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## OFFERING CIRCULAR



### **Park24 Co., Ltd.**

*(incorporated with limited liability under the laws of Japan)*

### **¥35,000,000,000 Zero Coupon Convertible Bonds due 2025**

**Offer Price: 102.5 per cent.**

The ¥35,000,000,000 Zero Coupon Convertible Bonds due 2025 (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 Park24 Co., Ltd. (the “Company”) will be issued in registered form in the denomination of ¥10,000,000 each with a stock acquisition right (*shinkabuyoyakuken*) (the “Stock Acquisition Right”, and collectively, the “Stock Acquisition Rights”) exercisable on and after November 12, 2018 up to and including, October 15, 2025, (unless the Bonds have been previously redeemed or purchased and cancelled or become due and repayable), and entitling the Bondholder (as defined in the terms and conditions of the Bonds (the “Conditions”)) to acquire fully-paid and non-assessable shares of common stock of the Company (the “Shares”) at an initial conversion price, subject to adjustment in certain events as set out herein, of ¥3,847 per Share.

The closing price of the Shares on October 11, 2018, as reported by Tokyo Stock Exchange, Inc. (the “Tokyo Stock Exchange”), was ¥3,420 per Share.

At any time on or after October 29, 2021, the Company may 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 if the closing price of the Shares for each of the 20 consecutive trading days, the last of which occurs not more than 30 days prior to the date of the relevant redemption notice, is at least 120 per cent. of the conversion price then in effect.

Unless previously redeemed or purchased and cancelled, or become due and repayable, the Bonds will be redeemed at 100 per cent. of their principal amount on October 29, 2025.

Payments 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. If Japanese withholding taxes are imposed on payments in respect of the Bonds, the Company may, at any time, redeem all the Bonds at 100 per cent. of their principal amount (as set out herein).

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.

The Bonds will initially be represented by a global certificate (the “Global Certificate”) evidencing the Bonds in registered form, deposited with, and registered in the name of a nominee for, a common depositary for each of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”) on or about October 29, 2018 (the “Closing Date”) for the accounts of their respective accountholders. The Managers (as described in “Subscription and Sale”) expect to deliver the Bonds to investors through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date.

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 issuable upon exercise of the Stock Acquisition Rights 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. 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 sold within Japan. For a summary of certain restrictions on offers and sales of the Bonds and the Shares, see “*Subscription and Sale*”.

See “*Investment Considerations*” to read about certain factors that should be considered in connection with an investment in the Bonds.

**Sole Bookrunner and Lead Manager**

**Nomura**

**Co-Lead Manager**

**Mizuho International plc**

The date of this Offering Circular is October 11, 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 this Offering Circular contains all information with respect to the Company, the Group (as defined below), the Bonds and the Shares (including all information in relation to the applicable laws of Japan) which is material in the context of the issue and offering of the Bonds, the statements contained in it are in every material particular true and accurate and not misleading, 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, there are no other facts in relation to the Company, the Group, the Bonds or the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.*

*No person has been authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by or on behalf of the Company, the Trustee (as defined in the Conditions) or the 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 at any time subsequent to its date, nor does it imply that there has been no change in the affairs or the financial position of the Group since the date of this Offering Circular.*

*No representation or warranty, express or implied, is made by any of the Managers, The Law Debenture Trust Corporation p.l.c. in its capacity as trustee of the holders of the Bonds (the "Trustee"), the Custodian, the Custodian's Agent, the Registrar or any of the Agents (each as defined in the Conditions) as to the accuracy and completeness of the information set forth in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation, whether as to the past or the future. The Managers have not independently verified all of such information and assumes no responsibility for its accuracy or completeness. To the fullest extent permitted by law, none of the Managers, the Trustee, the Custodian, the Custodian's Agent, the Registrar, the Agents or their respective affiliates accepts any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made by the Managers or on their behalf in connection with the Company, the Group or the offering of the Bonds. Each of the Managers, the Trustee, the Custodian, the Custodian's Agent, the Registrar, the Agents and their respective affiliates 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.*

*This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or the Managers, the Trustee, the Custodian, the Custodian's Agent, the Registrar or the Agents to subscribe for, or purchase, any of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights by the Company. The distribution of this Offering Circular and the offering of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights, or upon acquisition of the Bonds by the Company, in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights, or upon acquisition of the Bonds by the Company, and distribution of this Offering Circular, see "Subscription and Sale".*

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

*No action is being taken to permit a public offering of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights, or the distribution of this Offering Circular 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 issuable upon exercise of the Stock Acquisition Rights by the Company, and the circulation of documents relating thereto, in jurisdictions including the United States, Japan, the European Economic Area (including the United Kingdom), Singapore and Hong Kong and to persons connected therewith. See "Subscription and Sale".*

*Under the Companies Act of Japan (Act No. 86 of 2005, as amended) (the "Companies Act"), the Company may issue new Shares to a Bondholder (as defined in the Conditions) and/or transfer Shares that it holds as treasury stock to a Bondholder, in each case upon exercise of a Stock Acquisition Right. Accordingly, unless otherwise specified*

or the context requires, references in this Offering Circular to the issuance of Shares shall be read as including both the issuance of new Shares and the transfer of Shares held by the Company as treasury stock and the words “issue”, “issued” and “issuable” shall be construed accordingly. In addition, references to the word “acquire” used in conjunction with the Shares shall be read as including both the words “issue” and “transfer”, and the words “acquired” and “acquisition” shall be construed accordingly and references to “delivery” used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system of Japan Securities Depository Center, Inc. (“JASDEC”).

**Notification under Section 309B(1)(c) of the SFA:** In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the “SFA”) and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “CMP Regulations 2018”), the Issuer has determined, and hereby notifies all relevant persons (as defined in the CMP Regulations 2018), that the Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

**PRIIPs REGULATION / 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 Directive 2014/65/EU (as amended, “MiFID II”); or (ii) a customer within the meaning of Directive 2002/92/EC (“IMD”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (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.

The Company’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which differ in certain respects from accounting principles generally accepted in certain other countries, including International Financial Reporting Standards (“IFRS”). Potential investors should consult their own professional advisers for an understanding of the difference between Japanese GAAP and IFRS or generally accepted accounting principles in other jurisdictions and an understanding of how those differences might affect the financial information contained herein.

In this Offering Circular, except as otherwise indicated, references to “yen” and “¥” are to Japanese yen.

In this Offering Circular, unless otherwise specified or the context requires, where information is presented in millions of yen, amounts of less than one million and percentages of less than one per cent., one-tenth of one per cent. or one-hundredth of one per cent. have been rounded up or down, as the case may be. In some cases, figures presented in tables in this Offering Circular may not total due to rounding or truncating.

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

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

The Company’s fiscal year-end is October 31 of each year.

**IN CONNECTION WITH THIS ISSUE OF THE BONDS NOMURA INTERNATIONAL PLC (THE “STABILISING MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT THE 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 STABILISATION MANAGER (OR ANY PERSON(S) ACTING ON BEHALF OF THE STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

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 “Recent Business” and elsewhere in this Offering Circular, as well as other matters not yet known to the Company or not currently considered material by the Company. The Company does not undertake to review or revise this Offering Circular or any forward-looking statements contained in this Offering Circular to reflect future events or circumstances. The Company cautions prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Company or persons acting on the Company’s behalf are qualified in their entirety by these cautionary statements.*

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## SUMMARY INFORMATION

The following summary is qualified in its entirety by the more detailed information, including “Investment Considerations” and the financial statements and notes thereto, appearing elsewhere in this Offering Circular.

### **Park24 Co., Ltd.**

#### **Overview**

The Group’s operations are classified in three segments: the Parking business (Japan) segment, the Parking business (Foreign countries) segment and the Mobility business segment. The operating revenues of the Parking business (Japan) segment primarily consist of parking fees collected from Times parking facilities the Group operates and service fees from provision of management services to parking facilities operated by others. The operating revenues of the Parking business (Foreign countries) segment include parking fees collected from the Group’s parking facilities operated overseas. The operating revenues of the Mobility business segment include fees generated through the Group’s car rental services, car sharing services and roadside assistance services.

The Group is the largest parking facility operator and manager in Japan in terms of the total number of parking spaces. As of October 31, 2017, the Group operated or managed 18,255 parking facilities containing 683,707 parking spaces in Japan, and 2,206 parking facilities containing 547,263 parking spaces in its overseas operations. The total numbers of parking sites and parking spaces managed worldwide were 20,461 and 1,230,970, respectively. The Group’s parking business in Japan operates its 24-hour unmanned metered parking facilities under the brand name “Times”, in which the Group primarily leases (and in certain circumstances, purchases) land for parking facilities, and designs and arranges construction of Times parking facilities, including installation of meters and other equipment. The Group conducts its Times operations under two business models: (i) the ST model and (ii) the TPS model (see “—Operations—Main Business Models” below). In addition to the Times operations, the Group also provides outsourced management services to parking facilities operated by others and operates monthly parking facilities.

The Group’s other key business operations are of the Group’s “mobility” operations, consisting of a car rental service, a car sharing service and a roadside assistance service. The car rental and car sharing services offer domestic customers a personal transportation alternative to car ownership and the Group has aggressively expanded its fleet of vehicles to offer a wide transportation network to its customers. The Group’s roadside assistance service primarily involves the Group providing logistical support to its end customers by identifying and coordinating with its membership network of roadside service providers to provide the necessary assistance.

The Company had 92 consolidated subsidiaries and 1 affiliate accounted for by the equity method as of July 31, 2018. Non-consolidated subsidiaries and affiliates are accounted for by the equity method. The Group has operations in Taiwan, Australia, New Zealand, United Kingdom, Singapore, Malaysia and in Korea, but the majority of the Group’s operations are in and revenues are derived from its business activities in Japan. As of July 31, 2018, the Group had 4,911 full-time employees.

The Shares are listed on the First Section of the Tokyo Stock Exchange with the Securities Identification Code 4666.

The Company’s registered head office and operational headquarters are located at 7-1, Yurakucho 2-chome, Chiyoda-ku, Tokyo 100-8424. The Company plans to relocate its head office to 20, Nishigotanda 2-chome, Shinagawa-ku, Tokyo 141-0031 in 2019.



## THE OFFERING

<b>Securities Offered</b> .....	¥35,000,000,000 Zero Coupon Convertible Bonds due 2025 (bonds with stock acquisition rights, <i>tenkanshasaigata shinkabu yoyakuken-tsuki shasai</i> ).
<b>Issue Price</b> .....	100.0 per cent.
<b>Offer Price</b> .....	102.5 per cent.
<b>Closing Date</b> .....	On or about October 29, 2018.
<b>Delivery</b> .....	It is expected that the Global Certificate will be deposited with, and registered in the name of, or of a nominee for, a common depository for each of Euroclear and Clearstream, Luxembourg on or about the Closing Date.
<b>Form</b> .....	The Bonds will be issued in registered form and evidenced on issue by the Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See “Summary of Provisions relating to the Bonds while in Global Form”.
<b>Listing</b> .....	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 and the rules of the SGX-ST so require.
<b>Lock-up</b> .....	In connection with the issue and offering of the Bonds, the Company has agreed not to, and not to direct any entities or any persons acting at the direction of the Company to, (i) issue, offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (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 represent the right to receive, Shares or any other capital stock of the Company or (ii) enter into any derivative transaction or any other 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, in each case, 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 without the prior written consent of the Lead Manager (as defined in “Subscription and Sale”) (on behalf of the 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 by the Company), (b) the issue or transfer of Shares by the Company upon exercise of stock acquisition rights issued and outstanding as at the date of the Subscription Agreement and referred to in this Offering Circular, (c) 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, (d) the issue of Shares by the Company as a result of any stock split, (e) the grant and issue of stock options or stock acquisition rights exercisable for Shares to its and the Group’s directors, officers, corporate auditors or employees pursuant to the Company’s stock option plans, (f) the sale by the Company of Shares held by unidentified shareholders and (g) any other issue or sale of Shares required by applicable Japanese laws and regulations. See “ <i>Subscription and Sale</i> ”.

**Use of Proceeds** ..... The net proceeds from the issue of the Bonds are estimated to be approximately ¥35 billion after deducting expenses. The Company intends to apply the net proceeds as follows: (a) approximately ¥25 billion towards the repayment of indebtedness incurred in connection with the acquisition of National Car Parks Limited and (b) the remainder towards capital investments in accordance with the Group's business growth strategy of amalgamating people, cars, cities and communities and the Group's parking facilities. See "*Use of Proceeds*".

## PRINCIPAL TERMS AND CONDITIONS OF THE BONDS

<b>Form and Denomination</b> .....	The Bonds are issued in registered form in the denomination of ¥10,000,000.
<b>Initial Conversion Price</b> .....	¥3,847 per Share, subject to adjustment in certain circumstances. See Condition 5.
<b>Coupon</b> .....	Zero.
<b>Exercise of Stock Acquisition Rights</b> ...	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 during the period from, and including, November 12, 2018 to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on October 15, 2025 (but in no event thereafter), to acquire fully-paid and non-assessable Shares.
<b>Status</b> .....	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 <i>pari passu</i> 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.
<b>Negative Pledge</b> .....	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) 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.
<b>Redemption at Maturity</b> .....	Unless the Bonds have previously been redeemed 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 October 29, 2025.
<b>Early Redemption—Reduced Outstanding Amounts</b> .....	The Company may, having given not less than 30 nor more than 60 days' prior notice (the "Clean-up Redemption Notice") to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for such redemption, if at any time prior to the date upon which the Clean-up Redemption Notice is first given, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds as of the date of issue thereof. See Condition 7.2.
<b>Early Redemption—Increased Share Prices</b> .....	At any time on or after October 29, 2021, the Company may, but shall not be bound to, 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, provided, however, that no such redemption may be made unless the Closing Price of the Shares for each of the 20 consecutive Trading Days, the last of which occurs not more than 30 days prior to the date upon which the Optional Redemption Notice (as defined in the Conditions) is first given, is at least 120 per cent. of the Conversion Price

in effect on each such Trading Day (taking into account any Retroactive Adjustment (as defined in the Conditions) not then reflected in the Conversion Price). 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) 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 October 11, 2018, the Company has or will become obliged to pay any Additional Amounts (as defined in Condition 9) in accordance with Condition 9 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, the Bondholders will have the right to elect that their 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 (as defined in Condition 6.1), the Company shall give notice 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' (as defined in Condition 5.1.4) prior notice to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the then outstanding Bonds 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 by the Company as soon as practicable after the date of occurrence of the Corporate Event) if any of the following conditions is satisfied:

- (i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation of such laws) to effect a scheme provided for by Condition 6.4.1;
- (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;
- (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 of the Company 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 give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the redemption price determined by reference to the table set out in Condition 7.5 (subject to the provision of Condition 7.6). See Condition 7.6.

**Early Redemption—Squeezeout**

**Redemption** ..... Upon the occurrence of a Squeezeout Event (as defined in Condition 3.1), the Company shall give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at the redemption price determined by reference to the table set out 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 ¥500,000,000 (or its equivalent in any other currency or currencies). See Condition 10.

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

**Governing Law** ..... English law.

**Jurisdiction** ..... English courts.

**International Securities Identification**

**Number (“ISIN”)** ..... XS1892122166

**Common Code** ..... 189212216

**Legal Entity Identifier (“LEI”)** ..... 549300LFG2WZWCWM4M68

**Principal Agent and Registrar** . . . . . Mizuho Trust & Banking (Luxembourg) S.A.  
**Trustee and Custodian** . . . . . The Law Debenture Trust Corporation p.l.c.  
**Custodian's Agent in Japan** . . . . . Mizuho Bank, Ltd.

## 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.*

### **Risks Related to the Group and its Business**

#### ***The Group's financial performance is sensitive to changes in the Group's operating environment.***

The Group's financial performance is sensitive to the operating environment in which it conducts its business. While the Group has made efforts towards expanding its business into overseas markets in order to diversify its operations, Japan remains the largest market for the Group's parking services and consolidated net sales (including inter-segment) in Japan (which consist of the operating revenues of the Parking business (Japan) and Mobility business segments) represented ¥168,207 million, or 77.8 per cent. of the consolidated net sales (including inter-segment) of the Group for the first nine months of the year ended October 31, 2018. During the first nine months of 2018, the Japanese economy continued on a gradual recovery trajectory due to improvements in corporate results and a recovery in personal consumption. However, the future of the economy remains uncertain amid uncertainty about the global economy, reflecting policy trends and geopolitical risks overseas. The Group's results of operations and financial condition may be adversely affected if the Japanese economy continues to experience stagnant growth.

Future economic conditions affecting various matters including fuel and energy costs, interest rates and tax rates, may also materially adversely affect the Group's business. In particular, parking fees charged by the Group are subject to consumption tax, in Japan which is currently expected to increase in October 2019. Such increase, as well as any further anticipated and future increase in consumption tax may result in an increase in parking fees (and a possible consequent decrease in the Group's revenues) or, if parking fees are not increased, a decrease in the after-tax income of the Group.

Changes in applicable laws and regulations may also significantly alter the industries in which the Group operates, which in turn may adversely affect the Group's results of operations and financial condition. If the laws and regulations of Japan applicable to the Group's operations were to require the Group to incur extra costs, for instance, in relation to requirements for improvements of parking facilities or other services to meet certain standards, workers' compensation, labour standards and environmental matters, this may impact the operating margins of the Group's operations, which in turn could adversely impact the Group's results of operations and financial condition.

#### ***The majority of the Group's ST parking facilities operate from land that is leased.***

The Group's core business continues to remain its parking facility operations and the majority of the Group's parking facility operations, operate primarily from land that is leased from third-party landlords. Under parking facilities under the Group's ST model (which constitute the majority of the Group's parking facility operations) the Group typically enters into leases that have a two year period, with leases being automatically renewed on an annual basis. By leasing land the Group is able to reduce the initial costs of establishing new ST parking facilities, while at the same time allowing flexibility with respect to underperforming locations. However, this approach also exposes the Group to risks associated with fluctuations in property rental prices. Increases in rental prices can impact the Group's ability to locate suitable new locations for its ST parking facilities at rates that will be economical. Further, because of the relatively short-term nature of the leases, the rental costs associated with existing ST parking facilities can increase, which in turn reduces the profitability of such parking facilities.

The Group's lease contracts for its ST parking facilities can typically be cancelled by landlords, for any reason, upon three months' prior notice. As such, the Group's reliance on short term leases of land for its ST parking facilities can also result in increased turnover in locations. When a lease contract is cancelled, the Group will suffer loss of revenues from the relevant parking facility. One of the key strengths of the Group's parking business operations, is that once a plot of land is leased and the necessary equipment is installed, the Group's operating costs are largely fixed and that increases in sales leads directly to an increase in profit (see "*Business—Strengths and Strategy*"). Although a certain number of lease cancellations is expected and budgeted for each year, frequent cancellations will negate one of the drivers behind the Group's ability to generate profits.

To hedge against such risks inherent in leasing the land for its ST parking facilities, the Group has made efforts to maintain a healthy balance between operations utilising the ST model and those utilising the TPS model, which among other characteristics, carries with it a lower risk of cancellation due to longer contract periods compared to the ST model (see "*Business—Operations—Parking Business Segment*" below). By increasing the Group's focus on the TPS model, the Group aims to conduct its parking facility operation in a more stable business environment. At the same time, the Group also conducts comprehensive market research and analysis before leasing any plot of land (in particular, parking facilities operating the ST model are generally located on sites measuring 100 square meters or less to mitigate the risk of such sites being converted into building sites). However, there is no assurance that a balanced

business portfolio can be achieved and optimised as expected or that the TPS model will reduce the impact of lease cancellations to the extent the Group expects.

***A rise in the value of land may result in the increase in lease cancellations.***

The Group estimates that as of April 30, 2018 approximately 12.5 per cent of lease contracts for land are cancelled by the landlord as a result of the landlord choosing to sell the land. Increases in the value of land may lead to an increase in the number of lease cancellations experienced by the Group as landlords seek to realise the increased land value, and which in turn could materially adversely affect the Group's results of operations and financial condition. A rise in the value of land may also affect the Group's ability to increase the number of parking spaces it operates. To mitigate the impact of lease cancellations arising from sales of the land, the Group continues to diversify the location of its parking facilities portfolio to increase the number of facilities in suburban areas where the value of land is less likely to rise to the same extent, or at the same rate, as land in more central metropolitan areas.

Although in the past, an increase in the value of land has not been matched by a corresponding increase in rental prices, there can be no assurance that rental prices will remain stable. If rental prices were to rise proportionally to an increase in value of land, this could have a material adverse effect on the Group's results of operations and financial condition.

***The Group's parking facilities and certain operations are concentrated in the Kanto and Kansai areas of Japan, particularly in Tokyo and Osaka.***

The Group's parking facilities in the Kanto and Kansai areas of Japan, which include Tokyo and Osaka, accounted for approximately 49.3 per cent. and 30.2 per cent., respectively of the Group's Times parking spaces. The number of vehicles in the Group's car sharing fleet stationed in the Kanto and Kansai areas of Japan accounted for approximately 53.0 per cent. and 26.5 per cent., respectively of the Group's overall car sharing fleet. The concentration of operations in the central Kanto and Kansai areas, particularly in the downtown areas of Tokyo and Osaka, increases the risk that local or regional events or factors that affect either area, such as natural disasters, changes in local laws and regulations, or economic conditions, can have a disproportionate impact on the Group's results of operations and financial condition.

In particular, an economic slowdown in Japan could adversely affect levels of car ownership and usage, and traffic density, in the Kanto and Kansai areas, which, in turn could reduce the demand for the Group's parking facilities. In any such case, the reduced demand for parking could materially adversely impact the Group's results of operations and financial condition.

***The majority of the Group's parking facilities in Japan are unmanned which reduces the Group's oversight of such facilities.***

The majority of the Group's Times parking facilities are unmanned and automated. Whilst the Group has systems in place to remotely monitor such parking facilities, such systems may not be able to replicate the Group's scrutiny and monitoring of manned facilities.

In particular, the Group has experienced crime, such as vandalism of payment machines and parking without paying parking fees. Although the Group strives to prevent such crime, for instance, by updating its equipment and IT systems to prevent customers from parking without paying parking fees, and designing parking facilities which create an environment to reduce the likelihood of crime, there can be no assurance that these measures will be effective.

Moreover, unmanned facilities are reliant on the precise functioning of certain automated processes, as even minor technical and equipment failures may result in major inconvenience to customers (for instance, the malfunctioning of security features may prevent a customer from leaving a parking facility). Although the Group has systems and procedures in place designed to prevent such issues from arising, there can be no assurance that such systems and procedures can eliminate the risk of system malfunctions.

***The Group has only a limited number of parking facilities and equipment suppliers in Japan.***

The Group procures key parking facility equipment in Japan, such as ParkLock and GateSystem (ParkLock is a device that ensures automobiles parked at parking facilities cannot be removed from a parking space without payment of parking fees and GateSystem is a device that controls the entry and exit of vehicles to and from parking facilities), from a limited number of suppliers. If supply is disrupted or a supplier cancels a supply contract, the expansion of the Group's business may be delayed while the Group seeks another supplier. In addition, although the Group seeks to ensure that its suppliers provide high quality equipment, quality may not be maintained at the level expected by the Group. Any such failure may adversely affect its operations and management of parking facilities operated by others.



***Extreme weather events, natural disasters and other events, such as the imposition of traffic restrictions, can have a material adverse effect on the Group's operations.***

Extreme weather events, including heavy rain or snow, as well as natural disasters such as earthquakes and other natural disasters, including typhoons, floods and tidal waves may damage parking facilities and related infrastructure operated by the Group. In addition, other events outside the control of the Group, such as epidemic outbreaks, wars, terrorist attacks and fires could damage, cause operational interruptions or otherwise adversely affect the Group's operations. Such events can also lead to a reduction in overall traffic volumes and reduced demand for parking facilities, as well as the Group's car rental or car sharing services, as the number of commuters, tourists and local consumers reduces in the affected area.

Further, a closure of streets in areas affected by extreme weather events and by natural disasters or other events outside the control of the Group, or the imposition of restrictions on traffic in affected areas, can also materially and adversely affect utilisation levels for the Group's parking facilities as well as customer demand for the Group's car rental or car sharing services. With a view to reducing this risk, the Group aims to spread its operations in diversified geographic areas. However, the Group's operations, particularly its parking facilities, remain concentrated in the Kanto and Kansai areas. There is no assurance that extreme weather events and natural disasters or other events outside the control of the Group, or an imposition of consequential traffic restrictions, in the areas in which the Group has a significant presence, would not have a material adverse effect on the Group's results of operations and financial condition.

In addition, natural disasters or such unexpected events as mentioned above may also impact the Group's administrative or IT centres, which in turn may cause administrative and operational difficulties, and cause the Group to incur additional expenses in repairing damaged facilities.

***The Group operates in a competitive business environment.***

The parking facility operation market is fragmented and is served by various entities ranging from individuals, small local operators to large regional and national multi-facility operators, as well as municipal and governmental entities. With respect to its ST parking facilities (see "*Business—Operations—Parking Business Segment*" below), the Group faces competition mainly at two stages: the development level (competition for obtaining land leasing contracts in high-demand areas), and the consumer level (competition for customers in competitive locations) (see "*Business—Competition*" below). In relation to competition at the development level, the Group's competitors, some of whom have greater resources, may be able to win land leasing contracts in a competitive area by offering higher rent to landlords than the Group. In relation to competition at the consumer level, parking facility operators have traditionally competed on the basis of price. The Group has worked to establish itself as one of the leading members of the parking facility operation industry in Japan. The Group competes predominantly on the strength of its experienced sales force, its large network of parking facilities, high levels of service, strong relationships with its customers (including approximately 6.56 million Times Club Card members, 690,000 Times Business Card holders and 900,000 car sharing members, each as at October 31, 2017) and low price for the services and convenience it provides. The Company considers that the Group is well equipped to deal with competition at the consumer level as the Company believes that there is a chronic shortage of parking spaces in major cities in Japan and that such a shortage will not be resolved in the near future, as demonstrated by the increased prevalence of on-street parking in major Japanese cities due to increase in tourism activities (see "*Business—Market Environment—The Japanese Parking Facility Industry*").

In the Mobility business segment, the Group is subject to competition from other car rental, car sharing and roadside assistance service providers in addition to providers of other forms of alternative personal transport (such as taxi companies). The rise of ride sharing applications may also contribute to changes in the industry, although the Group does not consider such forms of transport to be a direct competitor as the Group's mobility business focuses on round-trip and longer term transport services, in contrast to ride sharing applications. In particular, relative to the Group's parking business operations, which are well-established and enjoy strong name recognition under the "Times" brand, the Group's mobility business operations are less visible to the public. Although the Group has strategies in place to continue to aggressively develop and market the Group's mobility business operations under the "Times" brand (see "*Business—Strengths and Strategy*"), there can be no assurance that the Group's mobility business operations will enjoy the same level of prominence as the Group's parking business operations, which in turn may leave the Group vulnerable to competition from other well-established players with a longer track record in the market (see "*Business—Competition*"). The Group may experience problems with its IT systems, including the Times Online Network and Information Centre ("TONIC") system and the Times Pay system.

With respect to its overseas parking facility operations, the competitive landscape varies depending on the relevant jurisdiction and as the Group's operations have expanded (particularly with the acquisitions of the "Secure Parking" companies and National Car Parks Limited and its group companies (see "*Business—History*"), the Group has become exposed to new competition in each of the jurisdictions into which it has expanded. Competition may come

in the form of other commercial parking facility operators, governmental entities and other businesses offering parking facilities and also in the form of competition for land in high-demand areas.

***The Group may encounter risks associated with the expansion of its business overseas.***

The Group's management targets is the achievement of continuous double-digit growth in recurring profit. The Company believes that the Japanese market still offers enough growth potential to allow it to achieve this target at present, but the establishment of new foundations for growth will be vital if the Group is to maintain double-digit growth in the medium- to long-term future. As the Group expands its business overseas, it may encounter risks associated with operations in those regions. In 2017, the Group acquired 80 per cent. of the shares in Secure Parking Pty Ltd, an operator of parking businesses in Australia, New Zealand, and the United Kingdom, Secure Parking Singapore Pte. Ltd., operating a parking business in Singapore, and Secure Parking Corporation Sdn. Bhd., a parking business operator in Malaysia, and 51 per cent. of the shares of National Car Parks Limited, which operates parking facilities in the United Kingdom. In July and August 2018, the three "Secure Parking" companies became wholly owned subsidiaries of the Company. Although the Company believes that it has taken steps towards building a system of governance in each region to establish appropriate internal controls in areas such as compliance and risk management, the Company cannot guarantee that such steps will be effective. The performance of the Group could be adversely affected if the Group is prevented from continuing to operate such overseas parking facilities or if it loses the confidence of its customers as a result of any incident that may arise due to delays in the Group's efforts in developing adequate internal controls in its overseas operations.

Local legislative and regulatory requirements or changes in tariffs, taxation laws, business permits and approvals requirements, foreign exchange controls, import or export controls, changes in the political and/or economic relationship between Japan and the countries and regions in which the Group operates may pose difficulties for the Group's international operations and adversely affect the Group's results of operations and financial condition.

In addition, the Group may be exposed to risks and encounter difficulties in planning and managing its overseas operations due to political or economic instability, uncertainty or turmoil due to epidemic, adverse weather conditions, terrorism or other factors and non-compliance with expected business conduct in some countries. Moreover, a labour dispute or a change of labour regulations or policies may also significantly alter the local employment environment, potentially resulting in a rise in local labour costs or a shortage of well-trained employees, which in turn may materially and adversely affect the Group's operations in the locations in which it operates.

