal year are as follows.

Net sales	45,425 million yen	(Down 0.7% year on year)
Operating profit	796 million yen	(Down 37.5% year on year)
Ordinary profit	1,241 million yen	(Down 25.2% year on year)
Profit attributable to owners of parent	453 million yen	(Down 49.7% year on year)

Operating results by segment are as follows.

① Business Process Solutions Business

In the BPO (Business Process Outsourcing) business, orders recovered due to various trial operations, active corporate novelty production and sales promotion campaigns as a result of the cancellation of the declaration of an emergency following the full-fledged immunization of a vaccine for Covid-19. Packaging materials also grew due to a recovery in consumer sentiment. Printing orders for New Year's cards and calendars have remained unchanged from the previous year. The library solutions business performed strongly, centered on outsourcing, such as counter operations from public libraries, and materials digitization operations.

On the other hand, orders for corporate notebooks and cash register rolls declined due to developments associated with the adoption of DX by companies and other entities.

Consequently, Net sales in this segment amounted to 24,096 million yen, down 0.8% from the first quarter of the previous fiscal year, and Operating profit amounted to 368 million yen, up 93.1% from the first quarter of the previous fiscal year.

② Consumer Communications Business

Sanlemon Co., Ltd. which was acquired in July 2021, was included in the scope of consolidation from the second quarter of the fiscal year under review, and sales to tourism facilities such as theme parks and veterinary gardens contributed. Paper products such as files and notebooks performed strongly, partly due to the resumption of school classes. Despite efforts to strengthen digital-related products such as tablet-related products such as new iPad and PC-Mouse, sales declined partly due to the impact of the worldwide shortage of semiconductors and the end of demand for remote work-related products. With respect to the commercial notebook, profits have decreased due to factors such as the deduction of the expected amount of returns from sales in accordance with the adoption of the accounting standard for revenue recognition. Overall, Operating profit declined due in part to rising raw material prices and the weak yen.

Consequently, Net sales in this business was 15,027 million yen (up 0.5% from the same quarter of the previous year) and Operating profit was 387 million yen (down 55.4% from the same quarter of the previous year).

③ Office Appliances Business

Although office shredders and large shredders and crushers continued to be sluggish due to companies curbing capital investment and the shift to DX in the Corona disaster, maintenance and inspection operations continued to recover due to a recovery in the percentage of employees coming to the office.

Layout changes aimed at improving the office environment and measures to reduce spill remain active, and low-party sales are favorable.

Consequently, Net sales in this business was 5,110 million yen (down 1.1% year-on-year) and Operating profit was 275 million yen (down 2.7% year-on-year).

④ Energy Business

Wooden biomass power generation saw declines in Net sales and Operating profit due to lower unit selling prices with premiums. Solar power generation performed well.

Consequently, Net sales in this business was 1,144 million yen (down 11.1% from the same quarter of the previous year) and Operating profit was 53 million yen (down 72.4% from the same quarter of the previous year).

⑤ Other

This segment includes the vegetable plant business and the Garlic Farm Business. Net sales was 47 million yen (down 38.8% from the same quarter of the previous year) and the operating loss was 32 million yen (operating loss of 30 million yen from the same quarter of the previous year).

(2) Explanation of Financial Position

(Assets)

Current assets increased by 1,478 million yen from the end of the previous fiscal year to 29,794 million yen. This was mainly due to decreases of 1,619 million yen in Notes and accounts receivable - trade, which outweighed increases of 1.603 billion yen in Merchandise and finished goods, 445 million yen in Cash and deposits, and 398 million yen in Work in process.

Non-current assets decreased by 214 million yen from the end of the previous fiscal year to 28,582 million yen. This was mainly due to decreases of 363 million yen in machinery, equipment and vehicles and 129 million yen in buildings and structures, despite an increase of 288 million yen in Construction in progress.

As a result, total assets at the end of the third quarter of the current fiscal year increased by 1,263 million yen from the end of the previous fiscal year to 58,377 million yen.

(Liabilities)

Current liabilities increased by 2,253 million yen from the end of the previous fiscal year to 19,627 million yen. This was mainly due to decreases of 644 million yen in Income taxes payable and 555 million yen in Notes and accounts payable - trade, despite an increase of 3,466 million yen in Short-term borrowings.