***The Group may enter into mergers, acquisitions and business alliances.***

The Group may, when suitable opportunities arise, engage in mergers and acquisitions activities, joint ventures and business alliances with other companies, and investments into specific fields of business with the aim of raising enterprise value. The Company believes that such activities are effective methods for acquiring new marketing and distribution channels as well as aiding the expansion of its business, both domestically and globally. In order to enhance its competitiveness, the Group actively plans to utilise third-party resources and thus may form strategic alliances, including equity-based alliances and corporate acquisitions. Accordingly, the Group continuously considers, and when suitable opportunities arise, participates in, such activities. However, there can be no assurance that any such mergers and acquisitions, joint ventures, business alliances or investments will be successful, achieve the desired results, or recoup the value of the investments made in respect of such activities. Any failure in the Group's due diligence of the operating and financial condition of the acquired or invested businesses, their integration into the Group's operations or failure to renew any important agreements (such as joint venture agreements) with its business partners in respect of such alliances may have a material adverse effect on the Group's reputation, business and its results of operations.

In addition, in connection with mergers and acquisitions activities, a significant amount of goodwill may be recognized on the Group's balance sheet. The Group reviews its intangible fixed assets, such as goodwill for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. If there is any significant decline in the value of its goodwill or an adverse change to the applicable accounting standards regarding impairment of assets it put in place, the Group may be required to recognise an impairment loss, which may have an adverse effect on the Group's financial condition and results of operation.

***The Group relies on its IT infrastructure***

The Group relies on complex IT systems including the TONIC system for its parking operations, as well as its car rental and car sharing operations. The Group also recently launched the Times Pay electronic payment service as part of its efforts to build network-based communities and to enhance convenience of its users. As with any IT system, these systems may suffer general technical problems and faces risks associated with computer viruses and hacking or power outages. Although the Group considers that such problems would not interfere with operations, any such event may have a material adverse impact on its expansion strategy, especially in relation to provision of value-added

services to its customers, which the Company believes is key to attracting more customers to its business operations (see “*Business—Strengths and Strategy*” and “*Business—Operations—Innovations at Parking Facility Operations*” below).

The Group relies on its IT infrastructure to manage its mobility business operations. In particular, the Group’s car rental services and car sharing services are heavily dependant on the Group’s IT infrastructure to manage the rental and car sharing fleet, match Group resources to customer needs and to provide consumers with up-to-date information. Technical issues with, or failures of the Group’s IT infrastructure may lead to delays in providing the Group’s mobility business services, and in certain circumstances, the Group becoming unable to provide its car rental, car sharing or roadside assistance services.

The Company believes it allocates adequate resources to ensure the proper development and maintenance of its IT infrastructure and the establishment of protocols and procedures to deal with technical issues. However, the Group can make no assurance that IT failures will not occur. In addition to loss of revenue and failure to attain management objectives, any failure in its IT infrastructure may also result in reputational damage which could lead to a decrease in the number of customers using its facilities and services.

***Mishandling of personal data the Group possesses could damage the Group’s reputation.***

In relation to the Group’s Times Club membership program (see “*Business—Operations—Innovations at Parking Facility Operations—Value-added services*” below) as well as in relation to the Times Car PLUS membership program for its car sharing operations, the Group collects certain personal information necessary for identification purposes. As of October 31, 2017, the Group had approximately 6.56 million members in its Times Club membership program and more than 900,000 members in its Times Car PLUS membership program, with the corollary that the Group handles an ever-increasing volume of personal information. In addition, the Group also collects and stores certain personal information with respect to the owners of its parking facilities, many of whom are individuals. This data is stored in the Group’s databases and is accessible only to authorised persons. The Group strives to handle the personal data responsibly and carefully through certain measures, including comprehensive education and training of its data administrators and implementation of advanced security systems. However, there is no assurance that personal data will not be exposed to persons outside the Group, which may lead to the Group suffering reputational damage and may result in customers becoming reluctant to utilise the Group’s Times Club and/or Times Car Plus membership programs or lease land to the Group for its parking facility operations. Moreover, the Group’s operations are subject to the Personal Information Protection Act, which regulates companies that use databases of personal information for their businesses (see “*Business—Regulation*”). Improper use or disclosure of, or a failure to protect or properly control, personal information could result in violations of applicable data protection laws, resulting in the imposition of significant sanctions including administrative orders and criminal and civil sanctions. More recently with the acquisition of National Car Parks Limited, and Secure Parking Pty Ltd, the Group’s operations in the United Kingdom are also subject to General Data Protection Regulation (EU) 2016/679, which is a regulation promulgated by the European Union on data protection and privacy for all individuals within the European Union and the European Economic Area. The Group takes precautionary measures, including internal compliance procedures, to prevent and detect misuse or unauthorised disclosure of customers’ personal information, but these measures may not be effective in all cases. Any such violation may have a significantly detrimental impact on the Group’s reputation, business and its results of operations.

***The Group is vulnerable to certain risks in internal control.***

The Group has established and operates internal controls with the aim of ensuring the effectiveness and efficiency of business operations, reliability of financial reporting, compliance with applicable laws and regulations relevant to business activities and safeguarding of assets. However, there is no assurance that the Group will be able to establish and operate an effective internal controls on a continuous basis since there are inherent limitations to such controls. If the internal controls that the Group implements fail to function effectively, or if there are deficiencies or material weaknesses in such internal controls, it may adversely affect the reliability of the Group’s financial reporting and compliance processes.

***Limitations on access to liquidity and capital resources could adversely affect the Group.***

The Group obtains debt funding primarily in the form of bank loans. As of October 31, 2017, ¥84,467 million, or 80.9 per cent. of the Group’s short-term borrowings and long-term debt (including current portion) was procured from banks and other financial institutions. The Group will require liquidity in order to refinance maturing debt and to fund its operations. While the Group has not experienced any material difficulty in procuring funds, there can be no assurance that the Group’s existing major lenders will not change their lending policies, increase the rates they charge on loans, or adopt a more cautious credit stance as a result of:

- the challenging financial environment that has impacted global financial markets and credit institutions;

- any adverse change in the operating results, financial condition or cash flows of the Group;
- a downgrade of the Group's credit rating;
- an increase in interest rates due to a deterioration of the financial status of the Japanese government;
- a decrease in bank appetite for taking on credit risks; and
- other factors that may limit the Group's options for obtaining liquidity.

***A small number of shareholders own a significant percentage of the Shares.***

A significant percentage of the Shares are owned and/or controlled by Mr. Koichi Nishikawa, the President of the Company, his family members and Senju Co., Ltd. (a company controlled by Mr. Koichi Nishikawa and his family members) (together, the "Nishikawa Family"). Accordingly, the Nishikawa Family, collectively, has a significant amount of control over matters affecting the Group's business and the ability to influence the outcome of matters presented for approval by the Company. Such concentrated ownership of the Company by the Nishikawa Family may also have the effect of preventing a change in control of the Company. In addition, circumstances may occur in which the interests of the Nishikawa Family could be in conflict with the Group's interests.

**Risks Related to the Company's Financial Information**

***Differences in Japanese GAAP and financial reporting standards in other jurisdictions.***

The Company's consolidated financial statements are prepared and presented in accordance with Japanese GAAP, which differs in certain material respects from IFRS and generally accepted accounting principles and financial reporting standards in other jurisdictions. The Company's consolidated financial statements may therefore differ from those prepared for companies outside Japan. This Offering Circular does not include a reconciliation of the Company's financial statements to IFRS or to any other generally accepted accounting principles or reporting standards. It is likely that such reconciliation would identify material quantitative differences between Japanese GAAP and IFRS or between Japanese GAAP and such other generally accepted accounting principles or reporting standards.

***The quarterly consolidated financial statements included in this Offering Circular may not be directly comparable with the audited annual financial information included in this Offering Circular.***

This Offering Circular contains the Company's quarterly consolidated financial statements and quarterly financial and operating information as at the dates and for the periods indicated in this Offering Circular, which have not been audited by the Company's independent auditors. Certain adjustments, accruals and deferrals which are made in the audited annual financial statements have been estimated or are not made in respect of the quarterly consolidated financial statements. Accordingly, the selected quarterly consolidated financial statements contained in this Offering Circular is not wholly comparable with the audited annual financial information and statements contained in this Offering Circular and should not be so compared.

**Risks Related to the Bonds and the Shares**

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

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

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

The corporate affairs of the Company are governed by, and in accordance with, the Articles of Incorporation, the Share Handling Regulations and the Regulations of the Board of Directors of the Company and other related regulations thereunder of the Company, as well as the Companies Act. Legal principles relating to such matters as the validity of corporate procedures, directors' and officers' fiduciary duties (including actions that may legitimately be taken by them in respect of unsolicited takeover attempts) and liabilities, and shareholders' rights under Japanese law may be different from those that apply to companies incorporated in other jurisdictions. Bondholders who acquire Shares upon exercise of the Stock Acquisition Rights may have more difficulty in asserting their rights as a shareholder of the Company than they would as a shareholder of a corporation organised in other jurisdictions.

***A trading market for the Bonds may not develop.***

Prior to the issue of the Bonds, there has been no trading market for the Bonds. Although approval in-principle has been received for the listing of the Bonds on the SGX-ST, there can be no assurance that an active trading market

for the Bonds will develop. Furthermore, there can be no assurance that the Bonds will not trade at prices lower than the initial Offer Price (as defined in “*Summary Information—The Offering*”).

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

The trading price of the Bonds is expected to be affected by fluctuations in the trading price of the Shares and it is impossible to predict whether the trading price of the Shares will rise or fall. Any decline in the trading price of the Shares will have an adverse effect on the trading price of the Bonds. Trading prices of the Bonds and Shares will be influenced by, among other things, the financial position and results of operations of the Group, including the reporting of financial results.

***There are limitations on the timing of exercise of Stock Acquisition Rights that will impact Bondholders’ rights.***

Under the current handling rules and practices of the JASDEC, it will take a minimum of three business days for Shares to be delivered to a Bondholder after the Stock Acquisition Date (as defined in Condition 5.9.4). The Stock Acquisition Rights may not be exercised during any such period in which the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period. Bondholders should therefore note in particular that exercise of Stock Acquisition Rights will be restricted during the period surrounding any record date in respect of Shares set by the Company (as at the date of this Offering Circular, October 31 and April 30 in each year).

***No cash amounts will be payable in respect of Shares that constitute less than 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 exchange on which they are listed. Currently, the Company’s Articles of Incorporation provide that one unit comprises 100 Shares. Since the introduction of the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended) (including the regulations promulgated thereunder, the “Book-Entry Act”), making it possible for listed shares of Japanese companies comprising less than one full unit to be delivered through the JASDEC book-entry transfer system, JASDEC’s guidance requires that stock acquisition rights issued by Japanese companies should be structured such that shares that constitute less than one full unit are delivered to the account of the exercising holder, instead of being automatically sold back to the issuer of such stock acquisition rights and receiving cash amounts in respect of them. Bondholders exercising their Stock Acquisition Rights will therefore not receive cash amounts in respect of Shares that constitute less than one full unit.

Shares that constitute less than one full unit may not be traded on the stock exchange on which they are listed. Accordingly, a holder of Shares that constitute less than one full unit will need to request the Company to purchase such Shares 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; alternatively, such holders may require the Company to sell sufficient number of Shares in order to make its holding a full unit 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. See “*Description of the Shares and Certain Regulations—Unit Share System*”.

***The Trustee may request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction.***

In certain circumstances (including giving notice to the Company pursuant to Condition 10 and taking enforcement steps as contemplated in Condition 16), the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.

**Risks Related to Forward Looking Statements**

***Forward-looking Statements in this Offering Circular involving risks and uncertainties.***

Statements in this document with respect to the Group’s plans, strategies, projected financial figures and beliefs, as well as other statements that are not historical facts are forward-looking statements involving risks and uncertainties. The important factors that could cause actual results to differ materially from such statements include, but are not limited to: the impact of general economic conditions in the Group’s markets; demand for, and competitive pricing pressure on, its services; the Group’s ability to develop and offer services that meet the needs and demands of the markets and its customers; the Group’s ability to win acceptance for its services in highly competitive markets; and the Group’s ability to adapt itself to market, industry and general economic, political, regulatory and business conditions.

## TERMS AND CONDITIONS OF THE BONDS

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

The ¥35,000,000,000 Zero Coupon Convertible Bonds due 2025 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the “Bonds”, which term shall, unless the context requires otherwise, include Stock Acquisition Rights (as defined below) incorporated in the Bonds) in the denomination of ¥10,000,000 each issued by Park24 Co., Ltd. (the “Company”) are constituted by a trust deed (the “Trust Deed”) dated October 29, 2018 made between the Company and The Law Debenture Trust Corporation p.l.c. (the “Trustee”, which expression shall include its successors as trustee 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 October 29, 2018 relating to the Bonds between, *inter alios*, the Company, the Trustee, Mizuho Trust & Banking (Luxembourg) S.A. as principal agent (the “Principal Agent”), Mizuho Trust & Banking (Luxembourg) S.A. as registrar (the “Registrar”) and the other agents referred to therein are available for inspection by prior appointment 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 the Principal Agent. References herein to the “Agents” shall, unless the context otherwise requires, include the Principal Agent and any other or further agent(s) appointed by the Company in connection with the Bonds for the purpose of making payments and transfers and acceptance of notices of the exercise of the Stock Acquisition Rights from time to time.

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of all those provisions of the Agency Agreement applicable to them. The statements in these terms and conditions (these “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 per cent. of the principal amount of the Bonds. The issue price of the Stock Acquisition Rights is zero.

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

#### **1.2 Title**

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

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

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

*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 Bonds evidenced by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds.*

### 1.3 Status

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

### 1.4 Transfers of Bonds

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

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

**1.4.2** *Transfers:* A Bond may be transferred upon the surrender (at the specified office(s) of the Principal Agent 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 Registrar and the relevant Agent may reasonably require. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar, the Principal Agent and the Trustee. A copy of the current regulations will be made available during normal business hours by the Principal Agent or the Registrar to any Bondholder upon 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. 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 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 Certificates in relation thereto shall be effected without charge by or on behalf of the Company, the Registrar or the Agents, but upon (i) payment by the Bondholder of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security as the Registrar or the relevant Agent may require); and (ii) 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 due date for redemption pursuant to Condition 7.1, 7.5, 7.6 or 7.7, (ii) after a Conversion Notice (as defined in Condition 3.1) has been given with respect to such Bond pursuant to Condition 5.9.1 (unless such Conversion Notice is withdrawn pursuant to Condition 5.9.4 in which event registration of

transfer of such Bond may be made on or after the date on which such Conversion Notice is withdrawn) or (iii) after a notice of redemption has been given pursuant to Condition 7.2, 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 or prior thereto, 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-kan*) which is an entity entitled under the Book-Entry Act to open and maintain an account for another person or entity;

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

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

"Annual Fiscal Period" means a period commencing on November 1 and ending on the following October 31; provided that, if the Company shall change its financial year so as to end on a date other than October 31, "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;

"Asset Transferee" has the meaning provided in the definition of Asset Transfer Event;

"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;



“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 of them under these Conditions or the Trust Deed, such other auditors or firm of auditors as may be appointed by the Company to act as such and promptly notified in writing to the Trustee;

“Authorised Officer” means any one of the Directors or officers of the Company or the New Obligor (as the case may be) or any other person whom the Company or the New Obligor (as the case may be) shall have identified to the Trustee by notice in writing as being duly authorised to sign any document or certificate on behalf of the Company or the New Obligor (as the case may be);

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

“Base Dividend” has the meaning provided in Condition 5.2.4;

“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 the relevant decision in accordance with the Companies Act and such company’s articles of incorporation and other internal regulations, any 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;

“Book-Entry Act” means the Act Concerning Book-Entry Transfer of Corporate Bonds, Shares etc. of Japan (Act No. 75 of 2001, as amended);

“Business Day” has the meaning provided in Condition 8.3;

“Certificate” has the meaning provided in Condition 1.1;

“Civil Rehabilitation Act” means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

“Clean-up Redemption Notice” has the meaning provided in Condition 7.2;

“Closed Period” has the meaning provided in Condition 7.10;

“Closing Date” means October 29, 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 and its Consolidated Subsidiaries 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 and its Consolidated Subsidiaries 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 of the Company) or more of the Company’s voting rights as calculated in accordance with the Companies Act;

“Conversion Notice” means a duly completed and signed notice of conversion required to accompany any Bonds deposited for the purposes of the exercise of the Stock Acquisition Rights, the current form of which is set out in Schedule A to the Agency Agreement;

“Conversion Price” has the meaning provided in Condition 5.1.3;

“Corporate Event” has the meaning provided in Condition 6.1;

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

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

“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 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;

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

“Due Date” has the meaning provided in Condition 9;

“Exercise Period” has the meaning provided in Condition 5.1.4;

“Extraordinary Dividend” has the meaning provided in Condition 5.2.4;

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

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

“Fiscal Period” means, as the context may require, a period (i) commencing on November 1 ending on the succeeding October 31; or (ii) three month periods each commencing on November 1, February 1, May 1 and August 1; provided that, if the Company shall change its financial year so as to end on a date other than October 31, 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 approved when required to do so in writing by the Trustee or, if the Company fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser or otherwise in connection with such appointment, as may be appointed by the Trustee in its absolute discretion (without liability for so doing) following notification to the Company, which appointment shall be deemed to be an appointment of the Company;

“Issue Price” has the meaning provided in Condition 1.1;

“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);

“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;

“Principal Subsidiary” means any Consolidated Subsidiary of the Company, (i) whose net sales as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, those annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent. or more of the net sales of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 per cent. or more of the total assets of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements. A certificate signed by a Representative Director or an Authorised Officer of the Company that in the Company’s opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

“Proceedings” has the meaning provided in Condition 21.2;

“Record Date” means the date fixed by the Articles of Incorporation of the Company 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 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;

“Representative Director” means a Director of the Company (or the New Obligor, as the case may be) who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company (or the New Obligor, as the case may be) within the meaning of the Companies Act;

“Retroactive Adjustment” has the meaning provided in Condition 5.3;

“Securities” includes, without limitation, Shares, other shares, options, warrants or other rights (including stock acquisition rights) to subscribe for or purchase or acquire Shares and securities convertible into or exchangeable for Shares;

“Shareholder Determination Date” means (i) any Record Date and (ii) any other date set for the purpose of determination of the 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);

“Squeezeout Effective Date” has the meaning provided in Condition 7.6.1;

“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 Company’s Articles of Incorporation, for the purpose of, including but not limited to, 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 (*kabushiki 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;

“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; and

“yen” and “¥” mean Japanese yen, the lawful currency of Japan.

### **3.2 Construction of Certain References**

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

Except where the context requires otherwise, references to the “issue” of Shares shall include the transfer and/or delivery of Shares by the Company, whether newly issued or previously issued and held by or on behalf of the Company (and the words “issue”, “issued” and “issuable” shall be construed accordingly), and references in these Conditions to the word “acquire” used in conjunction with the Shares shall be read as including both the words “issue” and “transfer”, and the words “acquired” and “acquisition” shall be construed accordingly and references to “delivery” used in respect of the Shares shall be read as including the transfer of Shares by way of Japan Securities Depository Center, Inc.’s system. The words “substitution” and “grant” used in relation to the exchange of the Company’s obligations in respect of the Bonds for those of a New Obligor following a Corporate Event shall be read as including the necessary legal concepts for such exchange to occur under both Japanese law and English law.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

## **4 Default Interest**

The Bonds do not bear interest unless payment of any amount in respect of any Bond is improperly withheld or refused, in which case such unpaid amount will bear interest (both before and after judgment) from the date of default to the earlier of (i) the day on which all sums due in respect of such Bond up to but excluding that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions) at the rate of interest per annum determined by the Principal Agent as being equal to the offered rate quoted by a leading bank in the Euro-yen market selected by the Principal Agent for deposits in yen for the period of three months, as

at 11:00 a.m. (London time) on the date of such default. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

## **5 Exercise of Stock Acquisition Rights**

### **5.1 Conversion Price, Exercise Period, Shares Issuable and Procedure**

**5.1.1** *Contribution of the Bond:* Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition Right incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which having been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond as of the Stock Acquisition Date.

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

*For the avoidance of doubt, if a Bondholder would receive a number of Shares (“Non-unit Shares”) not constituting a unit (tangen) of Shares or integral multiples thereof upon exercise of the Stock Acquisition Right(s) or upon a Retroactive Adjustment, such Non-unit Shares shall be delivered to the relevant Bondholder in the same manner as the Shares constituting a whole unit of Shares, and no cash amounts shall be paid by the Company in respect of such Non-unit Shares. As of the date of this Offering Circular, the Company’s Articles of Incorporation provide that 100 Shares constitute one unit. Under the book-entry transfer system established pursuant to the Book-Entry Act, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges. Further, a holder of Shares representing less than one unit cannot exercise any voting rights pertaining to those Shares. A holder of Shares representing less than one unit may at any time require the Company to purchase such Shares through the relevant account managing institution. The Company’s Articles of Incorporation currently provide that a holder of Shares representing less than one unit may also request the Company to sell to such holder Shares constituting less than one unit which, when added to the Shares held by such holder, shall constitute one full unit.*

**5.1.3** *Conversion Price:* The price at which Shares shall be acquired upon exercise of the Stock Acquisition Rights (the “Conversion Price”) shall initially be ¥3,847 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 during the period from, and including, November 12, 2018 to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on October 15, 2025, or (i) if the relevant Bond shall have been called for redemption pursuant to Condition 7.2, Condition 7.3 or Condition 7.4, 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 the relevant Bondholder has elected that such Bond shall not be redeemed pursuant to the second paragraph of Condition 7.4), (ii) if the Bonds shall become due to be redeemed pursuant to any of Conditions 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, (iii) if the relevant Bond shall have been purchased by the Company or a Subsidiary pursuant to Condition 7.8 and cancelled by the Company pursuant to Condition 7.9, 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 (w) in no event shall the Stock Acquisition Rights be exercised after October 15, 2025, (x) 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), and (y) the Stock Acquisition Rights may not be exercised where the relevant Stock Acquisition Date (or the next following Tokyo Business Day, if the Stock Acquisition Date will not be a Tokyo Business Day) would fall on a date within any Shareholder Determination Date Restriction Period; provided that if there is a change to the mandatory provisions of Japanese law, 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 and the definition of Shareholder Determination Date Restriction Period may be amended to the extent permitted by applicable law by the Company to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders and notice thereof (together with the reason for such change) shall be given promptly by the Company to the Trustee in writing and to the Bondholders in accordance with Condition 19. If the Company sets a Shareholder Determination Date on a day other than such dates as are fixed by the Articles of Incorporation of the Company at the date hereof, the Company shall give the Trustee in writing and the Bondholders in accordance with Condition 19 a notice of each such Shareholder Determination Date and of each such period in which the Stock Acquisition Rights may not be exercised pursuant to the provisions in this paragraph, no later than the five Tokyo Business Days prior to such Shareholder Determination Date, as the case may be.

The Company shall give the Trustee in writing and the Bondholders in accordance with Condition 19 a notice of the determination and period referred to in (x) above of this Condition 5.1.4 at least 30 days prior to the commencement of such period.

The period during which the Stock Acquisition Rights are exercisable pursuant to this Condition 5.1.4 is referred to in these Conditions as the “Exercise Period”. Upon 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.

*As of the date of this Offering Circular, the Company’s Articles of Incorporation fix October 31 and April 30 as the Record Dates. By way of example, in respect of the Record Date falling on April 30, 2019, it is anticipated that the Stock Acquisition Rights will not be exercisable where the Stock Acquisition Date would fall on any day from (and including) April 25, 2019 to (and including) April 30, 2019.*

The term “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.

- 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).

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

Upon the occurrence of any of the events described below in this Condition 5.2, 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 allotment, grant, issue or offer of any rights or warrants (including stock acquisition rights) which requires an adjustment of the Conversion Price pursuant to Condition 5.2.2 or 5.2.3, or
- (ii) the last date (in the place of issue) of the period during which payment may be made for any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.5 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 grant, issue, transfer or offer 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, Condition 5.2.3, Condition 5.2.5, Condition 5.2.6, Condition 5.2.7 or Condition 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 of this Condition 5.2.2) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above of this Condition 5.2.2) 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 of this Condition 5.2.2 or, as the case may be, (ii) above of this Condition 5.2.2.

Such adjustment shall become effective (in a case within (i) above of this Condition 5.2.2) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above of this Condition 5.2.2) 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):

- (iii) 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
- (iv) 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 of this Condition 5.2.3) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above of this Condition 5.2.3) 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 of this Condition 5.2.3) on such Record Date or (in a case within (ii) above of this Condition 5.2.3) 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 of this Condition 5.2.3 or, as the case may be, (ii) above of this Condition 5.2.3.

Such adjustment shall become effective (in a case within (i) above of this Condition 5.2.3) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above of this Condition 5.2.3) 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 of this Condition 5.2.4, 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 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 Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period:

“Base Dividend” means: ¥181,930

*The Base Dividend is the amount obtained by multiplying the Relevant Number of Shares (calculated at the initial Conversion Price) by ¥70.*

“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:

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

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 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 or transfer) of the period during which payment may be made in respect of such convertible or exchangeable securities;

- 5.2.6** *Issue to Non-shareholders of Shares:* if the Company shall issue or transfer any Shares (other than Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted, issued or offered by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted, issued or offered by the Company, (iii) to the extent permitted by the Company's Articles of Incorporation, 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 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:

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

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 or transfer) 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 non-shareholders 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:

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

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 grant, issue or offer 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:

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

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, transfer 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 grant, issue, transfer or offer 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 at 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 related event with 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, 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; and

**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.

### **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**

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 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 Principal Agent, the Registrar, the Custodian, the Custodian’s Agent or any other Agents shall be under any duty to determine, calculate or verify the adjusted Conversion Price or whether any adjustment is required to be made, and none of them will be responsible to Bondholders for any loss arising from any failure to do so.



## 5.8 Notification of Adjustments

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

## 5.9 Procedure for Conversion

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

**5.9.2** *Custodian and Custodian's Agent:* The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Custodian and to appoint another Custodian; provided that there shall always be a Custodian, being a non-resident of Japan and having a specified office outside Japan. Notice of any such termination or appointment and of any changes in the specified office of the Custodian will be given to the Bondholders in accordance with Condition 19. The Custodian has, pursuant to the Agency Agreement, initially appointed 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 relevant Agent will not be bound to make any payments until the relevant 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 relevant Agent have been made. Except as aforesaid, the Company will pay the expenses arising on the acquisition of Shares upon exercise of the Stock Acquisition Rights (which for the avoidance of doubt does not include the exercising Bondholder's own costs and expenses for holding such Shares) and all charges of the Agents in connection therewith (including all costs, charges and expenses incurred by any delegate). 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 relevant 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 relevant Agent disclosing otherwise confidential information for the purposes of the relevant 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.

**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 relevant Certificate therefor 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 Notices 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 at 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 or regulation or the Articles of Incorporation of the Company:

- (i) as soon as practicable and in any event within 14 days after the Stock Acquisition Date, in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, 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 purposes of such transfer); and
- (ii) as soon as practicable, the Company shall deliver to the Custodian's Agent for the account of the Custodian or its nominee, securities (other than the 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 (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid), either

- (a) as soon as practicable, and in any event within 14 days after the Stock Acquisition Date, deliver or cause to be delivered, to or 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 upon 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, 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 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 Shares), property or cash required to be delivered upon 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 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, promptly after the first public announcement of such proposed Corporate Event) and, as soon as practicable thereafter, of its proposals in relation to the Bonds (including the Stock Acquisition Rights). Such notice shall specify the anticipated Corporate Event Effective Date. If those proposals and/or that date have not been determined, the notice shall state that fact.

### **6.3 Notice of Passing of Resolution**

Upon the occurrence of a Corporate Event, the Company shall forthwith give a further notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of that fact, the Company's proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its "Corporate Event Effective Date".

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

**6.4.1** *Transfer:* If a Corporate Event occurs and

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

**6.5.7** *Amount of Stated Capital and Additional Paid-in Capital:* As of the date on which the exercise of a New Stock Acquisition Right becomes effective, one-half of the “maximum capital and other

increase amount” as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital; and

**6.5.8** *Others:* Fractions of a share of common stock of the New Obligor will not be issued upon exercise of the New Stock Acquisition Rights and no adjustment or cash payment will be made in respect thereof. The holder of each bond assumed (by way of substitution or otherwise only for the purposes of Japanese law), or bond provided, by the New Obligor may not transfer such bond separately from the New Stock Acquisition Rights. In cases where such restriction on transfer of the bond would not be effective under the then applicable law, a stock acquisition right incorporated in a bond equivalent to the Bond may be issued to the holder of each Bond outstanding immediately prior to the Corporate Event Effective Date in place of the Stock Acquisition Right and the Bond.

## **6.6 No Statutory Put Rights**

Each Bondholder by accepting or acquiring any Bond agrees that its remedies if a Corporate Event or a Squeezeout Event occurs shall not include any statutory rights provided by Japanese law to require the Company to repurchase such Bond at fair market value, such rights being waived to the fullest extent permitted by applicable law.

## **6.7 Subsequent Corporate Events**

The above provisions of this Condition 6 shall apply in the same way to any subsequent Corporate Events.

## **7 Redemption, Purchase and Cancellation**

### **7.1 Final Maturity**

Unless the Bonds have previously been redeemed or purchased and cancelled, 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 October 29, 2025. The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

### **7.2 Redemption at the Option of the Company upon Reduced Outstanding Amounts**

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

### **7.3 Redemption at the Option of the Company upon Increased Share Prices**

At any time on or after October 29, 2021, the Company may, but shall not be bound to, 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, provided, however, that no such redemption may be made unless the Closing Price of the Shares for each of the 20 consecutive Trading Days, the last of which occurs not more than 30 days prior to the date upon which the Optional Redemption Notice (as defined below) is first given, is at least 120 per cent. of the Conversion Price in effect on each such Trading Day (taking into account any Retroactive Adjustment not then reflected in the Conversion Price). To exercise such option to redeem, the Company shall give not less than 30 nor more than 60 days’ prior notice of such redemption (the “Optional Redemption Notice”) to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable); and upon giving such notice, all such Bonds shall be redeemed by the Company on the date fixed for such redemption.

### **7.4 Redemption for Taxation Reasons**

The Company may, but shall not be bound to, at any time, having given not less than 30 nor more than 60 days’ notice (the “Tax Redemption Notice”) to the Bondholders in accordance with Condition 19

(which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for redemption (the “Tax Redemption Date”), if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice (i) that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after October 11, 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 stating 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 bound 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 and the Trustee shall not be responsible for any loss occasioned by acting on such certificate. Upon the giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent. of their principal amount on the Tax Redemption Date.

Notwithstanding the foregoing, if the Company shall have given a Tax Redemption Notice, and if the outstanding principal amount of the Bonds at the time when such Tax Redemption Notice is given is 10 per cent. or more of the aggregate principal amount of the Bonds as of the date of issue thereof, each holder of the Bonds will have the right to elect, and the Tax Redemption Notice shall state that such Bondholder will have the right to elect, that its Bonds should not be redeemed and that the provisions set forth in Condition 9 shall not apply in respect of payment of any amount to be made in respect of the Bonds which will fall after the Tax Redemption Date and payment of all amounts due on such Bonds thereafter shall be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges referred to in Condition 9. Such right of the Bondholder shall be exercised by the Bondholder giving notice to the Company in the form (for the time being current) obtainable from any Agent no later than 20 days prior to the Tax Redemption Date.

## **7.5 Corporate Event Redemption**

Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days’ prior notice to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out below and in accordance with the provisions of this Condition 7.5 (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 stating that the Company does

not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. The Trustee and the Bondholders shall be bound to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.5 and the Trustee shall not be responsible for any loss occasioned by acting on such certificate.

Any notice of redemption given under this Condition 7.5 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 Condition 7.5(iv)) 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 October 15, 2025, the Corporate Event Redemption Price shall be determined by reference to the following table:

Corporate Event Redemption Date	Reference Parity (Percentage)										
	60.00	70.00	80.00	90.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00
October 29, 2018	96.57	98.31	100.97	104.69	109.51	115.47	122.57	130.75	140.01	150.00	160.00
October 29, 2019	96.87	98.44	100.92	104.50	109.21	115.16	122.31	130.59	140.00	150.00	160.00
October 29, 2020	97.04	98.42	100.71	104.10	108.67	114.58	121.83	130.33	140.00	150.00	160.00
October 29, 2021	97.36	98.51	100.59	103.80	108.14	113.64	120.23	130.00	140.00	150.00	160.00
October 29, 2022	97.75	98.61	100.40	103.43	107.75	113.38	120.21	130.00	140.00	150.00	160.00
October 29, 2023	98.27	98.76	100.10	102.79	107.05	112.92	120.17	130.00	140.00	150.00	160.00
October 29, 2024	99.03	99.13	99.72	101.61	105.60	111.90	120.08	130.00	140.00	150.00	160.00
October 15, 2025	100.00	100.00	100.00	100.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00

“Reference Parity” means:

- (i) if the consideration payable to holders of the Shares in connection with the relevant Corporate Event consists of cash only, the amount of such cash per Share divided by the Conversion Price in effect on the date of occurrence of the relevant Corporate Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; and
- (ii) in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days commencing on the Trading Day immediately following:
  - (a) the date on which the terms and conditions of the relevant Corporate Event (including the consideration payable or deliverable to holders of the Shares in connection therewith) are approved at a meeting of the Board of Directors of the Company, as required under the Companies Act; or
  - (b) (if the terms and conditions of the relevant Corporate Event are announced to the public later than that date) the date of such public announcement, divided by the Conversion Price in effect on the last day of such five consecutive Trading Day period (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

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

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



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

If the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.5, 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 160.00 per cent., the Corporate Event Redemption Price shall be 160.00 per cent.

If the Corporate Event Redemption Date falls during the period from (and including) October 16, 2025 to (and including) October 28, 2025, 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 give notice to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the “Delisting Redemption Date”) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice). The Trustee shall be entitled to assume until it has actual written notice 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 *mutatis mutandis* 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 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 Conditions 6 and 7.5, or Condition 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 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 in writing and to the Bondholders in accordance with Condition 19.

## **7.7 Squeezeout Redemption**

**7.7.1** *Redemption:* Upon the occurrence of a Squeezeout Event, the Company shall give notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with Condition 7.7.2, together with all Additional Amounts due on the Bonds (if any), on the date (the "Squeezeout Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date (the "Squeezeout Effective Date") of the acquisition 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).

**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, the amount of cash which the holder of a Share would receive in exchange for Shares to be transferred following the Squeezeout Event, divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the date of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment becoming effective during such period, where the event requiring such Retroactive Adjustment takes place after such period) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

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

## **7.8 Purchase of Bonds by the Company**

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 or otherwise to exercise any voting rights and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for voting on any Extraordinary Resolution 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 of the date of the relevant notice, the Closing Price of the Shares as of the latest practicable date prior to the publication of the relevant notice, the applicable date fixed for redemption and the redemption price of the Bonds, the last day on which the Stock Acquisition Rights may be exercised and the aggregate principal amount of the Bonds outstanding as of the latest practicable date prior to the publication of the relevant notice. No notice of redemption given under Condition 7.3 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(x) or within 15 days following the last day of a Closed Period.

## **7.11 Priorities among Redemption**

If any notice of redemption 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, required to be, given pursuant to any other of such Conditions, except for such Bonds so elected by the relevant Bondholder not to be redeemed pursuant to Condition 7.4.

If (a) the Company becomes obliged to give notice of redemption pursuant to Condition 7.5 or Condition 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, Condition 7.3 or Condition 7.4 may not subsequently be given.

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

## **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 any Agent. Such payments will be made by transfer to its Registered Account subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the “Code”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto. If an amount which is due in respect of the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

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

## **8.2 Agents and Registrar**

The initial Principal Agent and the Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Agent, the Registrar or any other Agent and to appoint other or further Agents, provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; and (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed. Notice of any such termination or appointment and of any changes in the specified offices of the Principal Agent, the Registrar or any other Agent will be given to the Bondholders in accordance with Condition 19.

## **8.3 Payments on Business Days**

If the due date for payment of any amount in respect of any Bond is not a Business Day, then the holder of such Bond shall not be entitled to payment of the amount due until the next following Business Day and no other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 8.3 falling after the due date. “Business Day” means any day on which banks are open for business in the place of the specified office of the Agent at which (where required) the Certificate is presented for payment and (in the case of payment by transfer to a Registered Account as referred to in Condition 8.1) on which dealings in foreign currency may be carried on both in Tokyo and in such place.

## **9 Taxation**

All payments by the Company in respect of the Bonds, subject to Condition 7.4, 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) to 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 Japanese tax law requirements, 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 the receipt of payment in respect of any Bond; or
- (ii) in respect of which 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 such Certificate 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 in accordance with and subject to Condition 7.4.

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

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

## 10 Events of Default

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

- 10.1** *Non-Payment:* the Company defaults in the payment of the principal of any of the Bonds under Condition 7.4 as and when the same shall become due and payable, and such default is not remedied within seven 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 make payments in respect 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 ¥500,000,000 (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 having an aggregate outstanding principal amount of at least ¥500,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is not paid on demand (or at the expiration of any applicable grace period as originally provided); or
- 10.4** *Cross Default on Guarantee/Indemnity:* the Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least ¥500,000,000 (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 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 (in the opinion of the Trustee) any material 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 Conditions 7.5, 7.6 or 7.7 prior to the date or

proposed date of such winding-up, dissolution or liquidation, or, (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 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

**10.7.2** if 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 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 (in the opinion of the Trustee) any material part of its property, or makes a general assignment for the benefit of its creditors; or

**10.9** *Stoppage of 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 or Condition 7.6 prior to the date or proposed date of such cessation of business, or (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 Subsidiary of the Company or Holding Company, in any such case, (where relevant) 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

**10.10.2** 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 (in the opinion of the Trustee) any material 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 (in the opinion of the Trustee) any material part of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days;

and, in the case of any of the events described in Conditions 10.2, 10.3, 10.4, 10.5 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders. The Trustee, in forming any opinion or in making any determination under or required or contemplated by this Condition 10, may exercise all or the rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law and may also seek instructions or directions from the Bondholders.

For the purposes of Conditions 10.3 and 10.4, any indebtedness which is in a currency other than Japanese yen may be translated into Japanese yen at the spot rate for the sale of relevant currency against the purchase of Japanese yen quoted by any leading bank selected by the Trustee 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 premium, if any, and default interest) as provided in the Trust Deed.

## 11 Undertakings

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

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

- 11.1.1 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 not take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of Incorporation of the Company as then in effect, the Stock Acquisition Rights may be exercised legally for Shares and the Shares issued upon exercise of the Stock Acquisition Rights, if any, 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 give notice to the Bondholders in accordance with Condition 19 as soon as practicable after it effects any change in its financial year or in the Record Date (including the setting of new Record Dates) for the payment of any cash dividend;
- 11.1.4 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 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, and (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, Condition 7.6 or Condition 7.7 (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), (y) taking any action provided in items (ii) and (iii) of Condition 7.6.1, or (z) proposing an amendment to the Articles of Incorporation of the Company 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 (*kabushiki 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 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** not create or issue any class of share capital other than Shares, without giving notice to the Bondholders in accordance with Condition 19, at least 14 days prior to the date of such creation or issue;
- 11.1.7** 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** 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** 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 Principal Agent, the other Agents, the Custodian and the Custodian's Agent (including the cost of providing notices) 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 in its sole discretion, without the consent of the Bondholders, but shall not be obligated to, agree with the Company to the substitution in place of the Company (or any previous substitute under this Condition 12) as the principal obligor under the Bonds and the Trust Deed of any Subsidiary of the Company subject to (i) the Bonds continuing to be convertible into Shares as provided in these Conditions, with such amendments as the Trustee shall consider appropriate, and (ii) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19.

When determining pursuant to these Conditions whether an event or circumstance is materially prejudicial to the interests of Bondholders, the Trustee may obtain such directions from Bondholders and/or expert advice as it considers appropriate and rely thereon without responsibility for delay occasioned by so doing.

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



## 12.2 Substitution under a Corporate Event

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

- (i) under such supplemental trust deed, the New Obligor agrees, in form and manner satisfactory to the Trustee, to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate) with effect (as specified in this Condition 12.2) as if the New Obligor had been named in the Trust Deed and the Bonds as the principal obligor in place of the Company and provided that the holders of the Bonds then outstanding shall be granted New Stock Acquisition Rights;
- (ii) except in the case of a Merger Event, pursuant to such supplemental trust deed the Company guarantees, in a form and manner satisfactory to the Trustee, the payment obligations of the New Obligor under the Trust Deed and the Bonds with effect as specified in this Condition 12.2, provided that no such guarantee will be required if the Company determines and has delivered to the Trustee no later than 10 calendar days prior to the relevant Corporate Event Effective Date a certificate of the Company signed by a Representative Director of the Company that, as at 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 and which certificate the Trustee shall be entitled to rely upon without incurring any liability to any person for doing so. In making this determination, the Company shall consult an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;
- (iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "New Territory") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the "Company's Territory"), the New Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company's Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.4 in relation to payment of Additional Amounts by the New Obligor (and/or the guarantor, if any);
- (iv) a Representative Director of the New Obligor certifies that it will be solvent immediately after such substitution (if the Trustee receives such certification, the Trustee need not have regard to the New Obligor's financial condition, profits or prospects or compare them with those of the Company);
- (v) the Company shall have certified (by a certificate of a Representative Director) to the Trustee that the New Stock Acquisition Rights satisfy the provisions of Condition 6.5;
- (vi) the Company and the New Obligor comply with such other requirements as the Trustee may direct in the interests of the Bondholders; and
- (vii) such substitution and grant of New Stock Acquisition Rights become effective on the Corporate Event Effective Date (or in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, within 14 days after the relevant Corporate Event Effective Date).

### **12.3 Release of Obligations**

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

### **12.4 Deemed Amendment**

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

- (i) the terms “Stock Acquisition Rights” and “Shares” shall, where the context so requires, include the New Stock Acquisition Rights and shares of common stock to be issued by the New Obligor; and
- (ii) references to the Company in Condition 10, in the definition of Principal Subsidiary and in the Trust Deed shall also include any guarantor pursuant to Condition 12.2(ii) except where the context requires otherwise.

### **13 Prescription**

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

### **14 Replacement of Bonds**

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Principal Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Company may require (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 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 Condition 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 advisors (evidenced by (a) a certificate of a Representative Director or an Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming 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 Authorised Officer and (b) an opinion addressed and delivered to the Trustee in a form satisfactory to it of independent legal counsel of recognised standing confirming 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 that it has as Trustee under the Trust Deed) shall be obliged to enter into such supplemental trust deed (in a form satisfactory to it) to effect such change (even if, in the opinion of the Trustee, that change may be materially prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing. The Company shall forthwith give notice to the Bondholders following the execution of any such supplemental trust deed in accordance with Condition 19.

## **15.3 Entitlement of the Trustee**

In connection with the exercise of its functions, rights, powers and discretions (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. The Trustee is entitled to enter into business transactions with the Company or any person or body corporate associated with the Company without accounting for any profit resulting therefrom.

The Trustee may rely without liability to Bondholders on any certificate or report prepared by the Auditors 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 or the Independent Financial Adviser or other expert (as the case may be) in respect thereof is limited by a monetary cap or otherwise; 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 obligated, to make such appointment in its absolute discretion.

## **19 Notices**

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). If publication in any of such newspapers is not (in the opinion of the Trustee) practicable, notices will be given in such other newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

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

## **20 Contracts (Rights of Third Parties) Act 1999**

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

## **21 Governing Law and Submission to Jurisdiction**

### **21.1 Governing Law**

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

### **21.2 Jurisdiction**

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Bonds (including any non-contractual obligations arising out of

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

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

The Company has irrevocably appointed Hackwood Secretaries Limited, as its agent in England to receive service of process in any Proceedings in England. If for any reason Hackwood Secretaries Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent 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 Trust Deed and Global Certificate contain 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 meanings in the paragraphs below. The following is a summary of those provisions:*

### **Notices**

So long as the Bonds are evidenced by the Global Certificate and the Global Certificate is registered in the name of a nominee on behalf of Euroclear and/or Clearstream, Luxembourg or any other clearing system as shall have been approved by the Trustee, 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 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 the relevant clearing system.

### **Meetings**

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

### **Exercise of Stock Acquisition Rights**

Subject to the requirements of the relevant 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 Bond. 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 of principal and premium (if any) and any other amount 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 such purpose.

Each payment will be made to, or to the order of, the person whose name is entered in the Register on the close of business on the Clearing System Business Day immediately prior to the date of payment, where "Clearing System Business Day" means Monday to Friday inclusive, except December 25 and January 1.

So long as the Global Certificate is held on behalf of the relevant clearing system, a "Business Day" for the purposes of Condition 8.3 shall be any day on which dealings in foreign currency may be carried on in Tokyo.

### **Transfers**

Transfers of interests in the Bonds in respect of which the Global Certificate is issued shall be effected through the records of the relevant clearing system and their respective participants in accordance with the rules and procedures of the relevant clearing system and their respective direct and indirect participants.

### **Prescription**

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

### **Trustee's Powers**

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers appropriate to do so in the circumstances, have regard to and rely upon any information made available to it by such clearing system or its operator as to the identity of its accountholders (either individually or by category) with entitlements to the relevant Bonds in respect of which the Global Certificate is issued and may consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

## **Cancellation**

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

## **Early Redemption by the Company**

The options and obligations of the Company to redeem the Bonds prior to maturity provided for in Conditions 7.2, 7.3, 7.4, 7.5, 7.6 and 7.7 shall be exercised or performed by the Company giving notice to the Bondholders within the time limits relating thereto set out therein and containing the information required of the Company in accordance with the relevant Condition.

## **Election of Bondholders**

The election option of the Bondholders provided for in Condition 7.4 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 the relevant clearing system in the form acceptable thereto from time to time.

## **Written Resolution/Electronic Consent**

While the Global Certificate is registered in the name of any nominee for, or a nominee for any common depositary for, the relevant clearing system, then (a) approval of a resolution proposed by the Company or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications system 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 matters that would otherwise require an Extraordinary Resolution to be passed at a meeting subject to a special quorum), take effect as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held, and shall be binding on all Bondholders whether or not they participated in such Electronic Consent; and (b) where Electronic Consent is not being sought, for the purpose of determining whether a written resolution 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 the Bonds evidenced by Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, provided that the Company and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Bondholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "commercially reasonable evidence" includes any certificate or other document issued by the relevant clearing system, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Bonds. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Bonds is clearly identified together with the amount of such holding. Neither the Company nor the Trustee shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

## **USE OF PROCEEDS**

The net proceeds from the issue of the Bonds are estimated to be approximately ¥35 billion after deducting expenses. The Company intends to apply the net proceeds as follows: (a) approximately ¥25 billion towards the repayment of indebtedness incurred in connection with the acquisition of National Car Parks Limited and (b) the remainder towards capital investments in accordance with the Group's business growth strategy of amalgamating people, cars, cities and communities and the Group's parking facilities.



## INFORMATION CONCERNING THE SHARES

### Changes in Issued Share Capital

The Company has an authorised share capital consisting of 283,680,000 Shares. As of July 31, 2018, 154,516,369 Shares were in issue, and the Company held 1,303 Shares as treasury stock, which was approximately 0.0 per cent. of the total Shares in issue.

The following table shows the changes in the issued share capital of the Company during the periods stated:

Date or Period	Event	Number of Shares Issued/ (Cancelled)	Total Number of Shares in Issue
November 1, 2012 to October 31, 2013 . . . .	Exercise of stock acquisition rights	446,000	150,790,504
September 30, 2014 . . . . .	Cancellation of treasury stock	(6,620,000)	144,170,504
November 1, 2013 to October 31, 2014 . . . .	Exercise of stock acquisition rights	1,001,400	145,171,904
November 1, 2014 to October 31, 2015 . . . .	Exercise of stock acquisition rights	296,100	145,468,004
October 31, 2016 . . . . .	Conversion of convertible bonds	416,131	145,884,135
November 1, 2015 to October 31, 2016 . . . .	Exercise of stock acquisition rights	549,900	146,434,035
November 1, 2016 to October 31, 2017 . . . .	Exercise of stock acquisition rights	288,800	146,722,835
November 1, 2017 to January 31, 2018 . . . .	Exercise of stock acquisition rights	41,800	146,764,635
February 1, 2018 to April 30, 2018 . . . . .	Exercise of stock acquisition rights and conversion of convertible bonds	7,665,434	154,430,069
May 1, 2018 to July 31, 2018 . . . . .	Exercise of stock acquisition rights	86,300	154,516,369

### Dividends

Year-end dividends may be recommended by the Company’s Board of Directors and approved by shareholders at the ordinary general meeting of shareholders customarily held in January of each year. If a year-end dividend is approved at the meeting, year-end dividend payments are made promptly thereafter to shareholders and pledgees of record as of October 31 of the relevant year. In addition to year-end dividends, the Company may, by resolution of its Board of Directors and subject to certain restrictions, make interim dividend payments in the form of cash distributions from its funds available for dividends to shareholders and pledgees of record as of April 30 of each year. 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—Distribution of surplus*”.

The following table sets forth the dividends paid by the Company for each of the periods shown:

Record Date	Dividend per Share
	(Yen)
October 31, 2013 . . . . .	40.00
October 31, 2014 . . . . .	50.00
October 31, 2015 . . . . .	55.00
October 31, 2016 . . . . .	65.00
October 31, 2017 . . . . .	70.00

It is the present intention of the Company’s Board of Directors to continue to pay dividends on an annual basis in accordance with its profit growth. The payment of dividends will, however, be subject to the Company’s earnings and financial condition and 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 for trading on the first section of the Tokyo Stock Exchange. The following table shows the highs and lows of the last reported closing prices of the Shares on the Tokyo Stock Exchange as well as the highs and lows of the closing Nikkei Stock Average (an index of 225 selected stocks listed on its First Section) and the closing level of the Tokyo Stock Price Index (“TOPIX”), for the periods indicated:

Calendar period	Price per Share		Nikkei Stock Average		TOPIX	
	High	Low	High	Low	High	Low
	<i>(Yen)</i>				<i>(Points)</i>	
2014 .....	¥2,244	¥1,581	¥17,935.64	¥13,910.16	1,447.58	1,132.76
2015 .....	2,929	1,773	20,868.03	16,795.96	1,691.29	1,357.98
2016 .....	3,570	2,705	19,494.53	14,952.02	1,552.36	1,196.28
2017 .....	3,230	2,583	22,939.18	18,335.63	1,831.93	1,459.07
2018:						
1st quarter .....	2,888	2,527	24,124.15	20,617.86	1,911.07	1,664.94
2nd quarter .....	3,175	2,841	23,002.37	21,292.29	1,815.25	1,703.80
3rd quarter .....	3,490	2,875	24,120.04	21,546.99	1,822.44	1,676.20
4th quarter (up to October 11) .....	3,510	3,390	24,270.62	22,590.86	1,824.03	1,701.86

On October 11, 2018, the last reported closing price of the Shares on the Tokyo Stock Exchange was ¥3,420 per Share and the Nikkei Stock Average and TOPIX closed at ¥22,590.86 and 1,701.86, respectively.

## Principal Shareholders and Other Information

As of April 30, 2018, the Company had 40,441 shareholders of record. The ten largest shareholders of record, the number of Shares held by them and their shareholding percentages to total Shares in issue as of April 30, 2018 were as follows:

Shareholder	Number of Shares held	Percentage of total Shares in issue
	<i>(Thousands)</i>	<i>(%)</i>
Senju Co., Ltd. <sup>(1)</sup> .....	21,746	14.08
Japan Trustee Services Bank, Ltd. (Trust Account) <sup>(2)</sup> .....	14,768	9.56
The Master Trust Bank of Japan, Ltd. (Trust Account) <sup>(2)</sup> .....	11,652	7.55
Koichi Nishikawa <sup>(3)</sup> .....	8,110	5.25
Isao Nishikawa <sup>(4)</sup> .....	6,194	4.01
Deutsche Bank Trust Company Americas ADR Dept Account .....	5,002	3.24
Northern Trust Co. (AVFC) Sub A/C American Clients .....	4,954	3.21
Nippon Signal Co., Ltd. .....	3,853	2.50
Kyoko Nishikawa <sup>(5)</sup> .....	3,200	2.07
State Street Bank West Client—Treaty 505234 .....	2,888	1.87
Total .....	<u>82,370</u>	<u>53.34</u>

Notes:

- (1) The Representative of this company is Mr. Koichi Nishikawa.
- (2) These shares are held in trusts for the benefit of their respective trust beneficiaries.
- (3) Mr. Koichi Nishikawa is the President of the Company.
- (4) Mr. Isao Nishikawa is a brother of Mr. Koichi Nishikawa.
- (5) Ms. Kyoko Nishikawa is the mother of Mr. Koichi Nishikawa.
- (6) The Company held 1,200 Shares as treasury stock as of April 30, 2018.

(7) The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of issued voting shares (excluding treasury stock) amounting to more than 5 per cent. of the total shares of a company that is 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, and also require such person to file an amendment concerning any subsequent changes of 1 per cent. or more of the total issued shares in such substantial shareholdings or any change in material matters set out in reports previously filed (see “*Description of the Shares and Certain Regulations—Reporting of Substantial Shareholders*”). As of the date of this Offering Circular, the Company had received the following reports that have not been reflected on the shareholders’ register and therefore have not been reflected in the above table:

- reports concerning changes in substantial shareholdings filed on April 12, 2018 by Harding Loevner LP informing of ownership by them of 10,383 thousand Shares, representing 7.07 per cent. of the total Shares in issue as of April 5, 2018.

(8) Save as stated above, so far as the Company is aware, there has been no change in the information provided above.

The ownership distribution of the Shares by category of shareholders of record as of April 30, 2018 was as follows:

	Number of shareholders	Number of Shares held	Percentage of total Shares in issue
		(Units)	(%)
Financial institutions . . . . .	67	368,213	23.84
Securities companies . . . . .	44	20,781	1.35
Other domestic corporations <sup>(2)</sup> . . . . .	282	272,898	17.68
Individuals and others <sup>(3)</sup> . . . . .	39,504	354,696	22.95
Foreign investors . . . . .	544	527,712	34.18
<b>Total</b> . . . . .	<u>40,441</u>	<u>1,544,300</u>	<u>100.00</u>

Notes:

- (1) 100 Shares constitute one unit of Shares. See “*Description of the Shares and Certain Regulations—Unit Share System*”.
- (2) 128 units of Shares included in the “Other domestic corporations” category and 40 Shares not constituting one unit of Shares are held under the name of JASDEC.
- (3) As of April 30, 2018, 12 units of Shares of treasury stock were included under the “Individuals and others” category.

As of July 31, 2018, the Company’s Directors together held 8,303 thousand Shares, representing 5.3 per cent. of total Shares in issue at that date.

## CAPITALISATION AND INDEBTEDNESS

The following table sets out the unaudited consolidated capitalisation and indebtedness of the Company as of July 31, 2018, which has been extracted without material adjustment from the Company's unaudited quarterly consolidated financial statements as of the same date, and as adjusted to give effect to the issue of the Bonds:

	<b>As of July 31, 2018</b>	
	<b>Actual</b>	<b>As adjusted</b>
	<i>(Millions of yen)</i>	
<b>Short-term debt:</b>		
Short-term borrowings <sup>(1)</sup> .....	37,445	37,445
Current portion of long-term debt <sup>(1)</sup> .....	3,652	3,652
Current portion of lease obligations .....	5,581	5,581
Total short-term debt .....	46,678	46,678
<b>Long-term debt:</b>		
Long-term debt <sup>(1)</sup> .....	64,729	64,729
Lease obligations .....	10,794	10,794
The Bonds now being issued .....	—	35,000
Total long-term debt .....	75,523	110,523
<b>Net Assets</b>		
<b>Shareholders' equity:</b>		
Common stock:		
Authorised: 283,680,000 Shares		
Issued: 154,516,369 Shares .....	19,661	19,661
Capital surplus .....	15,678	15,678
Retained earnings .....	56,637	56,637
Treasury stock, at cost: 1,303 Shares .....	(2)	(2)
<b>Accumulated other comprehensive income:</b>		
Net unrealised gains on securities .....	114	114
Revaluation reserve for land .....	(1,053)	(1,053)
Deferred losses on hedges .....	(72)	(72)
Foreign currency translation adjustments .....	(1,296)	(1,296)
Accumulated adjustments for retirement benefit .....	97	97
Total accumulated other comprehensive income .....	(2,210)	(2,210)
Stock acquisition rights .....	271	271
Non-controlling interests .....	263	263
Total net assets .....	90,298	90,298
<b>Total capitalisation and indebtedness</b> .....	<b>212,499</b>	<b>247,499</b>

Notes:

- (1) These borrowings and debt were unsecured.
- (2) As of July 31, 2018, the Company had no contingent liabilities.
- (3) Save as disclosed above, there has been no material change in the capitalisation and indebtedness, contingent liabilities and guarantees of the Group since July 31, 2018.

## PARK24 CO., LTD.

The Group is the largest parking facility operator and manager in Japan in terms of the total number of parking spaces. As of October 31, 2017, the Group operated or managed 18,255 parking facilities containing 683,707 parking spaces in Japan, and 2,206 parking facilities containing 547,263 parking spaces in its overseas operations. The total numbers of parking sites and parking spaces managed worldwide were 20,461 and 1,230,970, respectively. In Japan, the Group's parking business operates its 24-hour unmanned metered parking facilities under the brand name "Times", in which the Group primarily leases (and in certain circumstances, purchases) land for parking facilities, and designs and arranges construction of Times parking facilities, including installation of meters and other equipment. The Group conducts its Times operations under two business models: (i) the ST model and (ii) the TPS model (see "*—Operations—Main Business Models*" below). In addition to the Times operations, the Group also provides outsourced management services to parking facilities operated by others and operates monthly parking facilities.

The Group's other key business operations are the Group's "mobility" operations, consisting of a car rental service, a car sharing service and a roadside assistance service. The car rental and car sharing services offer domestic customers a personal transportation alternative to car ownership and the Group has aggressively expanded its fleet of vehicles to offer a wide transportation network to its customers. The Group's roadside assistance service primarily involves the Group providing logistical support to its end customers by identifying and coordinating with its membership network of roadside service providers to provide the necessary assistance.

The Group's operations are classified in three segments: the Parking business (Japan) segment, the Parking business (Foreign countries) segment and the Mobility business segment. The operating revenues of the Parking business (Japan) segment primarily consist of parking fees collected from Times parking facilities the Group operates and service fees from provision of management services to parking facilities operated by others. The operating revenues of the Parking business (Foreign countries) segment include parking fees collected from the Group's parking facilities operated overseas. The operating revenues of the Mobility business segment include fees generated through the Group's car rental services, car sharing services and roadside assistance services.