Non-current liabilities decreased by 951 million yen from the end of the previous fiscal year to 10,741 million yen. This was mainly due to a decline of 925 million yen in Long-term borrowings.

Consequently, Total liabilities at the end of the third quarter of the current fiscal year increased by 1.301 billion yen from the end of the previous fiscal year to 30,369 million yen.

(Net assets)

Total net assets decreased by 38 million yen from the end of the previous fiscal year to 28.007 billion yen. This was mainly due to a 132 million yen decline in Retained earnings, despite a 72 million yen rise in Non-controlling interests.

Due to a decrease in net assets and an increase in total assets, the equity ratio at the end of the third quarter of the fiscal year under review was 44.0%, down 1.2 percentage points from the end of the previous fiscal year.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

The earnings forecast announced on May 14, 2021 has not been revised.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	6,467	6,913
Notes and accounts receivable - trade	11,660	10,041
Merchandise and finished goods	5,572	7,175
Work in process	757	1,156
Raw materials and supplies	1,510	1,764
Other	2,353	2,746
Allowance for doubtful accounts	(5)	(3)
Total current assets	28,315	29,794
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,592	7,463
Machinery, equipment and vehicles, net	5,034	4,671
Land	10,042	10,151
Construction in progress	28	316
Other, net	211	183
Total property, plant and equipment	22,910	22,786
Intangible assets		
Goodwill	498	483
Other	260	235
Total intangible assets	759	719
Investments and other assets		
Investment securities	2,876	2,824
Retirement benefit asset	783	876
Deferred tax assets	476	422
Other	1,000	967
Allowance for doubtful accounts	(9)	(14)
Total investments and other assets	5,128	5,076
Total non-current assets	28,797	28,582
Total assets	57,113	58,377

(Millions of yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	5,908	5,353
Short-term borrowings	4,753	8,220
Accounts payable - other	3,032	2,862
Accrued expenses	456	426
Income taxes payable	872	228
Provision for bonuses	854	318
Provision for loss on Anti-Monopoly Act	–	310
Other	1,495	1,907
Total current liabilities	17,373	19,627
Non-current liabilities		
Long-term borrowings	7,697	6,772
Retirement benefit liability	3,344	3,304
Deferred tax liabilities	345	362
Other	305	302
Total non-current liabilities	11,693	10,741
Total liabilities	29,067	30,369
Net assets		
Shareholders' equity		
Share capital	6,666	6,666
Capital surplus	8,761	8,767
Retained earnings	10,965	10,833
Treasury shares	(1,530)	(1,511)
Total shareholders' equity	24,863	24,756
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	763	741
Deferred gains or losses on hedges	27	5
Foreign currency translation adjustment	80	115
Remeasurements of defined benefit plans	86	91
Total accumulated other comprehensive income	957	954
Non-controlling interests	2,225	2,297
Total net assets	28,046	28,007
Total liabilities and net assets	57,113	58,377

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
(First nine-month period of fiscal year under review)

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	45,761	46,425
Cost of sales	33,785	33,825
Gross profit	11,975	11,600
Selling, general and administrative expenses	10,700	10,804
Operating profit	1,275	796
Non-operating income		
Rental income	126	136
Dividend income	63	64
Insurance claim income	102	229
Other	230	148
Total non-operating income	523	579
Non-operating expenses		
Interest expenses	59	50
Miscellaneous expenses of assets for rent	34	60
Other	45	23
Total non-operating expenses	139	134
Ordinary profit	1,659	1,241
Extraordinary income		
Gain on sale of non-current assets	2	227
Gain on sale of investment securities	2	1
Total extraordinary income	4	229
Extraordinary losses		
Loss on disposal of non-current assets	29	2
Loss on sale of investment securities	-	1
Loss on valuation of investment securities	1	6
Provision for loss on Anti-Monopoly Act	-	310
Total extraordinary losses	30	320
Profit before income taxes	1,634	1,150
Income taxes - current	496	424
Income taxes - deferred	113	123
Total income taxes	610	548
Profit	1,023	601
Profit attributable to non-controlling interests	123	148
Profit attributable to owners of parent	900	453

Consolidated Statements of Comprehensive Income
(First nine-month period of fiscal year under review)

(Millions of yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Profit	1,023	601
Other comprehensive income		
Valuation difference on available-for-sale securities	308	(36)
Deferred gains or losses on hedges	(32)	(21)
Foreign currency translation adjustment	(1)	35
Remeasurements of defined benefit plans, net of tax	(7)	6
Total other comprehensive income	267	(16)
Comprehensive income	1,290	584
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,132	449
Comprehensive income attributable to non-controlling interests	158	135

(3)Notes to Quarterly Consolidated Financial Staetements

(Notes Relating to Assumption for the Going Concern)

Not applicable.