The Company had 92 consolidated subsidiaries and 1 affiliate accounted for by the equity method as of July 31, 2018. The Group has operations in Taiwan, Australia, New Zealand, United Kingdom, Singapore, Malaysia and in Korea, but the majority of the Group's operations are in and revenues are derived from its business activities in Japan. As of July 31, 2018, the Group had 4,911 full-time employees.

## Selected Financial Data

The following tables set forth selected financial data and other information for the Company as at the dates and for the periods indicated.

	As of or for the year ended October 31,			As of or for the nine months ended July 31,	
	2015	2016	2017	2017 (unaudited)	2018 (unaudited)
<i>(Millions of yen, except for per share data)</i>					
<b>Statement of Income Data:</b>					
Net sales	179,699	194,398	232,957	167,889	216,030
Parking business (Japan) <sup>(1)(3)</sup>	134,348	140,304	148,399	109,932	116,294
Parking business (Foreign countries) <sup>(1)(2)</sup>	—	1,938	23,671	15,785	48,036
Mobility business <sup>(1)</sup>	45,507	52,301	61,061	42,293	51,913
Inter-segment	(156)	(145)	(174)	(121)	(213)
Gross profit	46,707	53,049	60,189	42,311	51,133
Operating profit	18,731	21,453	20,506	13,718	15,131
Net income attributable to shareholders of Park24 Co., Ltd.	11,549	13,964	13,440	9,034	9,005
<b>Balance Sheet Data:</b>					
Total net assets	65,882	73,271	78,805	73,385	90,298
Total assets	145,462	152,939	256,342	223,933	274,903
<b>Per share data:</b>					
Net income attributable to shareholders of Park24 Co., Ltd.—Basic	79.45	95.75	91.67	61.62	60.24
Net income attributable to shareholders of Park24 Co., Ltd.—Diluted	75.01	90.36	86.87	58.39	58.13
Cash dividends, historical	55.00	65.00	70.00	—	—
Net assets	449.33	497.87	532.39	496.57	580.95

Notes:

- (1) Includes inter-segment.
- (2) Parking business (Foreign countries) was established as a new business segment during the year ended October 31, 2017 as a result of the acquisition of 80 per cent. of the shares in Secure Parking Pty Ltd, Secure Parking Singapore Pte. Ltd. and Secure Parking Corporation Sdn. Bhd. As such, operating results for the year ended October 31, 2016 have been restated for comparative purposes only.
- (3) Overseas sales for the year ended October 31, 2015 have been included in the Parking business (Japan) segment.

## RECENT BUSINESS

### Consolidated Results for the nine months ended July 31, 2018 (unaudited) compared to the nine months ended July 31, 2017 (unaudited)

#### *Overview*

Although the Japanese economy continues to be on a gradual recovery trajectory due to improvements in corporate results and a recovery in personal consumption, the future of the economy remains uncertain amid uncertainty about the global economy, reflecting policy trends and geopolitical risks overseas. In this business environment, the Group has advanced its efforts to expand its existing services and create new services, as well as to build business foundation for the overseas parking operators who joined the Group in 2017.

#### **Operating Results**

##### *Net sales*

Net sales of the Group for the nine months ended July 31, 2018 increased by ¥48,141 million, or 28.7 per cent., to ¥216,030 million compared to ¥167,889 million in the nine months ended July 31, 2017.

##### *Parking business (Japan) segment*

The Group's operating revenues (including inter-segment) in the Parking business (Japan) segment increased by ¥6,362 million, or 5.8 per cent., to ¥116,294 million in the nine months ended July 31, 2018 compared to ¥109,932 million in the nine months ended July 31, 2017. The result reflects the Group's efforts to enhance convenience for stores around the Group's Times parking sites as well as users of parking facilities, such as the development of new parking facilities through comprehensive community-based sales activities and the launch of "Times Pay" payment service. The percentage of the segment's operating revenues to the Group's total net sales (including inter-segment) for the nine months ended July 31, 2018 was 53.8 per cent., a decrease of 11.6 percentage points compared to 65.4 per cent. in the nine months ended July 31, 2017.

##### *Parking business (Foreign countries) segment*

The Group's operating revenues (including inter-segment) in the Parking business (Foreign countries) segment increased by ¥32,251 million, or 204.3 per cent., to ¥48,036 million in the nine months ended July 31, 2018 compared to ¥15,785 million in the nine months ended July 31, 2017. The result reflects the Group's addition of overseas parking business operators to its business, including those in Australia, New Zealand, the United Kingdom, Singapore and Malaysia. The percentage of the segment's operating revenues to the Group's total net sales (including inter-segment) for the nine months ended July 31, 2018 was 22.2 per cent., an increase of 12.8 percentage points compared to 9.4 per cent. in the nine months ended July 31, 2017.

##### *Mobility business segment*

The Group's operating revenues (including inter-segment) in the Mobility business segment increased by ¥9,620 million, or 22.7 per cent., to ¥51,913 million in the nine months ended July 31, 2018 compared to ¥42,293 million in the nine months ended July 31, 2017. The result reflects the Group's development of its rental car and car sharing services. The percentage of the segment's operating revenues to the Group's total net sales (including inter-segment) for the nine months ended July 31, 2018 was 24.0 per cent., a decrease of 1.2 percentage points compared to 25.2 per cent. in the nine months ended July 31, 2017.

##### **Cost of Sales**

The cost of sales increased by ¥39,319 million, or 31.3 per cent., to ¥164,897 million in the nine months ended July 31, 2018, compared to ¥125,578 million in the nine months ended July 31, 2017 primarily due to the consolidation of National Car Parks Limited. The ratio of cost of sales to net sales increased to 76.3 per cent. for the nine months ended July 31, 2018, compared to 74.8 per cent., for the nine months ended July 31, 2017.

##### **Gross Profit**

Gross profit for the nine months ended July 31, 2018 increased by ¥8,822 million, or 20.9 per cent., to ¥ 51,133 million compared to ¥42,311 million in the nine months ended July 31, 2017. As a result, the ratio of gross profit to net sales for the nine months ended July 31, 2018 sales decreased by 1.5 percentage points to 23.7 per cent., compared to 25.2 per cent. for the nine months ended July 31, 2017.

##### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by ¥7,409 million, or 25.9 per cent., to ¥36,002 million in the nine months ended July 31, 2018, compared to ¥28,593 million in the nine months ended July 31, 2017. This was primarily due to the consolidation of new overseas subsidiaries. The ratio of selling, general and administrative expenses to net sales for the nine months ended July 31, 2018 sales decreased by 0.3 percentage points to 16.7 per cent., compared to 17.0 per cent. for the nine months ended July 31, 2017.

### ***Operating Profit***

As a result of the above, operating profit for the nine months ended July 31, 2018 sales increased by ¥1,413 million, or 10.3 per cent., to ¥15,131 million, from ¥13,718 million in the nine months ended July 31, 2017.

### ***Other Expenses (income)***

Other expenses (income) increased by ¥545 million, to ¥637 million (expenses) in the nine months ended July 31, 2018, compared to ¥92 million (expenses) in the nine months ended July 31, 2017. This was primarily due to an increase in interest expenses and foreign exchange gain.

### ***Income before Income Taxes***

As a result of the foregoing, income before income taxes increased by ¥868 million, or 6.4 per cent., to ¥14,494 million in the nine months ended July 31, 2018, compared to ¥13,626 million in the nine months ended July 31, 2017.

### ***Income Taxes***

Income taxes increased by ¥686 million, or 15.1 per cent., to ¥5,244 million in the nine months ended July 31, 2018, compared to ¥4,558 million in the nine months ended July 31, 2017.

### ***Net income attributable to shareholders of Park24 Co., Ltd.***

As a result of the foregoing factors, net income attributable to shareholders of Park24 Co., Ltd. decreased by ¥29 million, or 0.3 per cent., to ¥9,005 million in the nine months ended July 31, 2018, compared to ¥9,034 million in the nine months ended July 31, 2017.

## **Consolidated Results for the year ended October 31, 2017 (audited) compared to year ended October 31, 2016 (audited)**

### ***Summary***

The Japanese economy was on a moderate recovery trend in the year ended October 31, 2017, as a result of economic policies and monetary policies of the Japanese government. However, the outlook for the global economy remained opaque, reflecting increasing uncertainties due to political instability in the United States and Europe and rising geographical uncertainties. On the other hand, despite continued improvement in the employment situation, consumer spending was still sluggish, and the management environment remained harsh.

In this environment, the Group expanded its parking facilities and network of mobility services, which form the base of its services. The Group also worked towards increased driver support by introducing new services and enhancing its point program. The Group also expanded overseas by acquiring 80 per cent. of the shares of Secure Parking Pty Ltd, an operator of parking businesses in Australia, New Zealand, and the United Kingdom, Secure Parking Singapore Pte. Ltd., operating a parking business in Singapore, Secure Parking Corporation Sdn. Bhd., a parking business operator in Malaysia, and 51 per cent. of the shares of National Car Parks Limited.

### ***Net sales***

Sales increased in each of the Group's business segments, resulting in an overall increase in the Group's net sales for the year ended October 31, 2017 by ¥38,559 million, or 19.8 per cent., to ¥232,957 million compared to ¥194,398 million in the previous year.

Parking business (Foreign countries) was established as a new business segment during the year ended October 31, 2017 as a result of the acquisition of 80 per cent. of the shares in Secure Parking Pty Ltd, Secure Parking Singapore Pte. Ltd. and Secure Parking Corporation Sdn. Bhd. As such, operating results for the year ended October 31, 2016 have been restated for comparative purposes only.

### ***Parking business (Japan) segment***

The Group's operating revenues (including inter-segment) in the Parking business (Japan) segment increased by ¥8,095 million, or 5.8 per cent., to ¥148,399 million in the year ended October 31, 2017 compared to ¥140,304 million in the previous year. The result reflects the expansion of TPS parking facilities. The percentage of the segment's operating revenues to the Group's total net sales (including inter-segment) was 63.7 per cent., a decrease of 8.4 percentage points compared to 72.1 per cent. in the previous year.

### ***Parking business (Foreign countries) segment***

The Group's operating revenues (including inter-segment) in the Parking business (Foreign countries) segment increased by ¥21,733 million, or 1,121.4 per cent, to ¥23,671 million in the year ended October 31, 2017 compared to ¥1,938 million in the previous year. The result reflects the Group's growth strategy, where it acquired shares of overseas parking business operators in 2017 to add operations in five countries, including Australia, New Zealand, the



UK, Singapore, and Malaysia, to the initial two countries it had operations in outside of Japan, which were Taiwan and Korea. The percentage of the segment's operating revenues to the Group's total net sales (including inter-segment) was 10.2 per cent.

#### *Mobility business segment*

The Group's operating revenues (including inter-segment) in the Mobility business segment increased by ¥8,760 million, or 16.7 per cent., to ¥61,061 million in the year ended October 31, 2017 compared to ¥52,301 million in the previous year. The result reflects growth in the Group's car sharing services. The percentage of the segment's operating revenues to the Group's total net sales (including inter-segment) was 26.2 per cent., a decrease of 0.7 percentage points compared to 26.9 per cent. in the previous year.

#### *Cost of Sales*

The cost of sales increased by ¥31,419 million, or 22.2 per cent., to ¥172,768 million in the year ended October 31, 2017, compared to ¥141,349 million in the previous year, primarily due to the acquisition of overseas subsidiaries. The ratio of cost of sales to net sales also increased to 74.2 per cent., compared to 72.7 per cent., for the previous year.

#### *Gross Profit*

Gross profit for the year ended October 31, 2017 increased by ¥7,140 million, or 13.5 per cent., to ¥60,189 million compared to ¥53,049 million the previous year. However, the ratio of gross profit to net sales decreased by 1.5 percentage points to 25.8 per cent., compared to 27.3 per cent. for the previous year.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by ¥8,087 million, or 25.6 per cent., to ¥39,683 million in the year ended October 31, 2017, compared to ¥31,596 million in the previous year. This was primarily due to an increase in personnel costs as well as an increase in amortisation of goodwill. The ratio of selling, general and administrative expenses to net sales increased by 0.7 percentage points to 17.0 per cent., compared to 16.3 per cent. for the previous year.

#### *Operating Profit*

As a result of the above, operating profit for the year ended October 31, 2017 decreased by ¥947 million, or 4.4 per cent., to ¥20,506 million, from ¥21,453 million in the previous year.

#### *Other Expenses (income)*

Other expenses (income) decreased by ¥98 million, or 26.2 per cent., to ¥276 million in the year ended October 31, 2017, compared to ¥374 million in the previous year. This was primarily due to foreign exchange gain and interest expense.

#### *Income before Income Taxes and Non-Controlling Interests*

As a result of the foregoing, income before income taxes and non-controlling interests decreased by ¥849 million, or 4.0 per cent., to ¥20,230 million in the year ended October 31, 2017, compared to ¥21,079 million in the previous year.

#### *Income Taxes*

Income taxes decreased by ¥388 million, or 5.5 per cent., to ¥6,727 million in the year ended October 31, 2017, compared to ¥7,115 million in the previous year.

#### *Net income attributable to shareholders of Park24 Co., Ltd.*

As a result of the foregoing factors, net income decreased by ¥524 million, or 3.8 per cent., to ¥13,440 million in the year ended October 31, 2017, compared to ¥13,964 million in the previous year.

### **Financial Condition**

#### ***Consolidated Balance Sheet as of July 31, 2018 (unaudited) compared to Consolidated Balance Sheet as of October 31, 2017 (audited)***

Total assets as of July 31, 2018 for the Group increased by ¥18,561 million, or 7.2 per cent., to ¥274,903 million compared to ¥256,342 million as of October 31, 2017. The principal factor of this increase was a temporary increase in cash and deposits due to the advanced provision of capital expenditure and a rise in property, plant and equipment including machinery, equipment and vehicles (net value).

The Group's total current assets as of July 31, 2018 increased by ¥13,583 million, or 23.0 per cent. to ¥72,680 million compared to ¥59,097 million as of October 31, 2017. This was primarily due to a temporary increase in cash on hand and in banks.

The Group's property, plant and equipment, net, as of July 31, 2018 increased by ¥8,789 million, or 7.6 per cent. to ¥124,331 million compared to ¥115,542 million as of October 31, 2017. Investments and other assets decreased by ¥3,811 million, or 4.7 per cent. to ¥77,892 million as of July 31, 2018 compared to ¥81,703 million as of October 31, 2017, mainly due to a decrease of goodwill.

Total liabilities as of July 31, 2018 increased by ¥7,068 million, or 4.0 per cent. to ¥184,605 million compared to ¥177,537 million as of October 31, 2017. This was primarily due to increase in short and long-term loans payable and other current liabilities including deposits. As of July 31, 2018, short-term borrowings (including current portion of long-term debt) amounted to ¥41,097 million and long-term debt was ¥64,729 million, a total amount of ¥105,826 million.

Total net assets of the Group as of July 31, 2018 increased by ¥11,493 million, or 14.6 per cent. to ¥90,298 million compared to ¥78,805 million as of October 31, 2017 mainly due to an increase due to the posting of profit attributable to owners of the parent and a rise in capital stock due to the conversion of bonds with stock acquisition rights.

#### ***Consolidated Balance Sheet as of October 31, 2017 (audited) compared to Consolidated Balance Sheet as of October 31, 2016 (audited)***

Total assets as of October 31, 2017 for the Group increased by ¥103,403 million, or 67.6 per cent., to ¥256,342 million compared to ¥152,939 million at the end of the previous year. The principal factor of this increase was an increase in goodwill due to the acquisition by the Group of the shares of the overseas parking business operators, as well as increases in machinery and vehicles due mainly to the acquisition of vehicles, and an increase in lease assets.

The Group's total current assets as of October 31, 2017 increased by ¥17,075 million, or 40.6 per cent. to ¥59,097 million compared to ¥42,022 million as of October 31, 2016. This was primarily as a result of overseas acquisitions.

The Group's property, plant and equipment, net, as of October 31, 2017 increased by ¥23,968 million, or 26.2 per cent. to ¥115,542 million compared to ¥91,574 million as of October 31, 2016 mainly due to an increase in vehicles and parking facilities. Investments and other assets increased by ¥62,360 million, or 322.4 per cent. to ¥81,703 million as of October 31, 2017 compared to ¥19,343 million as of October 31, 2016, mainly due to an increase in goodwill resulting from overseas acquisitions.

Total liabilities as of October 31, 2017 increased by ¥97,869 million, or 122.8 per cent. to ¥177,537 million compared to ¥79,668 million as of October 31, 2016. This was primarily due to an increase in long- and short-term borrowings, mainly due to the funds for the acquisition by the Group of the shares of the overseas parking business operators and their addition as consolidated subsidiaries, as well as increase in lease obligations. As of October 31, 2017, short-term borrowings (including current portion of long-term debt) amounted to ¥63,738 million and long-term debt was ¥40,699 million, a total amount of ¥104,437 million.

Total net assets of the Group as of October 31, 2017 increased by ¥5,534 million, or 7.6 per cent. to ¥78,805 million compared to ¥73,271 million as of October 31, 2016 mainly as a result of increases in retained earnings due to the posting of a profit attributable to owners of parent, as well as foreign currency translation adjustments.

#### **Liquidity and Capital Resources**

##### ***Cash Flows for the nine months ended July 31, 2018 (unaudited) compared to the Cash Flows for the nine months ended July 31, 2017 (unaudited)***

Net cash provided by operating activities increased by ¥7,750 million, or 30.1 per cent., to ¥33,468 million in the nine months ended July 31, 2018, compared to ¥25,718 million in the nine months ended July 31, 2017. This was primarily due to an increase in income before income taxes and depreciation and amortisation.

Net cash used in investing activities decreased by ¥48,569 million, or 65.9 per cent., to ¥25,154 million in the nine months ended July 31, 2018, compared to ¥73,723 million for the nine months ended July 31, 2017. This decrease was due to the acquisition of a new subsidiary in the previous term.

Net cash provided by financing activities decreased by ¥41,617 million, or 96.7 per cent., to ¥1,429 million in the nine months ended July 31, 2018, compared to ¥43,046 million for the nine months ended July 31, 2017. This was primarily due to an increase in procurement of M&A funding in the previous term.

As a result, cash and cash equivalents as of July 31, 2018 amounted to ¥27,320 million, compared to cash and cash equivalents as of July 31, 2017 of ¥14,556 million, an increase of ¥12,764 million, or 87.7 per cent.

**Cash Flows for the year ended October 31, 2017 (audited) compared to Cash Flows for the year ended October 31, 2016 (audited)**

Net cash provided by operating activities decreased by ¥1,337 million, or 3.4 per cent., to ¥38,291 million in the year ended October 31, 2017, compared to ¥39,628 million in the previous year. This was primarily due to increase in account receivables.

Net cash used in investing activities increased by ¥45,621 million, or 168.0 per cent., to ¥72,769 million in the year ended October 31, 2017, compared to ¥27,148 million for the previous year. This was primarily due to the acquisition of shares of the overseas parking business operators, as well as purchases of property, plant, and equipment associated with the opening of Times parking facilities and the acquisition of vehicles for service.

Net cash provided by financing activities was ¥32,570 million in the year ended October 31, 2017, whereas ¥13,037 million was used in for the previous year. This was primarily due to procurement of long and short term borrowings due to the acquisition of shares of the overseas parking business operators.

As a result, cash and cash equivalents as of October 31, 2017 amounted to ¥17,775 million, compared to cash and cash equivalents as of October 31, 2016 of ¥19,461 million, a decrease of ¥1,686 million, or 8.7 per cent.

**Funding**

The Group's principle sources of funding include short- and long-term borrowings from financial institutions and cash flows from operations.

As of October 31, 2017 and July 31, 2018, the Group's short-term borrowings (including current portion of long-term debt) amounted to ¥63,738 million and ¥41,097 million, respectively, and its long-term debt amounted to ¥40,699 million and ¥64,729 million, respectively. Interest-bearing debt (excluding lease obligations but including the Company's unsecured convertible bonds due 2018) as of October 31, 2017 and July 31, 2018 amounted to ¥104,437 million and ¥105,826 million, respectively, which were 40.7 per cent. and 38.5 per cent. of the Group's total assets as of October 31, 2017 and July 31, 2018, respectively.

The following table sets out the Group's interest-bearing debt (excluding lease obligations but including the Company's unsecured convertible bonds due 2018) as of the dates indicated:

	As of October 31,			As of July 31,	
	2015	2016	2017	2017 (unaudited)	2018 (unaudited)
	<i>(Millions of yen)</i>				
Short-term borrowings . . . . .	300	300	39,403	36,138	37,445
Current portion of long-term debt . . . . .	6,512	4,850	24,335	4,513	3,652
Long-term debt . . . . .	32,781	31,901	40,699	53,186	64,729
Total interest-bearing debt . . . . .	39,593	37,051	104,437	93,837	105,826

**Capital Expenditure**

The following table gives information with respect to the Group's capital expenditure on a consolidated basis for the periods indicated.

	Year ended October 31,		
	2015	2016	2017
	<i>(Millions of yen)</i>		
Capital expenditure . . . . .	27,543	30,892	39,702

The Group's capital expenditure is generally funded by internally generated funds and bank borrowings. The Group's capital expenditure for the three years ended October 31, 2015, 2016 and 2017 primarily related to investments in overseas operations, in expanding the Group's fleet of vehicles, and parking facilities as well as in system developments.

The Group intends to increase its aggregate capital expenditure levels for the next few years, the majority of which will be deployed towards the expansion of the Group's fleet of vehicles and the development of new parking facilities.

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

## BUSINESS

### Overview

The Group's operations are classified in three segments: the Parking business (Japan) segment, the Parking business (Foreign countries) segment and the Mobility business segment. The operating revenues of the Parking business (Japan) segment primarily consist of parking fees collected from Times parking facilities the Group operates and service fees from provision of management services to parking facilities operated by others. The operating revenues of the Parking business (Foreign countries) segment include parking fees collected from the Group's parking facilities operated overseas. The operating revenues of the Mobility business segment include fees generated through the Group's car rental services, car sharing services and roadside assistance services.

The Group is the largest parking facility operator and manager in Japan in terms of the total number of parking spaces. As of October 31, 2017, the Group operated or managed 18,255 parking facilities containing 683,707 parking spaces in Japan, and 2,206 parking facilities containing 547,263 parking spaces in its overseas operations. The total numbers of parking sites and parking spaces managed worldwide were 20,461 and 1,230,970, respectively. The Group's parking business in Japan operates its 24-hour unmanned metered parking facilities under the brand name "Times", in which the Group primarily leases (and in certain circumstances, purchases) land for parking facilities, and designs and arranges construction of Times parking facilities, including installation of meters and other equipment. The Group conducts its Times operations under two business models: (i) the ST model and (ii) the TPS model (see "*—Operations—Main Business Models*" below). In addition to the Times operations, the Group also provides outsourced management services to parking facilities operated by others and operates monthly parking facilities.

The Group's other key business operations are of the Group's "mobility" operations, consisting of a car rental service, a car sharing service and a roadside assistance service. The car rental and car sharing services offer domestic customers a personal transportation alternative to car ownership and the Group has aggressively expanded its fleet of vehicles to offer a wide transportation network to its customers. The Group's roadside assistance service primarily involves the Group providing logistical support to its end customers by identifying and coordinating with its membership network of roadside service providers to provide the necessary assistance.

The Company had 92 consolidated subsidiaries and 1 affiliate accounted for by the equity method as of July 31, 2018. Non-consolidated subsidiaries and affiliates are accounted for by the equity method. The Group has operations in Taiwan, Australia, New Zealand, United Kingdom, Singapore, Malaysia and in Korea, but the majority of the Group's operations are in and revenues are derived from its business activities in Japan. As of July 31, 2018, the Group had 4,911 full-time employees.

The Shares are listed on the First Section of the Tokyo Stock Exchange with the Securities Identification Code 4666.

The Company's registered head office and operational headquarters are located at 7-1, Yurakucho 2-chome, Chiyoda-ku, Tokyo 100-8424. The Company plans to relocate its head office to 20, Nishigotanda 2-chome, Shinagawa-ku, Tokyo 141-0031 in 2019.

### History

In 1971, Mr. Kiyoshi Nishikawa founded Nishikawa Shokai Co., Ltd. ("Nishikawa Shokai"), which mainly sold parking facility related equipment, such as parking locks for automobiles. In 1985, Mr. Kiyoshi Nishikawa established another company also named Park24 Co., Ltd., which was mainly engaged in the management and maintenance of parking facilities operated by others. In 1991, Nishikawa Shokai commenced the parking industry's first 24-hour unmanned metered parking facility under the brand name "PPS" (Parking Partner System), which later became the current "Times", marking the beginning of the Group's ST model operations (see "*—Operations—Main Business Models*" below). In 1993, the business of Nishikawa Shokai was transferred to Park24 Co., Ltd. and in 1995, Park24 Co., Ltd. merged into the Company which was then named Michinoku Resources Development Co., Ltd., and the Company changed its name to Park24 Co., Ltd.

In November 1998, the Company established a consolidated subsidiary, Times Service Co., Ltd., which currently primarily conducts maintenance of Times parking facilities, including collection of parking fees, repair of facility equipment, cleaning of facilities, and responding to any emergencies at Times parking facilities. In January 2000, the Company established another consolidated subsidiary, Drivers Net Co., Ltd., to provide automobile related services (in 2007, certain customer-facing communication and interface functions carried on by Times Service Co., Ltd. was merged into Drivers Net Co., Ltd. and Drivers Net Co., Ltd. was renamed Times Communications Co., Ltd.). In 2001, the Company commenced its TPS model operations (see "*—Operations—Main Business Models*" below), under which the Company leases parking facilities built for the customers of commercial facilities such as financial institutions, supermarkets, and other stores, and manages them as Times parking facilities. In 2003, the Company

introduced the TONIC system, which networks Times facilities online (see “—Operations—Innovations at Parking Facility Operations—IT governing parking facility operations/ TONIC” below).

In February 2006, the Company expanded its operations overseas by entering into a joint venture agreement with GS Caltex Corp. and SOMO Petroleum Co., Ltd. of South Korea and Amano Corp. of Japan, to operate unmanned metered parking facilities in South Korea under the brand name “GS Times” (See “—Operations—Overseas” below). This was followed in April 2008 with the establishment of a consolidated subsidiary in Taiwan (Taiwan Park24 Parking Co., Ltd.)

In March 2009, the Group’s mobility business operations were commenced with the acquisition of Mazda Car Rental Corporation, the principal business of which was car rental services (Mazda Car Rental Corporation was renamed Times Mobility Networks Co., Ltd. in June 2011). In June 2010, the Group commenced car sharing operations (the Group’s car sharing operations were transferred to Times24 Co., Ltd. in May 2011). The Group added roadside assistance services to its list of operations in March 2011 with the acquisition of NMC Fund 7 Corporation, the holding company of Rescue Network Co., Ltd (renamed Times Rescue Co., Ltd. in November 2012).

In May 2011, the Group’s operating structure was converted into a holding company system (to create a group structure capable of immediately responding to changes in the business environment), with the Company being converted into a holding company with administrative functions, and its parking business transferred to the newly established Times24 Co., Ltd.

In December 2013, the Company merged with ITS Business Applications, Inc. (“IBA”), a wholly owned consolidated subsidiary of the Company. The merger was carried out in order to strengthen the Group’s Intelligent Transport System (“ITS”) business, through integration of IBA’s ITS business with the Company and thereby allowing the Company to operate the ITS business more efficiently, with a view to maximising synergy within the Group.

In April 2015, the Group engaged in a pilot scheme with Toyota Motor Corporation (“Toyota”) to test the viability of one-way car sharing with an ultra-compact vehicle in order to contribute to the creation of low-carbon and comfortable cities by providing freedom of movement through the construction of a new urban transportation network. In April 2018, the two companies signed a further agreement in relation to a trial car sharing service in parts of central Tokyo,

In December 2016, the Company further expanded its operations overseas by incorporating three local subsidiaries in Australia, Singapore and Malaysia (being Park24 Australia Pty Ltd, Park24 Singapore Pte. Ltd. and Park24 Malaysia Sdn. Bhd. respectively). With the establishment of these three subsidiaries, in January 2017, the Company acquired 80 per cent. of the shares in each of Secure Parking Pty Ltd, which operates parking businesses in Australia, New Zealand and the United Kingdom, Secure Parking Singapore Pte. Ltd., which operates parking businesses in Singapore, and Secure Parking Corporation Sdn. Bhd., which operates parking businesses in Malaysia. In July and August 2018, the Company further purchased the remaining 20 per cent. shares in the three local subsidiaries to make them wholly owned subsidiaries of the Company.

In August 2017, the Company further expanded its operations in the United Kingdom by acquiring 51 per cent. of the shares in National Car Parks Limited, through its newly established subsidiary, Park24 UK Limited.

In January 2018, the Company merged with TPF1 Limited, a wholly owned subsidiary of the Company engaged in the management of real estate properties owned by the Company. The merger was carried out in order to centralise the management of real estate properties owned by the Company. For streamlining of its operations, the Company also integrated Times Rescue Co., Ltd. and TPF3 Limited which holds all shares of Times Rescue Co., Ltd., and transferred a part of the business of Times Communication Co., Ltd. to the newly established Park24 Business Support Co., Ltd.

In August 2018, the Company has signed a contract to become an official supporter of the Olympic and Paralympic Games Tokyo 2020 in the category of Parking Lot Services.

The Shares were first traded on the over-the-counter market in March 1997, listed on the second section of the Tokyo Stock Exchange from April 1999, and have been listed on the first section of the Tokyo Stock Exchange since April 2000.