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

Not applicable.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

The Company adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as the "Accounting Standard for Revenue Recognition") from the beginning of the first quarter of the current fiscal year and recognized revenue when control of promised goods or services is transferred to customers in an amount that is expected to be received in exchange for those goods or services. As a result, for transactions where variable consideration is included in the consideration in the contract with the customer, variable consideration is included in the transaction price only to the extent that it is probable that a significant reduction in the recorded revenue will not occur by the time the uncertainty regarding the amount of the variable consideration is resolved.

In addition, freight, packing costs, and sales promotion expenses, which were previously recorded in Selling, general and administrative expenses, are deducted from Net sales.

With regard to the application of the revenue recognition accounting standard, the transitional treatment stipulated in the provisions of paragraph 84 of the Accounting Standard for Revenue Recognition is applied. The cumulative effect of retrospective application of the new accounting policy prior to the beginning of the first quarter of the current fiscal year is adjusted to Retained earnings at the beginning of the first quarter of the current fiscal year, and the new accounting policy is applied from the beginning of the current fiscal year. However, the new accounting policy has not been applied retrospectively to contracts for which the method set forth in paragraph 86 of the Revenue Recognition Accounting Standard has been applied and substantially all revenue amounts have been recognized in accordance with previous treatment prior to the beginning of the first quarter of the current fiscal year.

Consequently, Net sales decreased by 213 million yen, Selling, general and administrative expenses decreased by 118 million yen and Operating profit, Ordinary profit and Profit before income taxes decreased by 94 million yen for the third quarter of the current fiscal year. In addition, the balance of Retained earnings at the beginning of the fiscal year under review decreased by 17 million yen.

(Application of Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as the "Accounting Standard for Calculation of Fair Value") and other standards were applied from the beginning of the first quarter of the current fiscal year, and in accordance with the transitional treatment stipulated in paragraph 19 of the Accounting Standard for Calculation of Fair Value and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy stipulated by the Accounting Standard for Calculation of Fair Value will be applied in the future. This change did not have a material impact on the quarterly consolidated financial statements.

(Additional Information)

(Accounting Estimates for the Impact of Infections of COVID-19)

There were no material changes in the accounting estimates for the impact of COVID-19 described in the previous fiscal year's securities report.

However, there is a high degree of uncertainty regarding the impact of the spread of the new Corona contagious disease, and if the contagion further expands in the future, it may affect the Group's financial condition and results of operations.

(On-site Inspection by the Fair Trade Commission)

On October 8, 2019, we received an on-site inspection by the Fair Trade Commission for alleged violations of the Antimonopoly Law with regard to the bidding by the Japan Pension Service, and since then we have cooperated fully in the inspection of the Commission. On November 4, 2021, we received a written notice of the hearing pursuant on the written cease and desist order (draft) based on the Antimonopoly Act and the written payment order for surcharge (draft) from the Comittee. Based on this notice, 310 million yen was recorded in extraordinary losses as Provision for loss on Anti-Monopoly Act in the third quarter of the current fiscal year.

(Significant Subsequent Events)

(Made a wholly owned subsidiary through a simple share exchange)

At a meeting of the Board of Directors held on November 30, 2021, we resolved to conduct a share exchange (the "Share Exchange") in which we became the wholly-owned parent company of the Share Exchange and Kokusai Chart Co., Ltd. (the "Kokusai Chart") became a wholly-owned subsidiary of the Share Exchange, and the two companies entered into a share exchange agreement (the "Share Exchange Agreement") with respect to the Share Exchange. Pursuant to the provisions of Paragraph 2 of Article 796 of the Companies Act, we have obtained the approval of this Shareholder Exchange Agreement through the simplified share exchange procedures that do not require approval by a resolution of the shareholders' meeting, and in the Kokusai chart, at the extraordinary general meeting of shareholders on the Kokusai Chart held on January 28, 2022. The effective date of this share exchange is scheduled to be March 1, 2022.