## **Market Environment**

### ***The Japanese Parking Facility Industry***

The Company believes that there is a chronic shortage of parking spaces in major cities in Japan, including Tokyo and Osaka. Data taken from statistics compiled by Japan National Policy Agency showed that demand for parking spaces in the three major metropolitan areas of Japan (being the Tokyo area, the Chukyo area and the Kansai area) in 2005 reached approximately 22.96 million parking spaces, against a total of only 4.99 million registered

parking spaces (in 2015) which do not include certain parking facilities (for example small hourly parking spaces) and the Company estimates supply of parking spaces is approximately 7 million spaces, which still falls far short of the estimated demand.

Moreover, statistics compiled by the Tokyo Metropolitan Government with respect to the 23 Tokyo wards and Osaka city (in 2017) indicated that the number of temporarily parked cars (most of which were estimated to have been illegally parked) in a fixed daytime period on a weekday was approximately 80,000 cars in total, illustrating the continuing need for additional parking spaces in these areas.

### ***Alternatives to car ownership***

Japan is one of the major developed economies in which automobile ownership is continually decreasing. The rise in the number of new car sales per year in Japan peaked in 1990 and is steadily decreasing, with the trend expected to continue, due to the increase in average years of usage of a vehicle and the high costs associated with owning a car such as vehicle inspections, automobile taxes, insurance costs and parking charges. Furthermore, despite Japan's well developed public transportation infrastructure, there continues to be demand for personal transportation solutions, with the result that demand for alternatives to car ownership such as car rentals or car sharing is expected to grow.

The Japanese car rental market is well established, with the market having shown steady growth over the past few decades. According to statistics compiled by the Yano Research Institute Ltd. in 2015, the size of the car rental market in Japan has increased from approximately ¥530,000 million in 2011 to ¥648,000 million in 2015.

On the other hand, the Japanese car sharing market has shown strong growth since 2008, with vehicle numbers, membership numbers and car sharing stations increasing exponentially in the same period. Statistics compiled by the Foundation for Promoting Personal Mobility and Ecological Transportation indicate that the total number of vehicles in the car sharing market have increased to 29,208 during the period from 2008 to 2018. Major players in this area include Zip Car, one of the leading car sharing companies founded in Boston, United States, with approximately 1 million car sharing members, as well as Car2Go, a German car sharing company with approximately 2.9 million car sharing members. The Group currently has approximately 900,000 members in its car sharing network.

### ***Roadside assistance***

The domestic market for road assistance services is well established, with the overwhelming majority of vehicle owners being members of the Japan Automobile Federation. Given the continuing trend of automobile ownership decreasing in Japan, this market has seen a decline in overall membership numbers.

## **Strengths and Strategy**

### **Strengths**

As part of the process of evaluating the future direction of the Group and to identify core business areas and opportunities in which to concentrate management resources, the Group regularly assesses the advantages which it enjoys over its competitors, as well as any characteristics of its operations which are central to growth in the future. The Company believes that the following are the major strengths of the Group:

### ***General group strengths***

#### ***Domestic Brand Name and Scale of Operations***

The Group's 24-hour unmanned metered parking facilities operated under the brand name "Times" is well-known, especially in central areas of the major cities of Japan, including Tokyo and Osaka. The signboard "Times" is well recognised and associated with parking facilities open to the public. This brand recognition helps the Group to compete successfully with other parking facility operators in obtaining land through leases for the development of parking facilities. In addition, the brand name "Times" is also used for the Group's car rental and car sharing, both of which is well recognised in Japan as well.

#### ***Utilization of IT Network (TONIC)***

The Group has developed and is continuously upgrading the TONIC system which links its parking facilities and its information centres and enables the Group to provide value-added services to its customers, such as real-time information on availability of parking spaces, diverse settlement methods (including through electronic cash and credit cards), linkage to membership loyalty programmes and efficient management of parking facility operations. In addition, the TONIC system allows for advanced vehicle management (through interactive online communication between parking facilities and mobility vehicles—and thereby effectively linking the Group's parking and mobility operations). The Company believes that value-added services differentiate the Group from its competitors and contribute to higher utilisation rates at Times parking facilities. For further information on the TONIC system, see "—Operations—Innovations at Parking Facility Operations".

In addition, the development and on-going improvements of the TONIC system enable the Group to collect various data in relation to its sales at the relevant parking facilities, such as real-time amount of sales and real-time occupancy rate, which are helpful in planning marketing strategies and in estimating revenue generation from new facilities.

#### *Enhanced Maintenance and Emergency Response by Group Companies*

The Group's companies conduct all auxiliary services, including facility maintenance, collection of payments, cleaning, call centre management, and other activities, and enable the Group to provide parking sites, car rentals, car sharing and other ancillary services that are safe and secure, clean, and easy to use 24 hours a day, 365 days a year. This includes back up services provided by 39 maintenance locations in Japan which regularly implement maintenance, parking fee collection, cleaning and emergency response services which form an overarching framework for the Group's operations across its business segments, including the Group's car rental and car sharing businesses. In addition, 24/7 call centres and service staff respond to inquiries and provide services even on holidays and at night in emergencies.

#### *Parking business (Japan) segment strengths*

The Group is also the leading company in the parking facility operation and management industry with the largest number of parking spaces under operation or management in Japan. It is estimated that the Group manages over 3 times as many spaces as the industry's second largest operator, taking into account all parking facilities operated by each respective operator (in the case of the Group, including parking facilities managed by the Group which are operated by others). The Group adopts a strategy whereby ST parking facilities are dispersed on the assumption that each parking facility primarily attracts customers within a 200-meter radius. As a result, the Group has a natural advantage in estimating demand and appropriate fees near its existing parking facilities due to its proximity to such areas. Moreover, the Group has the industry's largest sales staff of 471 people and salespersons in 67 teams are deployed to collect information by walking around towns all over the country to formulate bespoke strategies for each relevant locale. The know-how accumulated by the Group from operating the first Japanese 24-hour, unmanned hourly parking facility, started by it in 1991 also contributes to its deep understanding of the domestic car parking industry.

Such a large-scale operation network and depth of know-how gives the Group a strong earnings base and delivers economies of scale. In addition to the scale of its operations, the Group's Times parking facilities are dispersed throughout the regions in which it operates leading to greater visibility, as well as increased convenience for customers.

#### *Mobility business segment strengths*

The Group's Mobility business segment draws on the strength both of its Parking business segments to ensure efficient store operation and vehicle placement by utilizing the Group's existing network of parking facilities (which number in excess of 17,400 such facilities in Japan) and taking into consideration placement relative to major transportation hubs such as airports and railways stations. In addition, the Group provides convenient service integration between both car rental and car sharing services. The Group also achieves cost reductions through the bulk purchase of numerous cars for the entire mobility business (with its fleet of vehicles across its car sharing and car rental businesses totalling in excess of 50,000 vehicles).

In particular, in the car sharing business, since the inception of its operations in March 2009, the service has rapidly grown to 21,591 vehicles and 980,289 members as at April 30, 2018, constituting the overwhelming majority of the domestic car sharing industry (both in terms of number of vehicles and members). Its 21,591 vehicles also ranks it one of the largest car sharing companies in the world (by size of fleet). Its strengths are its ability to rapidly develop operations because of accessibility to the Group's parking site network, large numbers of corporate and individual members, the widely recognized Times brand name, and high profitability attainable from not incurring parking fees for its fleet. The Group makes use of its parking site network to also enable inspections, cleaning and maintenance of its car sharing fleet at its parking facilities. The IT technology underpinning the Group's unmanned parking facilities is also being utilized to streamline the Group's car sharing operations. On the marketing front, the Group has an easy to understand and easy to use fee structure.

#### *Parking business (Foreign countries) strengths*

The Group has operated overseas operations for over 10 years, with overseas operations commencing in February 2006, through a joint venture to operate unmanned metered parking facilities in South Korea under the brand name "GS Times" (See "*—Operations—Overseas*" below). This was followed in April 2008 with the establishment of a consolidated subsidiary in Taiwan (Taiwan Park24 Parking Co., Ltd.).

The Group's overseas operations were significantly expanded in January 2017 through the acquisition of the operations of the "Secure Parking" companies (See "*—Operations—Overseas*" below). Through the acquisition and the formation of this international partnership, the Group became the largest parking business operator worldwide in

number of operating parking sites, with a total of more than 1 million parking spaces. In August 2017, the Company further expanded its operations in the United Kingdom by acquiring 51 per cent. of the shares in National Car Parks Limited, through its newly established subsidiary, Park24 UK Limited.

Through such overseas acquisitions, the Group has rapidly expanded the scale of its operations and the strength of its brand under not just the “Times” umbrella, but the “Secure Parking” (established in 1979 and operating parking facilities globally, with a focus on South East Asia and Oceania) and “National Car Parks” (with an approximately 30 per cent. share of the United Kingdom parking facilities market) brands. This has also enabled the Group to establish a foothold in key geographical regions, setting the stage for further expansion of its operations. The operations of the “Secure Parking” companies and National Car Parks Limited focus not just on parking facilities in major cities but also near transportation hubs such as airports and railways.

## **Strategy**

The Group’s goal continues to be to expand its earnings base and achieve growth in net sales and profits. The Company believes that the car industry is undergoing key structural transformations, with technological innovations like artificial intelligence gaining traction and the industry as a whole shifting away from traditional modes of car ownership and usage. Innovations include self-driving vehicles and other advanced safety features, “connected cars” and car sharing. In this rapidly shifting environment, the Group aims to amalgamate four factors (a) people (through the Group’s membership and loyalty programmes), (b) cars (through the Group’s car rental and car sharing services), (c) cities and communities (through Times Pay and other services linking the Group’s operations to other businesses) and (d) “Times” (through the Group’s parking facilities and “B-Times”), and to leverage the strength and data gathered through each of its operations to continually develop and expand the Group’s services to contribute to the sustainable development of a motoring society. Bespoke strategies include:

### ***Continued development of new Times parking facilities***

#### ***Increase number of parking facilities***

As in the past, the Group aims to boost revenue of Times parking facilities by increasing the number of parking sites and spaces. Statistics compiled by the Tokyo Metropolitan Government (in 2012) and collated in the Osaka Statistical Report (in 2015) show that unused land in the 23 wards in Tokyo and in Osaka Prefecture amounted to 16.7 and 9.5 square kilometres, respectively. As of April 30, 2018, the aggregate of ST parking spaces in the respective areas would have amounted to only 3.3 per cent. and 5.1 per cent. respectively, of such unused land (when translated into parking spaces), highlighting the potential for future growth. In expanding its ST parking sites, the Group promotes targeted expansion which is centred on three key policies: (a) undertaking the necessary groundwork on potential plots of land by itself (with employees directly surveying and examining the relevant plot of land and the surrounding areas) and directly negotiating with land owners, (b) dispersing its ST parking sites (instead of establishing large centralised parking facilities) to increase convenience for customers and (c) developing ST parking facilities on small plots of land to mitigate the impact from lease cancellation due to property development on the relevant land.

It is also expected that there will continue to be significant growth potential in relation to the Group’s TPS model. The Group intends to expand its TPS model operations through targeting a broader range of industries and business categories and through offering value-added services to potential partners in addition to pure parking facility management (for example providing marketing data via its Times Club Card members). Going forward, the Group strives for an appropriate balance between its ST and TPS model operations, as the TPS model has a lower risk of cancellation and therefore contributes to a stable business portfolio. TPS parking facilities have been expanding rapidly in recent years, due to advances in the outsourcing of parking facilities by building owners.

#### ***Brand recognition***

The “Times” brand enjoys significant name recognition in the central areas of the major cities of Japan, including Tokyo and Osaka, but is primarily associated only with parking facilities. In order to leverage its brand strength in its mobility business, the Group intends on consolidating all of its services and operations under the “Times” brand and to become a standardized brand from the customer’s perspective. The familiar yellow signboard with the Company logo will also be used across all of the Group’s various services and operations.

#### ***Parking IT***

The Group aims to develop and utilise advanced IT systems to facilitate its operations and management of parking facilities through an IT infrastructure governing the parking facilities and its information centres. The TONIC system continues to remain a key component of the Group’s parking IT strategy and has now been implemented at all Times parking facilities (see “—Operations—Innovations at parking Facility Operations—IT governing parking facility operations/TONIC”). The Group intends to continue to upgrade its parking IT systems to meet customer demand.



### *Development through corporate sales*

The Group aims to increase revenues in its Parking business (Japan) segment through building relationships with large-scale corporate customers. In particular, the Group has established Times Business Card for corporate customers which allows companies to access each of the Group's parking, car rental services and car sharing under a single umbrella. The Company believes that a balanced and diversified customer base (including corporate customers) will enable it to build up a more stable revenue generation stream. A renewed focus on corporate sales is also important in the Group's Mobility business segment, as demand from individual customers for the Group's car rental and car sharing services fluctuate greatly, with high demand on weekends and limited demand during weekdays (particularly during business hours). A stronger corporate customer base would allow for more stable revenue generation, with low demand from individual customers during weekdays being offset by increased demand from corporate customers.

### ***Continued expansion of Mobility business***

The Group intends to continue to grow its fleet of vehicles available for its car rental services and car sharing to continue to grow a segment of its businesses that has shown rapid growth since commencement of operations. With the Group already owning the largest fleet of vehicles available for car sharing globally, it aims to further boost its market leading position in this regard. In addition, the Group aims to continue to enhance the convenience of its services and its customer service protocols to provide a seamless car rental service and car sharing that ties in to the Group's existing parking business operations.

### ***Creating New Growth Drivers***

#### *Expansion of overseas operations*

Following the acquisition of the "Secure Parking" companies (See "*—Operations—Overseas*" below) and National Car Parks Limited in 2017, the Group has established a strong foothold in a number of key geographic regions outside Japan, setting the stage for the Group's continued expansion for the upcoming years. The Group aims to streamline its operations in and leverage in the operational know-hows developed by each of the Group, the "Secure Parking" companies and National Car Parks Limited and its group companies and by leveraging the Group's credibility and IT capabilities to increase efficiencies in the Group's operations.

While continuing to develop its business in the existing markets it operated in, the acquisition of the "Secure Parking" companies also allowed the Group to penetrate into new markets and geographical areas by collaborating in development and in operational know-hows developed by both the "Secure Parking" companies and the Group, and the Group seeks to leverage its brand credibility and IT capabilities, as well as its ability to develop its business, to globally expand the "Secure Parking" brand. In addition, as the "Secure Parking" companies operate around 900 parking sites accommodating approximately 320,000 spaces, the Company also sees opportunities in introducing new mobility services as part of its mobility business in these locations.

The Group also aims to use its acquisition of National Car Parks Limited as a foothold to enhance the Group's foundation for future expansion into Europe, which the Group hopes to achieve by combining the 80-year business experience and management knowhow of National Car Parks Limited with the Group's advanced car park IT systems. In addition, as National Car Parks Limited operates large scale car parks in airports and stations, the Group also sees great opportunities in introducing new mobility services as part of its mobility business in these locations.

#### *Membership strategy*

The Group has an established customer loyalty and membership programme, with approximately 6.56 million Times Club Card members, 690,000 Times Business Card holders and 900,000 car sharing members, each as at October 31, 2017 (see "*Business—Operations—Innovations at Parking Facility Operations*"). This gives the Group a number of strategic benefits, including a promotional platform to drive marketing campaigns, the ability to support brand-building initiatives by linking services to a brand, building a database on customer behaviour and increasing usage by such customers of the Group's services. By continuing to develop its customer loyalty and membership programme, the Group aims to create an environment in which users of the Group's services enjoy optimal convenience and value.

#### *Introduction of the B-Times parking reservation service*

The Group also aims to introduce new bespoke parking solutions to develop innovative solutions for parking services. B-Times is a new parking space solution that provides parking space as small as one-unit, freeing landowners from the restrictions of location and the number of vehicles. The use of online and credit card payment means capital investment for checkout machines or other infrastructure is unnecessary. B-Times is the web-reservation parking service to connect those who want to lend space and those who want to use it.

#### *Times Pay*

The Group has also developed and introduced its Times Pay settlement system, which is an electronic payment service which captures driver destination information within communities as part of the Group's customer sharing and

business support activities for convenience stores near the Group's parking facilities, as well as offering diversified means of payments including electronic money. By developing and enhancing its payments infrastructure, the Group aims to continue to build a framework within which various of the Group's services co-exist to create synergies and to further develop customer loyalty.

## Operations

The Group's businesses are classified into three business segments: the Parking business (Japan) segment, the Parking business (Foreign countries) segment and the Mobility business segment. The following table sets out the Group's operating revenues by business segment (including inter-segment), including percentages by business segment of the Group's total net sales (including inter-segment) for the periods indicated. Parking business (Foreign countries) was established as a new business segment during the year ended October 31, 2017 as a result of the acquisition of 80 per cent. of the shares in Secure Parking Pty Ltd, Secure Parking Singapore Pte. Ltd. and Secure Parking Corporation Sdn. Bhd. As such, operating results for the year ended October 31, 2016 have been restated for comparative purposes only. Overseas sales for the year ended October 31, 2015 have been included in the Parking business (Japan) segment.

	Year ended October 31,					
	2015		2016		2017	
	<i>(Millions of yen, except percentages)</i>					
Parking business (Japan) .....	134,348	74.7%	140,304	72.1%	148,399	63.7%
Parking business (Foreign countries) .....	—	—	1,938	1.0	23,671	10.1%
Mobility business .....	45,507	25.3%	52,301	26.9%	61,061	26.2%
Total .....	<u>179,855</u>	<u>100.0%</u>	<u>194,543</u>	<u>100.0%</u>	<u>233,131</u>	<u>100.0%</u>

## Parking business (Japan) segment

The Group's principal business is the operation of Times parking facilities. The Group principally leases small-plots of land from landlords, and designs and arranges construction of parking facilities, including installation of parking facility equipment. The majority of the revenues classified in the Parking business (Japan) segment are parking fees collected at Times parking facilities operated by the Group. In addition, the Group derives revenues in the segment from service fees for the provision of management services to parking facilities operated by others and parking fees collected at parking facilities operated by the Group on a monthly payment model.

## Main Business Models

The Group conducts its Times operation under two key business models: (i) the ST model and (ii) the TPS model. In its Times operation, the Group principally derives revenues from parking fees collected from parking facility users and incurs cost of sales which mainly comprises rent to landlords and costs of equipment. The Group's primary business model is the ST model, whereby it operates Times parking facilities principally on small-plots of leased land. This business model is subject to a risk of cancellation of the lease contracts by landlords (see "*Investment Considerations—Considerations Relating to the Group and its Business*"). In order to reduce the impact such risk could cause to the Group, the Group has been developing its parking facility operations under the TPS model. Under the TPS model, the Group leases parking facilities from its corporate clients, such as shops, stores and financial institutions, and designs and arranges remodelling of the facilities.

As of October 31, 2017, the total number of Times parking facilities and Times parking spaces was 16,845 and 551,422, respectively, an increase of 1,053 and 20,287, or 6.7 per cent. and 3.8 per cent., respectively, from the previous year. Under the two main business models, the total number of parking facilities and parking spaces of the ST model as of the same date were 13,444 and 175,940, respectively, an increase of 775 and 5,461, or 6.1 per cent. and 3.2 per cent., respectively, from the previous year. The total number of parking facilities and parking spaces of the TPS model as of the same date were 3,401 and 375,482, respectively, an increase of 278 and 14,826, or 8.9 per cent. and 4.1 per cent., respectively, from the previous year.

As of October 31, 2017, 63.9 per cent. of the Group's sales from the Times operation was derived from the ST model, whilst 36.1 per cent. was recorded under the TPS model, according to the Company's internal accounting records.

### ST model

In 1991, the Group commenced operation of its 24-hour unmanned metered parking facility under the brand name "PPS", which later became the current "Times". The Group refers to these operations as its ST model. Under the ST model, the Group principally leases the land for parking operations. The majority of the ST parking facilities are small-sized outdoor facilities. The average number of parking spaces contained in a ST parking facility was around

13.1 as of October 31, 2017. Since the primary on going costs for the ST parking facilities, such as expenses for leases of land and equipment, are fixed, an increase in net sales directly leads to an increase in operating profit. Furthermore, funding requirements for the ST model are minimal, and return on investment is high.

The lease contracts are usually for two years. This is because the Group considers that more landlords are able to offer land for lease for a shorter period. This short-period lease also enables the Group to close a parking facility after two years if sales at a parking facility do not reach a certain expected level or they decrease below that level. The lease contracts can be automatically renewed on an annual basis. However, there are no penalties for non-renewal of contracts. The lease contracts can typically be cancelled by landlords for any reason by giving three months' prior notice, although they incur a break fee during the first two years. As a result, the Group faces a risk of losing leased parking facilities. To decrease the impact of this risk, the Company considers it important to develop relatively small parking facilities as it has experienced fewer cancellations by owners of smaller parking facilities. The Group conducts comprehensive market research and analysis before entering into a lease contract and selects land that it considers less likely for the lease to be cancelled.

### ***TPS model***

The ST model was the standard operating model of the Group, and continues to remain the Group's predominant model in operating its parking facilities across Japan. The Group's other business model is referred to as its TPS model, and involves the Group managing and operating parking facilities for customers of commercial buildings, financial institutions and governmental authorities as Times parking facilities (the key distinction being that the TPS model involves a corporate client requesting the Group to operate a Times parking facility at existing parking facilities of such clients). The genesis for the TPS model was the Group's aim of servicing parking facilities operated by shops, stores and financial institutions after business hours. The Group's market research had established that there were shops, stores and financial institutions that faced difficulties in relation to management of their customers' parking facilities. For example, when the shops did not place a system at their parking facilities to collect parking fees from the users, they found their facilities were used not only by their customers but also by others of the public. On the other hand, when the shops introduced a system to collect parking fees from non-customers, they incurred additional non-operating costs including those for personnel and management and maintenance of such facilities. The Group saw a business opportunity in this area and commenced its TPS model whereby the Group leases parking facilities built for the customers of such corporations and manages them as Times parking facilities, allowing the corporations to reduce non-operating costs.

The cancellation rate is significantly lower compared to ST parking facilities due to the nature of the parking services provided by the Group's partners to their customers. As a result, the Group is able to provide parking facilities more stably and for a longer term under the TPS model. For this reason, the Group has been expanding its TPS model operations as a main business model to hedge the cancellation risk incidental to the ST model. At TPS parking facilities, the Group's revenues per vehicle parked are lower than at ST parking facilities since the TPS parking facilities are used for free by the Group's corporate clients' customers. The Group strives to reduce this impact by setting rents that provide for higher profit margins.

### **Ancillary Services**

The Group also provides a number of ancillary parking related services in the Parking business (Japan) segment. Principally, the Group provides parking facility management services such as call center assistance and equipment maintenance on behalf of parking facilities operated by hospitals and administrative authorities, and offers manned management services such as dispatching employees who have received security training. The Group also operates parking facilities with a monthly payment model—such “monthly parking facilities” are either attached to existing Times parking facilities or are stand alone parking facilities (“Monthly Times”) which operate entirely on a monthly payment model.

In addition, the Group offers the B-Times membership service, which matches a landowner who wants to utilise idle land effectively with a driver who wants to park his or her car. With this service, a landowner can lease out a parking space even for just one car or motorcycle, and only while the space is not occupied. A driver can secure a parking space at the desired destination with an advance reservation on the B-Times website, with the use of online and credit card payment. As of October 31, 2017, B-Times offers 10,649 car parking spaces.

### **Recent Trends of the Group's Parking Facility Operations**

During the year ended October 31, 2017, the Group developed 1,832 new Times parking sites with 55,515 parking spaces, and increased the number of Times parking facilities under the Group's operation to 16,845 sites, and the total number of spaces to 551,422 parking spaces. However, the development of a large number of small- and medium-sized parking facilities meant that the number of spaces per facility declined, leading to lower growth in operating profit. This was reflected in the pace of growth of the parking business in Japan, with operating revenues (including inter-segment) increasing by 5.8 per cent. to ¥148.4 billion, and operating profit (including inter-segment)

by 1.8 per cent. to ¥25.4 billion. Recently, the Group has increasingly been developing new parking facilities with a focus on profitability, instead of increasing merely the number of sites or spaces. The Group has sought to achieve the profitability of parking facilities developed in the year ended October 31, 2017, by carrying out detailed measures for profitability achievement at individual parking facilities.

### **Innovations at Parking Facility Operations**

#### ***IT governing parking facility operations/TONIC***

As the systems in relation to vehicles and road conditions become more advanced with the ITS for in-car navigation, the systems for parking facilities are required to match these developments. The Group has developed and been continuously updating the TONIC system, which links Times parking facilities and its information centres online. The TONIC system provides a central database of information in relation to parking facility operation, including information on vehicle entry and exit and utilisation rates at parking facilities. By capturing data on utilisation rates at Times parking facilities, the TONIC system enables the Group to adjust fee structures, formulate strategies to improve sales at under-utilised facilities, and estimate revenue generation from new facilities by analysing such utilisation rates of Times parking facilities in the area. The TONIC system also facilitates a prompt discovery of and response to equipment problems at parking facilities through remote access.

In addition to managing the parking facility operations of the Group, the TONIC system also has direct customer-facing benefits. For instance, information on empty spaces at Times parking facilities (which is monitored in real time by the TONIC system) is disseminated to potential customers through websites, car navigation systems and mobile phones, which serves as a useful marketing tool.

Since 2005, all of Times parking facilities had installed this system. The Company considers that the value-added services and sophisticated operation system achieved by the deployment and improvement of the TONIC system will continue to contribute to increasing utilisation rates at Times parking facilities.

#### ***Times Pay***

In 2017, the Group developed and introduced its Times Pay settlement system, which is an electronic payment service which captures driver destination information within communities as part of the Group's customer sharing and business support activities for convenience stores near the Group's parking facilities, as well as the Group's response to diversified means of payments including electronic money.

#### ***Value-added services***

The Company believes that value-added services are key to the Group's success in its "Customer" strategy. The Group aims to attract customers by offering services for better convenience, and such services have been available largely through the TONIC system.

In 2003, the Group commenced the Times Club which provides parking facility users with incentive Times points based on parking fees, which can be exchanged for parking coupons or merchandise. The Times Club membership has recently been overhauled and upgraded to increase opportunities to accumulate and use Times points. In particular, the Group's mobility services have been integrated into and form part of the Times Club membership, with customers being able to enjoy a seamless customer loyalty programme which encompasses all of the Group's operations. A premium membership service has also been launched with Times points tripled at all times and preferential rates for car rental services. The operation of the Times Club is managed by the TONIC system. As of October 31, 2017, the number of the Times Club members was approximately 6.56 million (an increase of approximately 560,000 members year-on-year).

The Group also issues the "Times Business Card" which offers its corporate customers a cashless lump sum payment option for parking fees.

The TONIC system also facilitates payment of parking fees by credit card, and the Group provides its customers with more payment options, such as payment by mobile phones with built-in payment functions, electronic money, and on-board units for Electronic Toll Collection ("ETC") systems.

### **Parking business (Foreign countries) segment**

The Group's business operations are primarily conducted in Japan. However, the Group has made significant progress in establishing a presence overseas as part of its growth strategy for the future. Beginning with ventures into parking businesses in Taiwan and South Korea, the Company has further added "Secure Parking" companies in Australia, New Zealand, the United Kingdom, Singapore, and Malaysia, as well as "National Car Parks", the largest parking business operator in the United Kingdom, into the Group in January and August 2017 respectively. Currently, the company has parking business operations in seven countries and areas outside Japan.

## **GS Park24**

In March 2006, the Company entered into a joint venture agreement with GS Caltex Corp. (now called GS Energy Corp.) and SOMO Petroleum Co., Ltd. of South Korea and Amano Corp. of Japan, to operate unmanned automated parking facilities in South Korea under the brand name “GS Times” through a new company “GS Park24 Co., Ltd.”. Total paid-in capital of the joint venture company was Won 1 billion (approximately ¥120 million). The Company’s current shareholding in this company is 50 per cent., with the remainder held by GS Energy Corp.

Through the “GS Times” brand, the Group leases idle land from individual and corporate landowners, and rents parking facilities for visitors to sites such as commercial facilities, financial institutions, government authorities.

## **Park24 (Taiwan)**

In April 2008, the Company established Taiwan Park24 Parking Co., Ltd, to operate parking facilities in Taiwan.

## **Secure Parking**

In December 2016, the Company further expanded its operations overseas by incorporating three local subsidiaries in Australia, Singapore and Malaysia (being Park24 Australia Pty Ltd, Park24 Singapore Pte. Ltd. and Park24 Malaysia Sdn. Bhd. respectively). With the establishment of these three subsidiaries, in January 2017, the Company acquired 80 per cent. of the shares in each of Secure Parking Pty Ltd, which operates parking businesses in Australia, New Zealand and the United Kingdom, Secure Parking Singapore Pte. Ltd., which operates parking businesses in Singapore, and Secure Parking Corporation Sdn. Bhd., which operates parking businesses in Malaysia. The three “Secure Parking” companies further became wholly owned subsidiaries of the Company in July and August 2018.

Through the acquisition and the formation of this international partnership, the Group became the largest parking business operator worldwide in number of operating parking sites, with a total of more than 1 million parking spaces. While continuing to develop its business in the existing markets it operated in, the acquisition of Secure Parking also allowed the Group to penetrate into new markets and geographical areas by collaborating in development and in operational know-hows developed by both Secure Parking and the Group, and by leveraging the Group’s credibility and IT capabilities, as well as the ability to develop its business globally with the “Secure Parking” brand.

Under the “Secure Parking” brand, the Group now manages and operates around 900 parking sites accommodating approximately 320,000 spaces in Australia, New Zealand, the United Kingdom, Singapore, and Malaysia, which consists of mainly parking facilities utilising idle land and parking spaces in buildings rented from landowners. The Group also undertakes contract management of ancillary parking facilities for institutions. Other than operating parking facilities with gate control system similar to those in Japan, the Group also operates patrolled parking facilities, where a private car equipped with a camera patrols the parking facility every hour, affixing parking tickets to vehicles that have overstayed.

## **National Car Parks**

In August 2017, the Company further expanded its operations in the United Kingdom by acquiring 51 per cent. of the shares in National Car Parks Limited, through its newly established subsidiary, Park24 UK Limited. National Car Parks is operating approximately 500 parking sites and 150,000 spaces in the UK under the brand “NCP”.

The acquisition of National Car Parks was a co-investment with the Development Bank of Japan Inc. (“DBJ”), using DBJ’s equity investment program “Equity Investment for Value Growth,” which was established to support Japanese companies to achieve their growth strategies and enhance their mid- to long-term enterprise value. Together with financial support, DBJ will also provide management knowhow, which it has built up over the long years of overseas infrastructure investment experience, as well as valuable assets including human resources and intelligence networks. The Company believes that its acquisition of National Car Parks will not only strengthen its business in the United Kingdom that is operated through Secure Parking, but that it will also enhance the Group’s foundation for future expansion into Europe, which the Group hopes to achieve by combining the 80-year business experience and management knowhow of National Car Parks with the Group’s advanced car park IT systems. In addition, as National Car Parks operates large scale car parks in airports and stations, the Group also sees great opportunities in introducing new mobility services as part of its mobility business in these locations.

Under the “NCP” brand, the Group currently operates parking sites in urban areas such as London, Birmingham and Bristol mainly by leasing idle land and parking spaces in buildings from land owners or customer car parks of various facilities. In addition, it holds long term contracts with the city council in cities including Manchester and Bolton, and also manages parking sites in major airports and train stations, such as Birmingham Airport, Glasgow Airport and London Underground stations.

## **Mobility business segment**

The Group's mobility business is comprised of a car rental service, a car sharing service and a roadside assistance service.

### **Car rental service**

The Group operates a car rental service under the Times Car Rental brand, which operates from 407 locations across 47 prefectures nationwide as of April 30, 2018 and represents one of the largest car rental networks in Japan. In the year ended October 31, 2017, the Group's car rental operations generated revenues of approximately ¥32,571 million, which accounted for approximately 14.0 per cent. of the Group's overall revenues.

Customers can make car rental reservations primarily through its dedicated website, with customers selecting vehicles and rates, rental period, pricing structure and optional extras via the website's interactive features. Fees are broken down into a basic fee (calculated on the basis of the vehicle and rental period) and an additional fee (for optional services including insurance, navigation systems and additional safety features). The Group has also sought to strengthen ties between its car rental service and its Times parking facilities based on using existing resources, including setting up car rental booths at parking facilities with ST and TPS services, as well introducing the "Pitto Go" service, which provides simple car rental service for Times Car PLUS members, delivering a Times rental car to any specific Times parking facility.

The Group's fleet consists primarily of vehicles from the current model year and periodic maintenance checks are carried out to ensure all vehicles are roadworthy. As of October 31, 2017, the Group maintained a fleet of 28,956 vehicles, ranging from sports utility vehicles, mini vans and sports cars. The majority of the Group's car rental customers are corporate clients, which contributes to a stable customer base.

### **Car sharing service**

The Group operates a car sharing service under the Times Car PLUS brand, in which members who have registered can use a vehicle anytime day or night, for as long as it is needed (in 15-minute increments).

In the year ended October 31, 2017, the Group's car sharing operations generated revenues of ¥23,110 million, which accounts for 9.9 per cent. of the Group's overall revenues.

The Group's car sharing services give its customers an alternative to the costs and hassles of owning or hiring a car, whilst being a more flexible alternative to public transport. Fees are charged on the basis of a basic monthly membership fee and a variable fee depending on usage. The vehicles are primarily collected at and returned to Times parking facilities by customers. The Group has established a number of plans which specifically targets the needs of individuals, businesses and students.

The Group's fleet consists primarily of vehicles from the current model year and periodic maintenance checks are carried out to ensure all vehicles are roadworthy. The Group's vehicles are separated into a "basic" and "premium" class, with different rates applying.

The Group has engaged in a pilot scheme with Toyota since April 2015 to test the viability of one-way car sharing with ultra-compact electric vehicles. As at the date of this Offering Circular, there are about 100 stations available, which are mainly located in central Tokyo. Further to the pilot scheme, the Group and Toyota also entered into a joint venture for a trial car sharing service in parts of central Tokyo from June 2018 to the end of March 2019, with plans to install Toyota's TransLog communication-based drive recorders and both companies' car sharing devices in cars operated by the Times Car PLUS car sharing service. The Group anticipates that this trial will help lead to vehicle safety improvements, increased maintenance efficiency, and awareness of autonomous driving technology.

In addition, the Group has joined a car sharing field trial conducted by the Ministry of Land, Infrastructure, Transport and Tourism of Japan using the Company's existing platform. The field trial is the first test of on-street car sharing stations in Japan and is currently expected to run from December 20, 2016 to the end of March 2019.

### **Roadside assistance service**

The Group offers a premium roadside assistance services to its customers. Dedicated support staff field queries and qualified mechanics and service advisors are on stand by to offer on-call advice, roadside repair, and towing and vehicle recovery services.

The Group's roadside assistance services are primarily used by corporate clients who have entered into arrangements with end users to provide road services (for instance, road services are provided by car insurance companies as an ancillary service to policy holders). Such corporate clients subcontract the provision of the relevant roadside assistance services to the Group. Where an end user contacts the Group to request assistance, the Group will call out the appropriate member store in its nationwide network of approximately 9,600 roadside service providers (as

of October 31, 2017) to provide the requested service.

## **Merger and Acquisition**

The Group considers mergers, acquisitions and alliances as a method of future expansion of its operations. There are a number of risks for the Group associated with executing such a strategy, including inability to identify suitable candidates, competition from other companies for potential candidates, and devoting significant amounts of management and financial resources to complete such M&As or alliances.

## **Competition**

### ***Parking business (Japan) segment***

The parking facility industry inspires a wide range of facility operators, from governmental bodies to nationwide corporations, small-sized local corporations and individuals. The Group faces competition mainly at two levels. The first is competition for land to develop and open parking facilities. Secondly, there is competition for customers in areas where there are choices of parking facilities operated by different operators. However, as there is generally a shortage of parking space especially in major Japanese cities where the Group has a significant presence, the Company considers competition for land is more intense. In general, although there is a small number of larger-size competitors, the Company considers that most of its competitors are individuals or small sized companies, which operate parking spaces as an ancillary business to their real estate operations. The Company believes that developing and maintaining a competitive advantage will require continued investment by the Group in information technology, product development, sales and marketing. The Group's competitors in the Parking business (Japan) segment largely compete with the Group's ST parking facilities.

### ***Parking business (Foreign countries) segment***

In the Parking business (Foreign countries) segment, the Company believes that it holds a significant market share in each of the countries and regions in which it operates, especially in the United Kingdom. The main competitor for the Group in Australia and Singapore is the Wilson Group companies. In Malaysia, the car parking market is still developing and most of its competitors are individual and small sized companies, however, the Company considers Metro Parking (M) Sdn. Bhd. to be its main competitor. In the United Kingdom, the Group's main competitors are other European car parking companies which operate in the country such as APCOA PARKING Holdings GmbH and Q-Park B.V.

### ***Mobility business segment***

In its mobility business operations, the Group faces competition from a wide range of corporations, many of which specialize in a particular field which comprises one of the Group's operations in the Mobility business segment (for example, road assistance). In the car rental field, a number of established competitors with a longer track record in the market exist, each of which have operations on a larger scale. The Group faces challenges in competing in terms of pricing and brand recognition, particularly given the limited growth in the domestic car rental market in recent years. The Group faces similar challenges in its road assistance market, with the Japan Automobile Federation ("JAF") holding a dominant position in the market, with the vast majority of registered members of roadside assistance services being JAF members.

On the other hand, the Group faces limited competition in the car sharing market, given the domestic market for such services is still at an embryonic stage.

## **Compliance**

Taking "People, Cars, Communities, and (Times)" as its corporate slogan, the Group strives for the realization of a safe, secure, and "comfortable new motorised society," having made it the Group's basic policy to play a role in that endeavour. In addition to growing and developing its range of services, the Group considers the enhancement of its corporate governance to be essential to establishing relationships of trust with all stakeholders and to achieving on-going increases in enterprise value. In this regard, the Group has formulated policies and put measures in place to ensure a sound corporate governance structure.

The Board of Directors has enacted a set of Corporate Governance Guidelines for the Company and the Group to ensure that the execution of duties of the directors and employees are carried out in compliance with laws, regulations, and the Company's Articles of Incorporation. Directors educate the executives and employees of the departments which they supervise so that they can be fully aware of such a normative system, and maintain an effective compliance system within the Group. A department established to carry out compliance governance functions verifies the legal compliance of actions before making important management decisions and provides compliance education and guidance to executives and employees. The Company has also established rules regarding internal reporting of noncompliant actions by executives and employees, including directors, and maintains a reporting system that includes a system for reporting to a third party.

In addition to the above, the Company has established document management regulations, specified storage periods, and created a storage management system to store and manage information pertaining to the performance of duties by directors in a manner appropriate for storage media.

Furthermore, given that the Group's services primarily involve operations involving vehicles, the Group places a strong emphasis on safety and has internal procedures designed to ensure that all vehicles are routinely maintained and inspected.

### **Insurance**

The Group maintains a range of insurance policies that the Company believes are comparable to other companies with similar operations in Japan. The insurance policies cover certain risks, including personal injury, death and property damage, but, in general, not risks relating to damage caused by business suspension. The insurance policies cover damages, which the Company believes is consistent with industry practice in Japan. In addition, the Group has certain insurance cover for property damage caused in parking facilities in respect of which it may make payment on a voluntary basis.

### **Property**

The following table shows the main properties owned by the Group as of October 31, 2017:

<b>Description of property</b>	<b>Principal purposes of use</b>	<b>Approximate land space (m<sup>2</sup>)</b>
Headquarters . . . . .	Office and marketing	1,623.94
Times parking facilities . . . . .	Parking facility	39,117.59

As of October 31, 2017, 48 Times parking facilities were operated on land owned by the Group.

### **Regulations**

The Group's business activities are subject to various governmental and municipal regulations in Japan, including regulations relating to parking facility operations, car rental and car sharing operations, real estate transactions, construction, taxation and environmental requirements. The Group's businesses outside Japan are also subject to a variety of laws and regulations in the countries in which it operates, as well as other countries in which it may operate in future. The Group seeks to strictly comply with the laws and regulations that apply to its business. The Company does not believe that the laws of any one particular country outside of Japan are likely to materially affect its results of operations or financial performance.

The Group is also subject to the Personal Information Protection Act (Act No. 57 of 2003, as amended). Under this legislation, companies that utilise databases containing a significant amount of personal information must generally notify persons whose personal information will be entered into such databases of the specific uses of such information and must not handle such personal information beyond the extent necessary to achieve such specified uses or provide such personal information to third parties without obtaining consent from such persons.

In addition, the Group is affected by parking laws which do not directly regulate the Group's business activities but impacts demand for the Group's services. In particular, the amendment to the Road Traffic Act (Act No. 105 of 1960, as amended) which was implemented in 2006 strengthened the regulation of illegal and unattended parking.

### **Legal Proceedings**

The Group is not aware of any pending or threatened litigation or other legal or regulatory proceedings that would, individually or in the aggregate, have a material adverse effect on the results of its operations or its financial condition.



## MANAGEMENT AND EMPLOYEES

### Management

Under the Companies Act, joint stock corporations in Japan may adopt a corporate governance structure comprised of a board of directors and an audit and supervisory committee, commonly referred to as the audit and supervisory committee system, in lieu of the traditional structure comprised of a board of directors and a board of corporate auditors or the alternative structure comprised of a board of directors and three statutory committees. The members of the audit and supervisory committee consist of three or more directors. The Company adopted the audit and supervisory committee system in January 2016 in order to improve its corporate governance.

Pursuant to the audit and supervisory committee system, the Board of Directors is comprised of Directors who are Audit and Supervisory Committee Members and Directors who are not. The Articles of Incorporation of the Company provide for a Board of Directors consisting of (i) no more than 10 Directors who are not Audit and Supervisory Committee Members and (ii) no more than five Directors who are Audit and Supervisory Committee Members. All Directors are elected by the Company's shareholders at a general meeting of shareholders, with Directors who are Audit and Supervisory Committee Members elected separately from other Directors. The term of office for Directors who are not Audit and Supervisory Committee Members expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ended within one year after their election, and the term of office for Directors who are Audit and Supervisory Committee Members expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ended within two years after their election, but all Directors may serve any number of consecutive terms.

The Company's Board of Directors has the ultimate responsibility for the administration of the Company's affairs. The Board of Directors, however, may delegate by resolution some or all of its decision-making authority in respect of the execution of operational matters (excluding certain matters specified in the Companies Act) to individual Directors. The Board of Directors elects one or more Representative Directors from among its members who are not Audit and Supervisory Committee Members. The Board of Directors elects a President, and may also elect one or more Chairpersons of the Board, Vice Presidents, Senior Managing Directors and Managing Directors.

The Directors who are Audit and Supervisory Committee Members are not required to be certified public accountants. They may not serve concurrently as executive directors, managers or any other type of employee for the Company or for any of its subsidiaries, or as accounting advisors or corporate executive officers for any of the Company's subsidiaries. In addition, more than half of the Directors who are Audit and Supervisory Committee Members at any one time must be Outside Directors as defined under the Companies Act, who have not served as executive directors, corporate executive officers, managers or any other type of employee for the Company or any of its subsidiaries for 10 years prior to their election and fulfil certain other requirements specified in the Companies Act.

The Audit and Supervisory Committee has a statutory duty to audit the administration of the Company's affairs by its Directors, to examine the financial statements and business reports to be submitted to the shareholders by a Representative Director, to prepare an audit report each year and to determine details of proposals concerning the appointment and dismissal of independent auditors and the refusal to reappoint independent auditors for submission to general meetings of shareholders. An Audit and Supervisory Committee Member may note his or her opinion in the audit report issued by the Audit and Supervisory Committee if such opinion differs from that expressed in the audit report.

In addition to Audit and Supervisory Committee 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 preparing audit reports. Currently, the Company's independent auditor is Ernst & Young ShinNihon LLC.

In addition, the Company also introduced a corporate officer system to rationalize and facilitate the execution of duties by directors, with the intention of speeding up management decision-making.

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

Name	Title
Koichi Nishikawa	President and Representative Director
Kenichi Sasaki	Director
Norifumi Kawakami	Director
Keisuke Kawasaki	Director
Yoshimitsu Oura	Outside Director
Seishi Uenishi	Director Audit and Supervisory Committee member
Kyosuke Kano	Outside Director Audit and Supervisory Committee member
Tsunekazu Takeda	Outside Director Audit and Supervisory Committee member

The Company's Directors may be contacted through its head office at 7-1 Yurakucho 2-chome, Chiyoda-ku, Tokyo 100-8424, Japan.

The aggregate remuneration paid to the Company's Directors (excluding Audit and Supervisory Committee members and Outside Directors) by the Company was ¥165 million for the year ended October 31, 2017. The aggregate remuneration paid to the Company's Audit and Supervisory Committee members by the Company in their capacities as such was ¥18 million for the year ended October 31, 2017. The aggregate remuneration paid to the Company's Outside Directors in their capacities as such was ¥33 million for the year ended October 31, 2017. The Company has granted stock options to the Directors, Executive Officers and employees of the Group.

The names of the Corporate Officers of the Company as of the date of this Offering Circular are as follows:

Name	Title
Koichi Nishikawa	President
Kenichi Sasaki	Senior Executive Corporate Officer General Manager, Corporate Planning Division General Manager, Planning Department General Manager, New Business Planning Department
Norifumi Kawakami	Corporate Officer
Keisuke Kawasaki	Corporate Officer General Manager, Corporate Administration Division
Hiroyasu Matsui	Corporate Officer General Manager, International Business Division General Manager, Europe Business Department
Shingo Yamanaka	Corporate Officer General Manager, Group-wide Compliance Department
Yoichi Mitsunaka	Corporate Officer General Manager, Operation Control Division General Manager, Operation Control Department

### Corporate Governance

The Company aims to improve the transparency of its management systems to further earn the trust of its shareholders. The Board of Directors meets at least once a month to monitor the Company's activities and to ensure that the Company is responding appropriately to changes in the operating environment. In addition, the Company has adopted a corporate officer system to advance the distinction between managerial decision-making and operational execution (see "*—Management*"). Further, the Company adopted the audit and supervisory Committee system, in order to ensure management transparency and fairness, as well as to strengthen supervisory functions.

## Employees

The Company believes that its labour relations are good.

The following table sets forth the total number of the employees and the number of the temporary employees of the Group as of the dates indicated by business segment:

	Average number of employees/number of temporary employees					
	As of October 31,					
	2015		2016		2017	
Parking business (Japan) . . . . .	1,349	1,423	1,429	1,598	1,413	1,489
Parking business (Foreign countries) . . . . .	—	—	—	—	1,861	1,213
Mobility business . . . . .	643	1,364	726	1,380	946	1,449
Corporate <sup>(1)</sup> . . . . .	256	72	293	82	357	85
Total . . . . .	2,248	2,859	2,448	3,060	4,577	4,236

Note:

(1) Corporate employees are those who engage in management of the Group and cannot be allocated to any particular business segment.

## Stock Option Plans

The Company has a stock option plan (comprising the issue of stock acquisition rights) that provides certain Directors and employees of the Company and its subsidiaries with options to acquire Shares from the Company. The following table sets out a summary of the Company's stock option plans as of July 31, 2018:

Date of meeting of Board of Directors at which authorisation was given	Allotment date	Exercise period	Grantees	Exercise price per Share	Number of Shares to be acquired upon exercise of options outstanding as of July 31, 2018
June 15, 2011 . . . . .	July 4, 2011	December 1, 2013 to January 31, 2019	Directors, then-Corporate Auditors and employees of the Company and its subsidiaries	(yen) 867	168,200
July 16, 2013 . . . . .	August 6, 2013	December 1, 2015 to January 31, 2021	Directors, then-Corporate Auditors and employees of the Company and its subsidiaries	1,884	565,600
May 28, 2015 . . . . .	June 22, 2015	February 1, 2018 to January 31, 2023	Directors, then-Corporate Auditors and employees of the Company and its subsidiaries	2,342	675,000

## SUBSIDIARIES AND AFFILIATES

As of July 31, 2018, the Company had 92 consolidated subsidiaries and 1 affiliate accounted for by the equity method as of July 31, 2018. The following table shows certain information with regard to the Company's principal consolidated subsidiaries and affiliates accounted for by the equity method as of July 31, 2018:

Name	Location	Principal Business	Common stock as of July 31, 2018	Percentage of voting rights owned, directly or indirectly, by the Company
			<i>(Millions of yen, unless otherwise stated)</i>	<i>(Per cent.)</i>
<b>Subsidiaries</b>				
Times24 Co., Ltd. ....	Chiyoda-ku, Tokyo	Management of parking and car sharing service	2,400	100.0
Times Service Co., Ltd. ....	Chiyoda-ku, Tokyo	Maintenance of parking facilities	300	100.0
Times Communication Co., Ltd. ....	Shinagawa-ku, Tokyo	Call centre and roadside assistance service	67	100.0
Times Mobility Networks Co., Ltd. ...	Naka-ku, Hiroshima-shi, Hiroshima	Rent-a-car service and roadside assistance service	500	100.0
Park24 Business Support Co., Ltd. ...	Shinagawa-ku, Tokyo	Business support for Park24 Group	10	100.0
Times Support Co., Ltd. ....	Chiyoda-ku, Tokyo	Insurance agency	3	100.0
Times Innovation Capital LLC ....	Chiyoda-ku, Tokyo	Corporate venture capital	400	100.0
Taiwan Park24 Parking Co., Ltd. ....	Taiwan	Management of parking	500 million Taiwan dollars	100.0
Park24 Australia Pty Ltd. ....	Australia	Management of parking	174 million Australian dollars	100.0
Park24 Singapore Pte. Ltd. ....	Singapore	Management of parking	85 million Singapore dollars	100.0
Park24 Malaysia Sdn. Bhd. ....	Malaysia	Management of parking	74 million Malaysian Ringgit	100.0
Secure Parking Pty Ltd ....	Australia	Management of parking	4 Australian dollars	100.0
Secure Parking Singapore Pte. Ltd. ...	Singapore	Management of parking	7 million Singapore dollars	100.0
Secure Parking Corporation Sdn. Bhd. ....	Malaysia	Management of parking	3 million Malaysian Ringgit	80.0
Park24 UK Limited ....	United Kingdom	Management of parking	£220 million	100.0
MEIF II CP Holdings 2 Limited ....	United Kingdom	Management of parking	£31 million	51.0
National Car Parks Limited ....	United Kingdom	Management of parking	£1 million	100.0
<b>Affiliates accounted for by the equity method:</b>				
GS Park24 Co., Ltd. ....	South Korea	Management of parking	Korean Won 23,000 million	50.0

## 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.

### General

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

On January 5, 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 management institution unless such person has an account at JASDEC. "Account management institutions" are financial instruments traders (i.e., securities firms), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Act, and only those financial institutions that meet further stringent requirements under the rules of JASDEC ("JASDEC rules") can open accounts directly at JASDEC. For the purpose of the description under "Description of the Shares and Certain Regulations", 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 the shares is recorded in the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act and the Book-Entry Act, in order to assert shareholders' rights against the Company, a shareholder must have his or her name and address registered in the Company's register of shareholders, except in limited circumstances. Under the new clearing system, such registration is generally made upon an all shareholders notice from JASDEC.

Shareholders are required to file their names and addresses with the Company, generally through the account management institution and JASDEC.

Non-resident shareholders are also required to appoint a standing proxy in Japan or provide a mailing address in Japan and to file their standing proxy or a mailing address with the Company, generally through the account management institution and JASDEC. Japanese securities firms and commercial banks customarily act as standing proxies and provide related services for standard fees.

The Company's transfer agent is Mitsubishi UFJ Trust and Banking Corporation, located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan.

### Distributions of Surplus

#### General

Under the Companies Act, distributions of cash or other assets by joint stock corporations to their shareholders, so called "dividends", are referred to as "distributions of Surplus" (as defined in "—Restriction on Distributions of Surplus"). The Company may make distributions of Surplus to its shareholders any number of times per fiscal year, subject to certain limitations described in "—Restriction on Distributions of Surplus".

Distributions of Surplus are required in principle to be authorised by a resolution of a general meeting of shareholders, but may also be made pursuant to a resolution of the Board of Directors but only if all the requirements described in (a) through (c) 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 normal term of office of each Director of the Company who is not an Audit and Supervisory Committee Members terminates on or prior to the date of conclusion of the ordinary general meeting of shareholders relating to the last fiscal year ending within the period of one year from the election of such Director; and
- (c) 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 (the “interim dividend”) to its shareholders by resolutions 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 of October 31 of each year pursuant to a resolution of a general meeting of shareholders, and an interim dividend may be distributed to shareholders of record as of April 30 of each year pursuant to a resolution of the Board of Directors. The Company is not obliged to pay any dividends unclaimed for a period of three years after the date on which they first became payable.

Distributions of Surplus may be made in cash or (except for interim dividends) in kind in proportion to the number of Shares held by each shareholder. A resolution of a general meeting of shareholders or the Board of Directors 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 a general meeting of shareholders, 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 generally goes ex-dividend on the second business day prior to the record date.

### **Restriction on Distributions of Surplus**

When the Company makes a distribution of Surplus, it must, until the sum of its additional paid-in capital and legal reserve reaches one-quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed in accordance with 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 of the end of the last fiscal year,
“B”	=	(if the Company has disposed of its treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by the Company less the book value thereof,
“C”	=	(if the Company has reduced its stated capital after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any),
“D”	=	(if the Company has reduced its additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any),
“E”	=	(if the Company has cancelled its treasury stock after the end of the last fiscal year) the book value of such treasury stock,
“F”	=	(if the Company has distributed Surplus to its shareholders after the end of the last fiscal year) the total book value of the Surplus so distributed, and
“G”	=	certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced Surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction and (if the Company has distributed Surplus to its shareholders after the end of the last fiscal year) the amount set aside in its additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of Surplus distributed by the Company may not exceed a prescribed distributable amount (the “Distributable Amount”), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

- (a) the book value of the Company’s treasury stock;

- (b) the amount of consideration for the Company's treasury stock disposed of by it after the end of the last fiscal year; and
- (c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the Company's non-consolidated balance sheet as at the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with ordinances of the Ministry of Justice.

If the Company has become at its option 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 of the end of the last fiscal year.

If the Company has prepared interim financial statements as described below, and if such interim financial statements have been approved by the Board of Directors or (if so required by the Companies Act) by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for the Company's treasury stock disposed of by it, during the period in respect of which such interim financial statements have been prepared. The Company may prepare non-consolidated interim financial statements consisting of a balance sheet as at any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Interim financial statements prepared by the Company must be audited by the Audit and Supervisory Committee and reviewed by independent auditors, as required by the Companies Act and ordinances of the Ministry of Justice.

### **Capital and Reserves**

When the Company issues new Shares, the entire amount of money or other assets paid or contributed by subscribers for such Shares is required to be accounted for as stated capital, although the Company may account for an amount not exceeding one-half of the amount of such subscription money or other assets as additional paid-in capital by a resolution of the Board of Directors or determination of an individual Director to whom the authority to make such determination has been delegated by a resolution of the Board of Directors.

The Company may reduce its additional paid-in capital or legal reserve generally by resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. On the other hand, the Company may reduce its stated capital generally by special resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as additional paid-in capital. In addition, the Company may reduce its Surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case, by 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 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 the record date therefor, not less than two weeks prior to such record date. Under the JASDEC 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 management 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 or an individual Director to whom the authority to make such determination has been delegated by a resolution of the 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 and one-two hundredth of the total number of issued Shares.

Under the unit share system, a shareholder has one vote for each unit of Shares held by it, except as stated in “—Voting Rights”. Shares constituting less than one unit will carry no voting rights and be excluded for the purposes of calculating the quorum for voting purposes. Moreover, holders of Shares constituting less than one unit will have no other shareholder rights except for certain rights specified in the Companies Act, an ordinance of the Ministry of Justice or the Company’s Articles of Incorporation, including the right to receive distribution of Surplus.

Under the new clearing system, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit and, accordingly, may not be sold on the Japanese stock exchanges, unless a different trading unit is designated by the relevant Japanese stock exchange.

Holders of Shares constituting less than one unit may at any time request the Company to purchase Shares held by them. Pursuant to the Company’s Articles of Incorporation and Share Handling Regulations, any such holders may also request the Company to sell to such holder Shares constituting less than one unit which, when added to the Shares held by such holder, shall constitute a full one unit. Under the new clearing system, such requests must be made to the Company through the relevant account management institutions and JASDEC. Such purchase or sale of Shares will be effected, in general, at the last trading price of the Shares on the relevant stock exchange on the day such request is made (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter). The request of such purchase or sale may not be withdrawn without the Company’s consent.

### **General Meetings of Shareholders**

The ordinary general meeting of shareholders of the Company is held in January each year pursuant to 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. Such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders. The record date for an ordinary general meeting of shareholders is October 31 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, one-quarter or more of the total voting rights of which are directly or indirectly held by the Company, has voting rights in respect of Shares held by the Company or such entity.

Except as otherwise provided by law or in the Company’s Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by the holder of a majority of the total number of voting rights represented at the meeting. The Company’s Articles of Incorporation provide that the quorum for election of its Directors 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 Directors who are the Audit and Supervisory Committee Members of the Company;
- (vi) exemption from a portion of liability of the Company’s Directors or independent auditors;
- (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 stated capital;
- (ix) any 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 interests in any of the Company’s significant subsidiaries which meets certain requirements;
- (xii) taking over of the whole of the business of another company;
- (xiii) dissolution or merger or consolidation;
- (xiv) corporate split; and
- (xv) establishment of a parent and wholly-owned subsidiary relationship by way of a share transfer (*kabushiki-iten*).

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) through (xv) above, and such matter may be decided by the Board of Directors or an individual Director to whom the authority to make such determination has been delegated by resolution of the Board of Directors, if it satisfies certain criteria prescribed by the Companies Act as are necessary to determine that its impact is immaterial.

#### **Liquidation Rights**

In the event of the Company’s liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among holders of Shares in proportion to the respective numbers of Shares held by them.

#### **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” above. The Board of Directors or an individual Director to whom the authority to make such determination has been delegated by resolution of 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”.

#### **Record Date**

As mentioned above, October 31 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 April 30 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 in order to determine the shareholders who are entitled to certain rights pertaining to Shares.

Under the JASDEC 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 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 of such record date.

### **Acquisition by the Company of the Shares**

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 determination of an individual Director to whom the authority to make such determination has been delegated by 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 a Representative Director of the Company that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the higher of (x) the last trading price of the Shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter) and (y) if the Shares are subject to a tender offer on the day immediately preceding the date on which the resolution mentioned in (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 or determination of an individual Director to whom the authority to make such determination has been delegated by a resolution of the Board of Directors.