(1) Outline of the Share Exchange

① Name and business of the wholly-owned subsidiary through share exchange

Name of wholly-owned subsidiary: Kokusai Chart Co., Ltd.

Business content : label paper, measuring paper, various consumables and parts for recorders, Development, manufacture and sale of temperature and wetness recorders, recording papers for outdoor meter reading, etc.

② Purpose of the Share Exchange

- Raising production efficiency
- Strengthen existing areas
- Development of new products
- Human resources management system
- To accelerate decision-making and reduce listing maintenance costs

③ Class of Shares and Exchange Ratio and Number of Shares Delivered

	We (Wholly-owned parent company after share-for-share exchange)	Kokusai Chart (Wholly owned subsidiary through share exchange)
Allocation ratio pertaining to the Share Exchange	1	0.62
Number of shares to be delivered through the Share Exchange	1,810,362 shares of our common stock (planned)	

(Note 1) Allocation ratio of stocks

0.62 shares of our common stock (the "Shares") will be allotted and delivered for each Kokusai Chart Share. However, we will not allocate shares of Kokusai Chart shares (3,080,000 shares as of November 30, 2021) through the Share Exchange.

(Note 2) Number of shares of the Company to be delivered through the Share Exchange

At the time of the Share Exchange, we will allocate the number of our Shares calculated on the basis of the Share Exchange Ratio in lieu of the Kokusai Chart Shares held by us to the Shareholders of the Kokusai Chart immediately prior to the time we acquire all of the outstanding Shares on the Kokusai Chart (except for the Kokusai Chart Shares held by us, which are the Shareholders after the cancellation of Treasury shares described below, and excluding us).

The Kokusai Chart is scheduled to cancel all Treasury shares (including Treasury shares acquired by the Kokusai Chart through the purchase of shares relating to the Share Purchase Demand to be exercised pursuant to the provisions of Article 785, Paragraph 1 of the Companies Act at the time of the Share Exchange) held at the time immediately prior to the Base Time as of the last day of the Base Time, provided that this Share Exchange Agreement has been approved at the Extraordinary General Meeting of Shareholders by a resolution of the Board of Directors to be held on or before the Effective Date of the Share Exchange and this Share Exchange Agreement has not been cancelled and no reason has arisen to invalidate this Share Exchange Agreement. The total number of our shares to be allocated through the Share Exchange may be revised in the future due to reasons such as the repurchase and retirement of Treasury shares on the Kokusai Chart.

In addition, all of our shares to be delivered upon the Share Exchange will be appropriated for Treasury shares held by us, and we do not plan to issue any new shares.

④ The grounds and reasons for the allotment relating to the Share Exchange;

We and the Kokusai Chart, in order to ensure fairness and appropriateness in the calculation of the Share Exchange Ratio described in ③ "Class of Shares and Exchange Ratio and Number of Shares Delivered" above, each of them individually requested a third-party calculation organization independent from both companies to calculate the Share Exchange Ratio. We selected Resona Bank, Ltd. as a financial advisor, Bellda Consulting Co., Ltd. as a third-party calculation organization, and Kokusai Chart selected AGS Consulting Co., Ltd. as a financial advisor and a third-party calculation organization.

We have also selected Yodoyabashi & Yamagami Legal Professional Corporation as legal advisors, and Nagasawa General Law Office as legal advisors independent from both companies in the Kokusai Chart.

We and the Kokusai Chart have carefully examined the two companies based on the results of due diligence conducted on each other, referring to the results of the calculation of the share exchange ratio submitted by their respective third-party calculation organizations. After comprehensively considering factors such as the financial condition, performance trends and future prospects of the two companies, as well as stock price trends, both companies have carefully discussed and negotiated the share exchange ratio. As a result, we and the Kokusai Chart concluded that the Share Exchange Ratio was reasonable for each shareholder. Therefore, at the Board of Directors meeting of both companies held on November 30, 2021, it was decided that the Share Exchange Ratio would be used to conduct the Share Exchange and the Share Exchange Agreement was concluded between the two companies.

(2) Summary of accounting treatment to be implemented

In accordance with the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10), transactions under common control are scheduled to be accounted for as transactions with non-controlling shareholders.

3.Other

Not applicable.