### **Request by Controlling Shareholder to Sell All Shares**

A shareholder holding, directly or indirectly, 90 per cent. (or such other percentage above 90 per cent. as may be provided in the Company's Articles of Incorporation) or more of the Company's voting rights has the right to request, subject to approval by the Company's Board of Directors or an individual Director to whom the authority to make such determination has been delegated by a resolution of the Board of Directors, that the other shareholders and (if the controlling shareholder so determines) all holders of stock acquisition rights of the Company (in each case, other than the Company and, if the controlling shareholder so determines, the controlling shareholder's wholly owned subsidiaries) sell to the controlling shareholder all Shares and all stock acquisition rights, as the case may be, held by them (*kabushiki tou uriwatashi seikyu*). If the approval is granted by resolution of the Company's Board of Directors or determination of an individual Director to whom the authority to make such determination has been delegated by a resolution of the Board of Directors, the Company will be required to give public notice thereof to all holders and registered pledgees of Shares (and stock acquisition rights, as the case may be) not later than 20 days prior to the effective date of such sales, as proposed by the controlling shareholder.

### **Reporting of Substantial Shareholders**

The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of issued voting shares (excluding treasury stock) amounting to more than five per cent. of the total issued shares of capital stock of a company that is listed on any Japanese stock exchange to file a report with the director of the relevant Local Finance Bureau of the Ministry of Finance 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 forth in any previously filed reports. For this purpose, shares issuable to such person upon 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 the holder and the issuer's total issued share capital. Any report so filed will be made available for public inspection. Reports are required to be filed through the Electronic Disclosure for Investors' NETWORK, known as the EDINET system.

## TAXATION

### **Japanese Taxation**

The following is a summary of the principal Japanese tax consequences to Bondholders and owners of Shares, acquired upon exercise of the Stock Acquisition Rights incorporated in the Bonds who are non-resident individuals or non-Japanese corporations having no permanent establishment in Japan (“non-resident Holders”). The statements regarding Japanese tax laws set out below are based on the laws in force and interpreted by the Japanese taxation authorities as at the date hereof and are subject to changes in the applicable Japanese laws or double taxation conventions occurring 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, 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, whether within or 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. Stock splits are not subject to Japanese income tax.

The rate of Japanese withholding tax applicable to dividends paid by the Company to a non-resident Holder of Shares is 20 per cent., subject to any applicable income tax treaty. However, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the Shares) to any corporate or individual shareholders (including those shareholders who are non-resident individuals or non-Japanese corporations), except for any individual shareholder who holds 3 per cent. or more of the total issued shares of the relevant Japanese corporation, the said 20 per cent. withholding tax rate is reduced to 15 per cent. A special reconstruction surtax (2.1 per cent. of the original applicable tax rate) will be added to the withholding tax rates until December 31, 2037.

Gains derived from the sale of Shares, whether within or 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**

#### ***U.S. Foreign Account Tax Compliance Withholding (“FATCA”)***

Pursuant to the foreign account tax compliance provisions of the Hiring Incentives to Restore Employment Act of 2010, the Company and other non-U.S. financial institutions through which payments on the Bonds are made may be required to withhold U.S. tax at a rate of 30 per cent on all, or a portion of, payments made after 31 December 2018 in respect of (i) any Bonds issued or materially modified on or after the date that is six months after the date on which the final regulations applicable to “foreign passthru payments” are filed in the Federal Register and (ii) any Bonds which are treated as equity for U.S. federal tax purposes, whenever issued. Under existing guidance, this withholding tax may be triggered on payments on the Bonds if (i) the Company is a foreign financial institution (“FFI”) (as defined in FATCA) which (a) enters into and complies with an agreement with the U.S. Internal Revenue Service to provide certain information on its account holders (making the Company a “Participating FFI”) or (b) complies with the provisions of the intergovernmental agreement between the United States and Japan regarding the implementation of FATCA to be treated as a “Reporting Japanese Financial Institution”, (ii) the Company is required to withhold on “foreign passthru payments” and (iii)(a) an investor does not provide information sufficient for the relevant

Participating FFI to determine whether the investor is subject to withholding under FATCA or (b) any FFI to or through which payment on such Bonds is made is not a Participating FFI or otherwise exempt from FATCA withholding.

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

## SUBSCRIPTION AND SALE

Pursuant to a subscription agreement dated October 11, 2018 in respect of the Bonds (the “Subscription Agreement”) among the Company, Nomura International plc (the “Lead Manager”) and Mizuho International plc as Co-Lead Manager (together with the Lead Manager, the “Managers”), the Managers have agreed with the Company, subject to the satisfaction of certain conditions, severally but not jointly, to purchase the aggregate principal amount of the Bonds as indicated in the table below at the issue price of 100.0 per cent. of the principal amount of the Bonds (the “Issue Price”), and to offer the Bonds at the offer price as stated on the cover page of this Offering Circular (the “Offer Price”).

<b>Managers</b>	<b>Principal Amount of the Bonds to be Subscribed</b>
Nomura International plc .....	¥28,000,000,000
Mizuho International plc .....	¥ 7,000,000,000
Total .....	¥35,000,000,000

No selling concession or combined management and underwriting commission will be payable by the Company in respect of the offering of the Bonds. The difference between the Issue Price and the Offer Price will be allocated among the Managers in the manner agreed by them. The Company has agreed to pay certain costs in connection with the issue and offering of the Bonds. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement or to terminate the Subscription Agreement in certain circumstances prior to payment to the Company as set out therein. The Company has agreed to indemnify the Managers against certain liabilities in connection with the issue and offering of the Bonds.

### **Lock-up**

In connection with the issue and offering of the Bonds, the Company has agreed not to, and not to direct any entities or any persons acting at the direction of the Company to, (i) issue, offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (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 represent the right to receive, Shares or any other capital stock of the Company or (ii) enter into any derivative transaction or any other 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, in each case, for a period beginning on the date of the Subscription Agreement and ending on the date 180 calendar days after the Closing Date without the prior written consent of the Lead Manager (on behalf of the 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 by the Company), (b) the issue or transfer of Shares by the Company upon exercise of stock acquisition rights issued and outstanding as at the date of the Subscription Agreement and referred to in this Offering Circular, (c) 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, (d) the issue of Shares by the Company as a result of any stock split, (e) the grant and issue of stock options or stock acquisition rights exercisable for Shares to its and the Group’s directors, officers, corporate auditors or employees pursuant to the Company’s stock option plans, (f) the sale by the Company of Shares held by unidentified shareholders and (g) any other issue or sale of Shares required by applicable Japanese laws and regulations.

### **Selling Restrictions**

#### ***General***

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

Neither the Company nor the Managers represent that the Bonds or the Shares may at any time lawfully be re-sold in compliance with any other applicable registration or other requirements in any jurisdiction or pursuant to an exemption available thereunder, or assume any responsibility for facilitating such sales.

#### ***United States***

The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Bonds are being offered and sold outside of the United States in reliance on Regulation S under the Securities Act.

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 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.

### ***Prohibition of Sales to EEA Retail Investors***

Each 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 which are the subject of the offering contemplated by this Offering Circular in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision, 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 MiFID II; or
- (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.

### ***United Kingdom***

Each Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (“FSMA”)) received by it in connection with the issue or sale of the Bonds or the Shares to be issued upon exercise of the Stock Acquisition Rights in circumstances in which Section 21(1) of FSMA does not apply to the Company; and
- (b) it has complied with and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Bonds and the Shares to be acquired upon exercise of the Stock Acquisition Rights in, from or otherwise involving the United Kingdom.

### ***Japan***

The Bonds have not been and will not be registered under the FIEA. Accordingly, each 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 benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable laws and regulations of Japan.

### ***Hong Kong***

Each Manager has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### ***Singapore***

Each Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore (the “MAS”). Accordingly, each Manager has represented and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and

will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to 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.

This Offering Circular has not been registered as a prospectus with the MAS. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Bonds and/or Shares may not be circulated or distributed, nor may any Bonds and/or Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) 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;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

*Notification under Section 309B(1)(c) of the SFA: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in the CMP Regulations 2018), that the Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

### **Other relationships**

In connection with the offering, each Manager may for its own account enter into asset swaps, credit derivatives or other derivatives relating to the Bonds and/or components of the Bonds and/or the Shares at the same time as the offer and sale of the Bonds or in secondary market transactions including facilitating short sales of the Shares by investors who are allocated Bonds. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of Bonds). As a result of such transactions, a Manager may hold long or short positions in the Bonds and/or the Shares and/or derivatives relating thereto. No disclosure will be made of any such positions.

The Managers or their respective affiliates have in the past provided, are currently providing and may in the future provide investment and commercial banking, underwriting, advisory and other services to the Company and its subsidiaries and affiliates for which they have received, expect to receive or may receive (as the case may be) customary compensation.

## GENERAL INFORMATION

- (i) The Company has obtained all necessary consents, approvals and authorisations in Japan in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Company dated October 11, 2018.
- (ii) The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The ISIN is XS1892122166 and the Common Code is 189212216. The LEI of the Company is 549300LFG2WZWCWM4M68.
- (iii) The Securities Identification Code for the Shares is 4666.
- (iv) Approval in-principle has been received for the listing of the Bonds 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, in the event that the Global Certificate is exchanged for definitive certificates, the Company will appoint and maintain a paying agent in Singapore, where the definitive certificates in respect of such Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive certificates, an announcement of such exchange will be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive certificates, including details of the paying agent in Singapore. The Bonds 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 and the rules of the SGX-ST so require.
- (v) There has been no significant change in the financial or trading position of the Group since July 31, 2018 and no material adverse change in the financial position or prospects of the Group since October 31, 2017.
- (vi) There are no, nor have there been any, governmental, legal, arbitral, administrative or other proceedings involving the Company or any other member of the Group that had or may have had, during the 12 months immediately preceding the date of this Offering Circular, a significant effect on the financial position or the profitability of the Company or Group and, so far as the Company is aware, there are no such proceedings pending or threatened.
- (vii) Copies of the latest audited consolidated annual financial statements of the Company and the latest unaudited quarterly consolidated financial statements of the Company 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.
- (viii) The consolidated financial statements of the Company for each of the years ended October 31, 2017 and 2016 included in this Offering Circular have been audited by Ernst & Young ShinNihon LLC, an independent auditor, as stated in their reports appearing herein. The unaudited quarterly consolidated financial statements of the Company as at July 31, 2018 and for the nine months ended July 31, 2017 and 2018, included in this Offering Circular, have been reviewed by Ernst & Young ShinNihon LLC, an independent auditor, as stated in its report appearing herein.
- (ix) Except to the extent provided in Condition 6, the Conditions do not provide for participating rights in the event of a takeover of the Company.
- (x) The Trustee is entitled under the Trust Deed to rely on reports and certificates addressed and/or delivered to it by, among others, the independent accountant to the Company whether or not the same are subject to any limitation on the liability of the independent accountant to the Company and whether by reference to a monetary cap or otherwise.



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## Independent Auditor's Report

The Board of Directors  
PARK24 Co., Ltd.

We have audited the accompanying consolidated financial statements of PARK24 Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at October 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PARK24 Co., Ltd. and its consolidated subsidiaries as at October 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

*Ernst & Young ShinNihon LLC*

January 26, 2018  
Tokyo, Japan

**PARK24 Co., Ltd. and Consolidated Subsidiaries**

**Consolidated Balance Sheets**

**As of October 31, 2016 and 2017**

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2016	2017	2017
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash on hand and in banks (Notes 4 and 7)	¥ 19,477	¥ 18,152	\$ 160,552
Notes and accounts receivable, trade (Note 7)	8,815	15,250	134,884
Less: allowance for doubtful accounts	(75)	(208)	(1,840)
Inventories (Note 20)	1,013	1,469	12,993
Prepaid expenses	8,589	15,061	133,213
Deferred tax assets (Note 10)	1,240	1,388	12,277
Other current assets	2,963	7,985	70,626
Total current assets	42,022	59,097	522,705
<b>Property, plant and equipment:</b>			
Buildings and structures	23,139	31,965	282,726
Machinery and vehicles (Note 20)	61,614	74,309	657,253
Equipment, furniture and fixtures	14,918	42,044	371,874
Leased assets	35,255	47,022	415,903
Land (Note 11)	24,304	24,454	216,292
Construction in progress	1,360	5,606	49,584
	160,590	225,400	1,993,632
Less: accumulated depreciation	(69,016)	(109,858)	(971,679)
Total property, plant and equipment, net	91,574	115,542	1,021,953
<b>Investments and other assets:</b>			
Investment securities (Notes 5 and 7)	2,479	2,788	24,659
Intangible assets	2,061	2,771	24,509
Goodwill	387	59,751	528,489
Long-term prepaid expenses	7,946	8,781	77,667
Lease deposits	4,765	5,077	44,905
Net defined benefit assets (Note 8)	—	701	6,200
Deferred tax asset (Note 10)	1,181	1,265	11,189
Other assets	539	582	5,148
Less: allowance for doubtful accounts	(15)	(13)	(115)
Total investments and other assets	¥ 19,343	¥ 81,703	\$ 722,651
Total assets	¥ 152,939	¥ 256,342	\$ 2,267,309

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2016	2017	2017
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Notes and accounts payable, trade	¥ 562	¥ 714	\$ 6,315
Short-term borrowings (Notes 6 and 7)	300	39,403	348,514
Current portion of long-term debt (Notes 6 and 7)	4,850	24,335	215,240
Current portion of lease obligations (Notes 6 and 7)	3,993	5,571	49,275
Notes payable, other	4,078	5,456	48,257
Accounts payable, other	5,415	7,702	68,123
Accrued expenses	6,035	14,794	130,851
Accrued income taxes	4,603	4,975	44,003
Other current liabilities	3,521	11,094	98,125
Total current liabilities	33,357	114,044	1,008,703
<b>Long-term liabilities:</b>			
Long-term debt (Notes 6 and 7)	31,901	40,699	359,977
Lease obligations (Notes 6 and 7)	7,895	11,630	102,866
Net defined benefit liability (Note 8)	154	156	1,380
Asset retirement obligations (Note 13)	4,841	6,203	54,865
Other long-term liabilities	1,520	4,805	42,499
Total long-term liabilities	46,311	63,493	561,587
<b>Net assets:</b>			
Shareholders' equity (Note 19):			
Common stock	9,367	9,550	84,468
Authorized:			
2016 and 2017 – 283,680,000 shares			
Issued and outstanding:			
2016 – 146,434,035 shares,			
2017 – 146,722,835 shares			
Capital surplus	11,120	11,302	99,965
Retained earnings (Note 22)	53,977	57,899	512,109
Treasury stock, at cost ( 2016 – 1,185 shares, 2017 – 1,185 shares)	(2)	(2)	(18)
	74,462	78,749	696,524
Accumulated other comprehensive income:			
Net unrealized gains on securities	87	142	1,256
Revaluation reserve for land (Note 11)	(1,053)	(1,053)	(9,314)
Deferred losses on hedges	—	(76)	(672)
Foreign currency translation adjustments	(153)	675	5,970
Accumulated adjustments for retirement benefit	(438)	(324)	(2,866)
Total accumulated other comprehensive income	(1,557)	(636)	(5,626)
Stock acquisition rights (Note 9)	366	299	2,645
Net assets attributable to owners of the parent	73,271	78,412	693,543
Non-controlling interests	—	393	3,476
Total net assets	73,271	78,805	697,019
<b>Total liabilities and net assets</b>	<b>¥ 152,939</b>	<b>¥ 256,342</b>	<b>\$ 2,267,309</b>

The accompanying notes are an integral part of these statements.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Consolidated Statements of Income and**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended October 31, 2016 and 2017**

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2016	2017	2017
<b>Net sales</b>	¥ 194,398	¥ 232,957	\$ 2,060,472
<b>Cost of sales</b>	141,349	172,768	1,528,109
Gross profit	53,049	60,189	532,363
<b>Selling, general and administrative expenses (Note 16)</b>	31,596	39,683	350,991
Operating profit	21,453	20,506	181,372
<b>Other expenses (income):</b>			
Interest expense	68	335	2,963
Interest and dividend income	(9)	(25)	(221)
Foreign exchange loss (gain), net	139	(115)	(1,017)
Expenses incurred for evacuation of parking facilities	415	359	3,175
Loss on disposal of property, plant and equipment, and other assets	31	—	—
Void parking ticket income	(169)	(190)	(1,680)
Impairment loss on fixed assets (Note 12)	55	51	451
Equity in earnings of affiliates	(28)	(9)	(80)
Other, net	(128)	(130)	(1,150)
	374	276	2,441
Income before income taxes and non-controlling interests	21,079	20,230	178,931
<b>Income taxes (Note 10):</b>			
Current	7,173	7,071	62,542
Deferred	(58)	(344)	(3,043)
	7,115	6,727	59,499
<b>Income before non-controlling interests</b>	13,964	13,503	119,432
<b>Net income attributable to:</b>			
Non-controlling interests	—	63	557
Shareholder of PARK24 Co., Ltd.	¥ 13,964	¥ 13,440	\$ 118,875
	¥ 13,964	¥ 13,503	\$ 119,432
	Yen		U.S. dollars (Note 3)
<b>Per share of common stock:</b>			
Net income (Note 18):			
Basic	¥ 95.75	¥ 91.67	\$ 0.81
Diluted	90.36	86.87	0.77
Cash dividends	65.00	70.00	0.62
Net assets	¥ 497.87	¥ 532.39	\$ 4.71
	Millions of yen		Thousands of U.S. dollars (Note 3)
<b>Income before non-controlling interests</b>	¥ 13,964	¥ 13,503	\$ 119,432
<b>Other comprehensive income (Note 14):</b>			
Net unrealized gains (losses) on securities	(43)	55	487
Deferred losses on hedges	—	(76)	(672)
Adjustments for retirement benefit	(148)	115	1,017
Foreign currency translation adjustments	(66)	743	6,572
Share of other comprehensive income of affiliates accounted for using the equity method	(141)	93	822
Total other comprehensive income	(398)	930	8,226
<b>Comprehensive income</b>	¥ 13,566	¥ 14,433	\$ 127,658
<b>Comprehensive income attributable to:</b>			
Non-controlling interests	—	73	646
Shareholders of PARK24 Co., Ltd.	¥ 13,566	¥ 14,360	\$ 127,012

The accompanying notes are an integral part of these statements.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Consolidated Statements of Changes in Net Assets**  
**For the years ended October 31, 2016 and 2017**

	Number of common shares	Millions of yen				
		Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total share- holders' equity
<b>Balance at November 1, 2015</b>	145,468,004	¥ 8,378	¥ 10,131	¥ 48,014	¥ (2)	¥ 66,521
Exercise of stock options	549,900	474	474	—	—	948
Conversion of convertible bonds	416,131	515	515	—	—	1,030
Net income	—	—	—	13,964	—	13,964
Cash dividends	—	—	—	(8,001)	—	(8,001)
Purchase of treasury stock	—	—	—	—	(0)	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at October 31, 2016</b>	146,434,035	¥ 9,367	¥ 11,120	¥ 53,977	¥ (2)	¥ 74,462
Exercise of stock options	288,800	183	182	—	—	365
Net income	—	—	—	13,440	—	13,440
Cash dividends	—	—	—	(9,518)	—	(9,518)
Purchase of treasury stock	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at October 31, 2017</b>	146,722,835	¥ 9,550	¥ 11,302	¥ 57,899	¥ (2)	¥ 78,749

	Millions of yen							
	Accumulated other comprehensive income							
	Net unrealized gains on securities	Revaluation reserve for land	Deferred losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehen- sive income	Stock acquisition rights	Total net assets
<b>Balance at November 1, 2015</b>	¥ 130	¥ (1,053)	—	¥ 54	¥ (290)	¥ (1,159)	¥ 520	¥65,882
Exercise of stock options	—	—	—	—	—	—	—	948
Conversion of convertible bonds	—	—	—	—	—	—	—	1,030
Net income	—	—	—	—	—	—	—	13,964
Cash dividends	—	—	—	—	—	—	—	(8,001)
Purchase of treasury stock	—	—	—	—	—	—	—	(0)
Net changes of items other than shareholders' equity	(43)	—	—	(207)	(148)	(398)	(154)	(552)
<b>Balance at October 31, 2016</b>	¥ 87	¥ (1,053)	—	¥ (153)	¥ (438)	¥ (1,557)	¥ 366	¥73,271
Exercise of stock options	—	—	—	—	—	—	—	365
Net income	—	—	—	—	—	—	—	13,440
Cash dividends	—	—	—	—	—	—	—	(9,518)
Purchase of treasury stock	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	55	—	(76)	828	114	921	(67)	1,247
<b>Balance at October 31, 2017</b>	¥ 142	¥ (1,053)	¥ (76)	¥ 675	¥ (324)	¥ (636)	¥ 299	¥78,805

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Consolidated Statements of Changes in Net Assets (continued)**  
**For the years ended October 31, 2016 and 2017**

	Thousands of U.S. dollars (Note 3)					
	Number of common shares	Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total share- holders' equity
<b>Balance at October 31, 2016</b>	146,434,035	\$ 82,850	\$ 98,355	\$ 477,419	\$ (18)	\$ 658,606
Exercise of stock options	288,800	1,619	1,610	—	—	3,229
Net income	—	—	—	118,875	—	118,875
Cash dividends	—	—	—	(84,186)	—	(84,186)
Purchase of treasury stock	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at October 31, 2017</b>	<u>146,722,835</u>	<u>\$ 84,469</u>	<u>\$ 99,965</u>	<u>\$ 512,108</u>	<u>\$ (18)</u>	<u>\$ 696,524</u>

	Thousands of U.S. dollars (Note 3)							
	Accumulated other comprehensive income							
	Net unrealized gains on securities	Revaluation reserve for land	Deferred losses on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehen- sive income	Stock acquisition rights	Total net assets
<b>Balance at October 31, 2016</b>	\$ 770	\$ (9,314)	—	\$ (1,354)	\$ (3,874)	\$ (13,772)	\$ 3,238	\$648,072
Exercise of stock options	—	—	—	—	—	—	—	3,229
Net income	—	—	—	—	—	—	—	118,875
Cash dividends	—	—	—	—	—	—	—	(84,186)
Purchase of treasury stock	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	486	—	(672)	7,324	1,008	8,146	(593)	11,029
<b>Balance at October 31, 2017</b>	<u>\$ 1,256</u>	<u>\$ (9,314)</u>	<u>(672)</u>	<u>\$ 5,970</u>	<u>\$ (2,866)</u>	<u>\$ (5,626)</u>	<u>\$ 2,645</u>	<u>\$697,019</u>

The accompanying notes are an integral part of these statements.



**PARK24 Co., Ltd. and Consolidated Subsidiaries**

**Consolidated Statements of Cash Flows**

**For the years ended October 31, 2016 and 2017**

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2016	2017	2017
<b>Cash flows from operating activities:</b>			
Income before income taxes and non-controlling interests	¥ 21,079	¥ 20,230	¥ 178,931
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	21,780	24,418	215,974
Impairment loss on fixed assets	55	51	451
Increase in net defined benefit liabilities	72	167	1,477
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	(10)	—	—
Interest and dividend income	(9)	(25)	(221)
Interest expense	68	335	2,963
Loss on disposal of property, plant and equipment, and other assets	31	—	—
Changes in assets and liabilities:			
Notes and accounts receivable, trade	(328)	(2,326)	(20,573)
Inventories	3,002	3,801	33,619
Prepaid expenses	(643)	(561)	(4,962)
Notes and accounts payable, trade	19	8	71
Notes payable, other	483	161	1,424
Accounts payable, other	300	(340)	(3,007)
Other	1,573	(105)	(929)
Subtotal	47,472	45,814	405,218
Interest and dividend income received	9	26	230
Interest expense paid	(68)	(326)	(2,883)
Income taxes paid	(7,785)	(7,223)	(63,886)
Net cash provided by operating activities	39,628	38,291	338,679
<b>Cash flows from investing activities:</b>	(16)	(6)	(53)
Increase in time deposits due over three months	16	16	141
Decrease in time deposits due over three months	(21,457)	(28,509)	(252,158)
Payments for purchase of property, plant and equipment	13	10	88
Proceeds from sale of property, plant and equipment	(1,006)	(1,158)	(10,242)
Payments for purchase of intangible assets	(248)	(130)	(1,150)
Payments for purchase of investment securities			
Payments for purchase of subsidiaries involving change in scope of consolidation (Note 15)	—	(38,515)	(340,660)
Payments of long-term prepaid expenses	(3,578)	(3,931)	(34,769)
Other	(872)	(546)	(4,829)
Net cash used in investing activities	(27,148)	(72,769)	(643,632)
<b>Cash flows from financing activities:</b>			
Increase in short-term borrowings, net	—	35,962	318,079
Proceeds from long-term debt	5,000	33,157	293,269
Repayment of long-term debt	(6,513)	(22,371)	(197,868)
Repayment of lease obligations	(4,294)	(4,958)	(43,853)
Proceeds from issuance of additional shares of common stock	774	296	2,618
Dividends paid	(8,004)	(9,516)	(84,168)
Purchases of treasury stock	(0)	—	—
Other	—	—	—
Net cash provided by (used in) financing activities	(13,037)	32,570	288,077
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(45)	222	1,964
<b>Net increase (decrease) in cash and cash equivalents</b>	(602)	(1,686)	(14,912)
<b>Cash and cash equivalents at beginning of year</b>	20,063	19,461	172,130
<b>Cash and cash equivalents at end of year (Note 4)</b>	¥ 19,461	¥ 17,775	¥ 157,218

The accompanying notes are an integral part of these statements.

## PARK24 Co., Ltd. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements

#### 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of PARK24 Co., Ltd. (the “Company”) and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

#### 2. Summary of significant accounting policies

##### (1) Basis of consolidation

###### a) Scope of consolidation

The consolidated financial statements as of October 31, 2017 include the accounts of the Company and its 94 significant (11 in 2016) subsidiaries (collectively, the “Companies”). Investments in 2 (2 in 2016) non-consolidated subsidiaries and 4 (4 in 2016) affiliated companies over which the Companies have the ability to exercise significant influence are accounted for using the equity method. Under the control or influence concept, those companies in which the Company and/or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations are fully consolidated, and those companies over which the Company and/or its consolidated subsidiaries have the ability to exercise significant influence are accounted for using the equity method.

Major consolidated subsidiaries as of October 31, 2017 were as follows:

Times24 Co., Ltd.  
Times Service Co., Ltd.  
Times Communication Co., Ltd.  
Times Mobility Networks Co., Ltd.  
Times Rescue Co., Ltd.  
National Car Parks Limited  
Secure Parking Pty Ltd

Changes in the scope of consolidation during the year ended October 31, 2017 were as follows:

Due to new establishment (4)

Park24 UK Limited, Park24 Australia Pty Ltd, and other 2 companies

Due to new acquisition (79)

National Car Parks Limited, Secure Parking Pty Ltd, and other 77 companies

###### b) Goodwill

The excess of the cost of an acquisition over the fair value of the net assets of the acquired consolidated subsidiary at the date of acquisition is being amortized over reasonably estimated periods, in which economic benefits are expected to be realized.

###### c) Consolidation and elimination

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Companies have been eliminated.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**2. Summary of significant accounting policies (continued)**

**(1) Basis of consolidation (continued)**

d) Fiscal periods of consolidated subsidiaries

The consolidated subsidiaries whose fiscal year ends are different from the date of consolidated financial statements are as follows:

Company Name	Fiscal year end	Ref.
TFI Co., Ltd.	March 31	*1
Park24 Singapore Pte. Ltd.	March 31	*2
Secure Parking Singapore Pte. Ltd.	March 31	*2
Taiwan Park24 Parking Co., Ltd.	September 30	*3
Park24 Australia Pty Ltd	June 30	*2
Periman Pty. Ltd.	June 30	*2
Auspark Holdings Pty. Ltd	December 31	*2
Secure Parking Pty Ltd and its 6 subsidiaries	June 30	*2
Park24 UK Limited	September 30	*3
MEIF II CP Holdings 2 Limited	September 30	*3
MEIF II CP Holdings 3 Limited and its 64 subsidiaries	March 31	*2
Park24 Malaysia Sdn. Bhd.	December 31	*2
Secure Parking Corporation and its 2 subsidiaries	December 31	*2

\*1 Provisional financial statements as of the same date of consolidated financial statements are used in consolidation.

\*2 Provisional financial statements as of September 30 are used in consolidation.

\*3 Financial statements as of its fiscal year end are used, and adjustments are made for important transactions that occurred during the period from the date of provisional financial statements or different fiscal year end to the date of consolidated financial statements.

e) Investments in affiliated companies

The Company had 4 affiliated companies as of October 31, 2016 and 2017. All affiliated companies were accounted for using the equity method.

The fiscal year-end of these affiliated companies differs from that of the Company. Provisional financial statements as of October 31 were utilized in the preparation of the consolidated financial statements.

f) Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements

The accounting standard for unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements requires: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

- 1) Amortization of goodwill
- 2) Scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity
- 3) Expensing capitalized development costs of R&D
- 4) Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
- 5) Exclusion of non-controlling interests from net income, if contained

**(2) Revenue recognition**

Parking fees are recorded at the time billings are made to customers based on seconds of use, on a monthly billing cycle basis.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**2. Summary of significant accounting policies (continued)**

**(3) Cash and cash equivalents**

Cash and cash equivalents are composed of cash on hand, bank deposits that are able to be withdrawn on demand and short-term investments with original maturities of three months or less which represent a minor risk of fluctuations in value.

**(4) Financial instruments**

“Other securities” for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount.

“Other securities” for which market quotations are unavailable are stated at cost, except in cases where they have declined significantly and such impairment of the value is not deemed temporary. Such securities are written down to fair value and the resulting losses are included in the net income or loss for the period.

**(5) Inventories**

Merchandise is stated at cost, cost being determined by the specific identification method or net realizable value. Supplies are stated at cost, cost being determined by the last-purchase-price method or net realizable value.

The accounting standard for measurement of inventories requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

**(6) Property, plant and equipment and depreciation**

Property, plant and equipment, including significant renewals, additions and betterments, are carried at cost. When retired or otherwise disposed of, the cost and the related depreciation are cleared from the respective accounts and the net difference, less the amount of any proceeds, is charged to income. Maintenance and repairs, including minor renewals and betterments, are charged to income as incurred.

Except for buildings acquired on or after April 1, 1998, lease assets, rent-a-car and structures acquired on or after April 1, 2016, depreciation is computed using the declining-balance method over the estimated useful lives of which the range is principally from 10 to 45 years. Depreciation of buildings acquired on or after April 1, 1998, rent-a-car and structures acquired on or after April 1, 2016, is computed by the straight-line method over the estimated useful lives of which the range is principally from 6 to 50 years. Depreciation of leased assets is computed by the straight-line method over the period of the lease contracts.

**(7) Long-lived assets**

The Companies review their long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**(8) Asset retirement obligations**

The accounting standard for asset retirement obligations defines an asset retirement obligation as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**2. Summary of significant accounting policies (continued)**

**(8) Asset retirement obligations (continued)**

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period.

**(9) Intangible assets and amortization**

Intangible assets are carried at cost and amortized on a straight-line basis.

Expenditures related to computer software development for internal use are capitalized as an intangible asset and amortized on a straight-line basis over the estimated useful life of the software (5 years).

**(10) Allowance for doubtful accounts**

An allowance for doubtful accounts is provided for based on the amount deemed necessary to cover possible losses estimated by the management of the Companies, based on a ratio founded on past experience, plus specifically identified uncollectible receivables.

**(11) Retirement benefits for employees**

The Companies have primarily a defined benefit pension plan covering substantially all of the employees. The defined benefit plan provides for a lump-sum payment and, in certain cases, an annuity payment to terminated employees. In calculating retirement benefit obligation, the benefit formula basis method is used to attribute expected benefit to the period extending up to the end of fiscal year. Actuarial differences are amortized on a straight-line basis over a period of 5 years from the year following the year in which they arise. Prior service cost is charged to income when incurred.

**(12) Stock options**

The accounting standard for stock options requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, stock options are presented as stock acquisition rights and treated as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.

**(13) Leases**

The accounting standard for lease transactions requires the Companies to capitalize leased assets and lease obligations.

**(14) Deferred charges**

Stock issuance costs and bond issuance costs are charged to income as incurred.

**(15) Income taxes**

Income taxes of the Companies consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. Deferred income taxes are provided for in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**2. Summary of significant accounting policies (continued)**

**(16) Consumption taxes**

Consumption taxes are excluded from net sales, cost of sales and expenses.

**(17) Reclassifications**

Certain reclassifications of previously reported amounts have been made to conform with the current year's classifications.

**(18) Accounting changes and error corrections**

The accounting standard for accounting changes and error corrections requires the followings:

a) Changes in accounting policies

When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless revised accounting standards include specific transitional provisions. When revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

b) Changes in presentation

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

c) Changes in accounting estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

d) Corrections of prior period errors

When an error in prior period financial statements is discovered, those statements are restated.

**(19) Additional information**

Effective from November 1, 2016, the Company and its consolidated subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26 dated March 28, 2016).

**3. U.S. dollar amounts**

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥113.06 = U.S.\$1, the rate of exchange on October 31, 2017, has been used in translation. The inclusion of such amounts is not intended to imply that the Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

**4. Cash and cash equivalents**

Reconciliations of cash on hand and in banks to cash and cash equivalents at October 31, 2016 and 2017 were as follows:

October 31	Millions of yen		Thousands of
	2016	2017	U.S. dollars
Cash on hand and in banks	¥ 19,477	¥ 18,152	\$ 160,552
Time deposits due over three months	(16)	(6)	(53)
Compulsory deposits	—	(371)	(3,281)
Cash and cash equivalents	¥ 19,461	¥ 17,775	\$ 157,218

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**5. Investment securities**

Investment securities classified as “other securities” at October 31, 2016 and 2017 were as follows:

**(1) Other securities for which market quotations are available**

October 31	Millions of yen						Thousands of U.S. dollars			
	2016			2017			2017			
	Cost	Fair value (Carrying amount)	Difference	Cost	Fair value (Carrying amount)	Difference	Cost	Fair value (Carrying amount)	Difference	
<b>Securities for which market value exceeds cost:</b>										
Equity securities	¥ 114	¥ 239	¥ 125	¥ 114	¥ 318	¥ 204	\$ 1,009	\$ 2,813	\$ 1,804	
Debt securities	10	11	1	10	10	0	88	88	0	
	124	250	126	124	328	204	1,097	2,901	1,804	
<b>Securities for which market value does not exceed cost:</b>										
Equity securities	—	—	—	—	—	—	—	—	—	
Debt securities	—	—	—	—	—	—	—	—	—	
	—	—	—	—	—	—	—	—	—	
<b>Total</b>	<b>¥ 124</b>	<b>¥ 250</b>	<b>¥ 126</b>	<b>¥ 124</b>	<b>¥ 328</b>	<b>¥ 204</b>	<b>\$ 1,097</b>	<b>\$ 2,901</b>	<b>\$ 1,804</b>	

**(2) Debt securities with maturity**

October 31	Millions of yen						Thousands of U.S. dollars		
	2016			2017			2017		
	Within 1 year	1-5 years	More than 5 years	Within 1 year	1-5 years	More than 5 years	Within 1 year	1-5 years	More than 5 years
Government bonds	¥ —	¥ 10	¥ —	¥ —	¥ 10	¥ —	\$ —	\$ 88	\$ —

**6. Short-term borrowings, long-term debt and lease obligations**

Short-term borrowings at October 31, 2016 and 2017 comprised the following:

October 31	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Loans from banks with weighted average interest rates of 0.28% for the years ended October 31, 2016 and 2017:			
—Unsecured	¥ 300	¥ 39,403	\$ 348,514
	¥ 300	¥ 39,403	\$ 348,514

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**6. Short-term borrowings, long-term debt and lease obligations (continued)**

Long-term debt and lease obligations at October 31, 2016 and 2017 comprised the following:

October 31	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unsecured zero coupon convertible bonds due 2018	¥ 19,970	¥ 19,970	\$ 176,632
Unsecured loans, principally from banks, with weighted average interest rates of 0.16% due 2018 – 2027	16,781	45,064	398,585
Lease obligations	11,888	17,201	152,141
	48,639	82,235	727,358
Less current portion	(8,843)	(29,906)	(264,515)
Total	¥ 39,796	¥ 52,329	\$ 462,843

The aggregate annual maturities of long-term debt and lease obligations at October 31, 2017 were as follows:

Years ending October 31	Millions of yen	Thousands of U.S. dollars
2018	¥ 29,906	\$ 264,515
2019	6,400	56,607
2020	12,068	106,740
2021	8,893	78,657
2022	6,120	54,131
2023 and thereafter	18,848	166,708
Total	¥ 82,235	\$ 727,358

The conversion price of the unsecured zero coupon convertible bonds due 2018 is ¥2,621.8 (\$23.19) as of October 31, 2017 (¥2,611.5 (\$23.10) after November 1, 2017). Convertible bonds outstanding at October 31, 2017 would have been convertible into 7,646,946 shares of common stock of the Company.

Bondholders of the unsecured zero coupon convertible bonds due 2018 had the right to require the Company to redeem the bonds on April 26, 2016 at 100% of their principal amount.

**7. Financial instruments**

**(1) Policy for financial instruments**

With respect to cash management, temporary surplus funds are invested in short-term, low-risk financial instruments only. The Companies have a policy to procure the funds for capital expenditures by using bond issuances and borrowings from financial institutions. Fund procurement for operating funds is financed by short-term borrowings from financial institutions. Derivative transactions are undertaken only for the purpose of hedging risks of fluctuations in interest rates and foreign currency exchange rates. As a matter of policy, the Companies do not undertake derivative transactions for speculative purposes.

**(2) Nature and risks of financial instruments and risk management**

Short-term borrowings, long-term debt and lease obligations are mainly used for capital expenditures. Debt with floating interest rates is subject to interest-rate fluctuation risk.

**(3) Supplemental explanation regarding fair value of financial instruments**

Fair values of financial instruments are based on the quoted price in active markets. If a quoted price is not available, other reasonably assessed values are used. Fair values of financial instruments of which the quoted price is not available are calculated based on certain assumptions, and the fair values might differ if different assumptions are used.



**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**7. Financial instruments (continued)**

**(3) Supplemental explanation regarding fair value of financial instruments (continued)**

The carrying amount, fair value and unrealized gain or loss on financial instruments as of October 31, 2016 and 2017 were as follows:

	Millions of yen		
	2016		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash on hand and in banks	¥ 19,477	¥ 19,477	¥ —
Notes and accounts receivables, trade	8,815	8,817	—
Other securities in investment securities	250	250	—
Short-term borrowings	300	300	—
Convertible bonds	19,970	25,462	(5,492)
Long-term debt (including current portion)	16,781	16,790	(9)
Lease obligations (including current portion)	11,888	11,784	104
	Millions of yen		
	2017		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash on hand and in banks	¥ 18,152	¥ 18,152	¥ —
Notes and accounts receivables, trade	15,250	15,250	—
Other securities in investment securities	328	328	—
Short-term borrowings	39,403	39,403	—
Convertible bonds	19,970	20,889	(919)
Long-term debt (including current portion)	45,064	44,999	(65)
Lease obligations (including current portion)	17,201	17,086	115
	Thousands of U.S. dollars		
	2017		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash on hand and in banks	\$ 160,552	\$ 160,552	\$ —
Notes and accounts receivables, trade	134,884	134,884	—
Other securities in investment securities	2,901	2,901	—
Short-term borrowings	348,514	348,514	—
Convertible bonds	176,632	184,760	(8,128)
Long-term debt (including current portion)	398,585	398,010	(575)
Lease obligations (including current portion)	152,141	151,123	1,018

**Cash on hand and in banks**

Since these items are settled in a short period of time, their carrying value approximates fair value.

**Notes and accounts receivables**

The carrying value of notes and accounts receivable approximates fair value because of their short maturities.

**Other securities in investment securities**

The fair value of these items is based on quoted market prices.

**Short-term borrowings**

Since these items are settled in a short period of time, their carrying value approximates fair value.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**7. Financial instruments (continued)**

**(3) Supplemental explanation regarding fair value of financial instruments (continued)**

**Convertible bonds**

The fair value of convertible bonds is based on the quoted market price, if available. Otherwise the fair value of the bonds is the present value of the discounted cash flows using the interest rate determined by the remaining period and current credit risk.

**Long-term debt (including current portion)**

The fair value of long-term borrowings is measured based on the current total amount of principal and interest, discounted by the expected interest rate if the borrowings were refinanced at present.

**Lease obligations (including current portion)**

The fair value of lease obligations is measured based on the current total amount of future payments, discounted by the average interest rate for long-term borrowings.

The carrying amounts of financial instruments whose fair value can not be reliably determined as of October 31, 2016 and 2017 were as follows:

October 31	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Investment securities	¥ 2,229	¥ 2,460	\$ 21,758

Maturities of financial assets and securities were as follows:

	Millions of yen			
	Within 1 year	1-5 years	5-10 years	More than 10 years
Time deposits	¥ 6	¥ —	¥ —	¥ —
Notes and accounts receivables, trade	15,250	—	—	—
Other securities with contractual maturities	—	10	—	—
	¥ 15,256	¥ 10	¥ —	¥ —

  

	Thousands of U.S. dollars			
	Within 1 year	1-5 years	5-10 years	More than 10 years
Time deposits	\$ 53	\$ —	\$ —	\$ —
Notes and accounts receivables, trade	134,884	—	—	—
Other securities with contractual maturities	—	88	—	—
	\$ 134,937	\$ 88	\$ —	\$ —

**8. Retirement benefit plans**

The Companies have funded pension plans or termination allowance plans as part of their defined benefit plans.

Additional employee retirement benefits, which are not included in the calculation of the projected benefit obligation, might be paid in certain circumstances.

Certain consolidated subsidiaries apply the simplified method for the calculation of retirement benefits.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**8. Retirement benefit plans (continued)**

The changes in the retirement benefit obligation during the years ended October 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Beginning balance of retirement benefit obligation	¥ 1,699	¥ 2,338	\$ 20,679
Service cost	382	487	4,308
Interest cost	13	1	9
Actuarial loss	319	7	62
Retirement benefits paid	(75)	(70)	(619)
Increase from changes in scope of consolidation	—	7,128	63,046
Ending balance of retirement benefit Obligation	<u>¥ 2,338</u>	<u>¥ 9,891</u>	<u>\$ 87,485</u>

The changes in plan assets during the years ended October 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Beginning balance of plan assets	¥ 1,798	¥ 2,184	\$ 19,317
Expected return on plan assets	15	17	150
Actuarial gain	21	8	71
Contributions by the Company	425	469	4,148
Retirement benefits paid	(75)	(70)	(619)
Increase from changes in scope of consolidation	—	7,828	69,238
Ending balance of plan assets	<u>¥ 2,184</u>	<u>¥ 10,436</u>	<u>\$ 92,305</u>

The following table sets forth the funded status of plans and the amounts recognized in the consolidated balance sheets as of October 31, 2016 and 2017 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Funded retirement benefit obligation	¥ 2,338	¥ 9,891	\$ 87,485
Plan assets at fair value	<u>(2,184)</u>	<u>(10,436)</u>	<u>(92,305)</u>
	154	(545)	4,820
Net (asset) liability for retirement benefits in the balance sheet	<u>154</u>	<u>(545)</u>	<u>4,820</u>
Net defined benefit liability	154	156	1,380
Net defined benefit asset	—	(701)	(6,200)
Net (asset) liability for retirement benefits in the balance sheet	<u>¥ 154</u>	<u>¥ (545)</u>	<u>\$ 4,820</u>

The components of retirement benefit expense for the years ended October 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Service cost	¥ 382	¥ 487	\$ 4,308
Interest cost	13	1	9
Expected return on plan assets	(15)	(18)	(159)
Amortization of actuarial loss	118	166	1,467
Retirement benefit expense	<u>¥ 498</u>	<u>¥ 636</u>	<u>\$ 5,625</u>

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**8. Retirement benefit plans (continued)**

Actuarial loss (gain) included in other comprehensive income (before tax effect) for the years ended October 31, 2016 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Actuarial loss (gain)	¥ (180)	¥ 166	\$ 1,467
Total	¥ (180)	¥ 166	\$ 1,467

Unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of October 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Unrecognized actuarial loss	¥ 632	¥ 330	\$ 2,919
Total	¥ 632	¥ 330	\$ 2,919

The fair value of plan assets, by major category, as a percentage of total plan assets as of October 31, 2016 and 2017 were as follows:

	2016	2017
Debt securities	—	45%
Life insurance company general accounts	100%	25%
Other	—	30%
Total	100%	100%

The expected return on plan assets has been estimated based on the expected long-term returns on the minimum guarantees for the yield of life insurance company general accounts.

The assumptions used in accounting for the above plans were as follows:

	2016	2017
Discount rates	0.1%	0.3 – 2.6%
Expected rates of return on plan assets	0.9%	0.9 – 3.1%

Contributions to defined contribution plans of a certain subsidiary for the years ended October 31, 2016 and 2017 were ¥71 million and ¥80 million (\$708 thousand), respectively.

**9. Stock options plan**

Summarized information on the stock options granted as of October 31, 2017 was as follows:

**(1) Stock option plan approved by the Board of Directors on June 15, 2011**

	Stock options granted on July 4, 2011
Number of shares for options granted	1,519,500
Number of shares for options outstanding	240,200
Exercise price	¥867 (\$7.67)
Exercisable period	December 1, 2013 – January 31, 2019

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**9. Stock options plan (continued)**

**(2) Stock option plan approved by the Board of Directors on July 16, 2013**

	Stock options granted on August 6, 2013
Number of shares for options granted	989,200
Number of shares for options outstanding	599,700
Exercise price	¥1,884 (\$16.66)
Exercisable period	December 1, 2015 – January 31, 2021

**(3) Stock option plan approved by the Board of Directors on May 28, 2015**

	Stock options granted on June 22, 2015
Number of shares for options granted	1,224,000
Number of shares for options outstanding	1,203,000
Exercise price	¥2,342 (\$20.71)
Exercisable period	February 1, 2018 – January 31, 2023

The number of shares of common stock to be newly issued or to be transferred from treasury stock of the Company, which had been approved by the shareholders in the previous years, decreased by 288,800 shares due to the exercise of options and also decreased by 13,000 shares due to the resignation of the directors and employees of the Company and its subsidiaries who had been granted stock options.

**10. Income taxes**

At October 31, 2016 and 2017, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
October 31	2016	2017	2017
<b>Deferred tax assets:</b>			
Accrued enterprise taxes	¥ 410	¥ 399	\$ 3,529
Accrued bonuses	507	540	4,776
Depreciation	437	458	4,051
Revaluation of land	322	322	2,848
Asset retirement obligations	1,472	1,543	13,647
Other	937	1,252	11,074
Less: valuation allowance	(803)	(760)	(6,722)
Total deferred tax assets	3,282	3,754	33,203
<b>Deferred tax liabilities:</b>			
Net defined benefit asset	(37)	158	1,398
Unrealized gains on securities	39	63	557
Asset retirement cost	894	902	7,978
Other	8	10	88
Total deferred tax liabilities	904	1,133	10,021
Net deferred tax assets	¥ 2,378	¥ 2,621	\$ 23,182

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**10. Income taxes (continued)**

For the years ended October 31, 2016 and 2017 reconciliations of the difference between the statutory income tax rates and the effective income tax rates were as follows:

Years ended October 31	2016	2017
Statutory income tax rates	33.1%	30.9%
Valuation allowance	(0.2)	(0.0)
Non-deductible expenses for tax purposes	0.5	0.2
Per capita levy of inhabitants' taxes	0.4	0.5
Effect of changes in tax laws and corporate tax rates in Japan	0.7	—
Amortization of goodwill	—	1.2
Difference of tax rates for foreign subsidiaries	—	(0.6)
Other	(0.7)	1.0
Effective income tax rates	<u>33.8%</u>	<u>33.2%</u>

In assessing the realizability of deferred tax assets, management of the Companies considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which these temporary differences become deductible. Although realization is not assured, management considered the projected future taxable income in making this assessment. Based on these factors, management believes it is more likely than not that the Companies will realize the benefits of these deductible differences, net of the existing valuation allowance.

**11. Business combinations**

Business combinations accounted for by purchase method were as follows:

**1. On January 18, 2017**

(1) Outline of business combination

a) Corporate name and business description on acquired subsidiaries

Corporate name: Periman Pty. Ltd.  
Auspark Holdings Pty. Ltd  
Secure Parking Singapore Pte. Ltd.  
Secure Parking Corporation Sdn. Bhd.  
Business description: Parking facility management

b) Main reason for the acquisition

To realize a “comfortable automobile society” in a global scale as a global player of parking and mobility businesses with a presence around the world as well as expansion of scale and areas.

c) Date of the business combination

January 18, 2017

d) Statutory form of business combination

Stock purchase by cash

e) Corporate names after transaction

No change

f) Acquired voting right

80%

g) Basis for determining the acquisition

Stock purchase for cash as consideration by the Company

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**11. Business combinations (continued)**

**1. On January 18, 2017 (continued)**

- (2) The period of acquirees' results included in the consolidated financial statements From January 1, 2017 to September 30, 2017

Provisional financial statements as of September 30 are used in consolidation because acquirees' financial closing date are different from the date of consolidated financial statements.

- (3) Acquisition cost of acquirees and details

		Millions of Australian dollars	Millions of yen	Thousands of U.S. dollars
Stock Purchase price	Cash	\$ 227	¥ 19,529	\$ 172,731
Purchase price		\$ 227	¥ 19,529	\$ 172,731

- (4) Major expenses related to acquisition

Advisory fees and others ¥663 million (US\$5,864 thousand)

- (5) Amount of goodwill, reason that the goodwill arose, and method and period of amortization.

- a) Amount of goodwill

¥17,488 million (US\$154,679 thousand)

- b) Reason that the goodwill arose

The goodwill arose from the future increase in profitability that is expected as a result of expanding business.

- c) Method and period of amortization

Straight-line method over 20 years

- (6) Principal assets and liabilities received and assumed on the date of combination

	Millions of yen	Thousands of U.S. dollars
Current assets	4,778	42,261
Non-current assets	5,981	52,901
Total assets	<u>10,759</u>	<u>95,162</u>
Current liabilities	5,651	49,982
Non-current liabilities	3,282	29,029
Total liabilities	<u>8,933</u>	<u>79,011</u>

**2. On August 3, 2017**

- (1) Outline of business combination

- a) Corporate name and business description on acquired subsidiaries

Corporate name: MEIF II CP Holdings 2 Limited

Business description: Parking facility management

- b) Main reason for the acquisition

Through reinforcement and expansion of parking business in the UK, the Company build a foundation in Europe as the Company's overseas strategy, and also to realize a "comfortable automobile society" in a global scale as a global player of parking and mobility businesses with a presence around the world.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**11. Business combinations (continued)**

**2. On August 3, 2017 (continued)**

(1) Outline of business combination (continued)

- c) Date of the business combination  
August 3, 2017
- d) Statutory form of business combination  
Stock purchase by cash
- e) Corporate names after transaction  
No change
- f) Acquired voting right  
51%
- g) Basis for determining the acquisition  
Stock purchase for cash as consideration by the Company

(2) The period of acquirees' results included in the consolidated financial statements

No operating results were included in the consolidated financial statements for the year ended October 31, 2017, because deemed acquisition date was September 30, 2017.

(3) Acquisition cost of acquirees and details

		Millions of British Pounds	Millions of yen	Thousands of U.S. dollars
Stock Purchase price	Cash	£ 158	¥ 23,490	\$ 207,766
Purchase price		£ 158	¥ 23,490	\$ 207,766

(4) Major expenses related to acquisition

Advisory fees and others ¥632 million (US\$5,590 thousand)

(5) Amount of goodwill, reason that the goodwill arose, and method and period of amortization.

- a) Amount of goodwill  
¥42,253 million (US\$373,722 thousand)  
The above figures are estimated amounts as the allocation of acquisition costs has not been completed.
- b) Reason that the goodwill arose  
The goodwill arose from the future increase in profitability that is expected as a result of expanding business.
- c) Method and period of amortization Straight-line method over 20 years

(6) Principal assets and liabilities received and assumed on the date of combination

	Millions of yen	Thousands of U.S. dollars
Current assets	9,886	87,440
Non-current assets	10,173	89,979
Total assets	20,059	177,419
Current liabilities	13,502	119,423
Non-current liabilities	25,218	223,050
Total liabilities	38,720	342,473



**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**12. Revaluation of land**

On October 31, 2000, the Company revalued its land held for business purposes in accordance with the “Law on Land Revaluation.” The method followed for this land revaluation was determined in accordance with the “Enforcement Act Concerning Land Revaluation.” Differences arising from the land revaluation have been accounted for as revaluation reserve for land under net assets.

The carrying value of this land after the revaluation was down from its fair value as of October 31, 2016 and 2017 by ¥90 million and ¥146 million (\$1,291 thousand), respectively.

**13. Impairment loss on fixed assets**

The Companies review their long-lived assets in operation for impairment by asset group. An asset group consists of the lowest level of geographical area under business classification. Mainly headquarters’ assets and leased assets are allocated to a single group as corporate common assets. When the above asset group makes continuing loss in operation, the Companies reduce the carrying amount of the asset group to the recoverable amount.

The related assets which incurred impairment losses for the years ended October 31, 2016 and 2017 were as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Related assets			
Buildings and structures	¥ 24	¥ 21	\$ 186
Other tangible fixed assets	0	1	9
Long-term prepaid expenses	31	29	256
Total	¥ 55	¥ 51	\$ 451

The recoverable value of assets in the asset group was calculated using estimates of the value in use and the adjusted appraisal value, and future cash flows from these assets were discounted to the present using a discount rate of 5%.

**14. Asset retirement obligations**

(1) General information about asset retirement obligations

Asset retirement obligations are based upon estimated future restoration obligations pursuant to parking facilities rental agreements.

(2) Calculation method of the asset retirement obligations

Asset retirement obligations are calculated based upon the estimated period of use depending on the useful life of the relevant tangible fixed assets (mainly 15 years) and discounted by relevant discount rates which are estimated based upon the rate of return on government bonds with corresponding maturity periods.

(3) Asset retirement obligations for the years ended October 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Beginning of year	¥ 4,617	¥ 4,841	\$ 42,818
Increase from changes in scope of consolidation	—	1,124	9,942
New obligations by acquisition of fixed assets	417	410	3,626
Accretion expense	63	63	557
Settlement payment	(256)	(235)	(2,078)
End of year	¥ 4,841	¥ 6,203	\$ 54,865

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**15. Other comprehensive income**

The components of other comprehensive income for the years ended October 31, 2016 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Net unrealized gains on securities			
Gains (losses) arising during the year	¥ (43)	78	¥ 690
Reclassification adjustments to profit or loss	(23)	—	—
Amount before income tax effect	(66)	78	690
Income tax effect	23	(24)	(212)
Total	<u>(43)</u>	<u>54</u>	<u>478</u>
Deferred losses on hedges			
Gains (losses) arising during the year	—	(109)	(964)
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	(66)	(109)	(964)
Income tax effect	—	33	292
Total	<u>(66)</u>	<u>(76)</u>	<u>(672)</u>
Foreign currency translation adjustments			
Adjustments arising during the year	(66)	744	6,581
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	(66)	744	6,581
Income tax effect	—	—	—
Total	<u>(66)</u>	<u>744</u>	<u>6,581</u>
Share of other comprehensive income of affiliates accounted for using the equity method			
Gains (losses) arising during the year	(141)	93	822
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	(141)	93	822
Income tax effect	—	—	—
Total	<u>(141)</u>	<u>93</u>	<u>822</u>
Accumulated adjustments for retirement benefit			
Adjustments arising during the year	(298)	136	1,203
Reclassification adjustments to profit or loss	118	30	265
Amount before income tax effect	(180)	166	1,468
Income tax effect	32	(51)	(451)
Total	<u>(148)</u>	<u>115</u>	<u>1,017</u>
Total other comprehensive income	<u>¥ (398)</u>	<u>930</u>	<u>¥ 8,226</u>

**16. Segment information**

(1) Overview of reportable segments

The Company's reportable segments are components of the Group for which discrete financial information is available and which is regularly examined by the Board of Directors to determine the allocation of management resources and evaluate performance. The Company's three separate reportable segments are Parking business (Japan), Parking business (Foreign countries) and Mobility business.

In the current fiscal year, in line with the expansion of parking operations in Australia, New Zealand, the United Kingdom through Secure Parking Pty Ltd, Singapore parking operations through Secure Parking Singapore Pte. Ltd., and Malaysia parking operations through Secure Parking Corporation Sdn. Bhd., which

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**16. Segment information (continued)**

were included in the scope of consolidation following the acquisition of 80% of their shares, these were added to the Parking business (Foreign countries) segment.

In addition, disclosure of comparative information for the previous fiscal year reflects such change in method of classification.

(2) Method of calculating net sales, profits or losses, assets, obligations and other flows by segment

The accounting treatment for reportable segments is generally similar to the descriptions under “Summary of significant accounting policies”. Profits of reportable segments are the figures based on operating profit. The Company does not allocate assets and liabilities to reportable segments.

(3) Information on operating revenues, operating profits and other flows by reportable segments for the years ended October 31, 2016 and 2017 were as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
<b>I. Operating revenues and operating profit: (Note 4)</b>			
<b>Operating revenues</b>			
<b>(1) Outside customers</b>			
Parking business (Japan)	¥ 140,205	¥ 148,262	\$ 1,311,357
Parking business (Foreign countries)	1,938	23,671	209,366
Mobility business	52,255	61,024	539,749
Total	194,398	232,957	2,060,472
Reconciliations	—	—	—
Consolidated	194,398	232,957	2,060,472
<b>(2) Inter-segment</b>			
Parking business (Japan)	99	137	1,212
Parking business (Foreign countries)	—	—	—
Mobility business	46	37	327
Total	145	174	1,539
Reconciliations	(145)	(174)	(1,539)
Consolidated	—	—	—
<b>Total operating revenue</b>			
Parking business (Japan)	140,304	148,399	1,312,569
Parking business (Foreign countries)	1,938	23,671	209,366
Mobility business	52,301	61,061	540,076
Total	194,543	233,131	2,062,011
Reconciliations	(145)	(174)	(1,539)
Consolidated	194,398	232,957	2,060,472
<b>Operating expenses</b>			
Parking business (Japan)	115,405	123,040	1,088,272
Parking business (Foreign countries)	1,856	23,555	208,341
Mobility business	47,843	55,948	494,852
Total	165,104	202,543	1,791,465
Reconciliations	7,841	9,908	87,635
Consolidated	172,945	212,451	1,879,100
<b>Operating profit</b>			
Parking business (Japan)	24,899	25,359	224,297
Parking business (Foreign countries) (Notes 2)	82	116	1,025
Mobility business	4,458	5,113	45,224
Total	29,439	30,588	270,546
Reconciliations (Notes 1)	(7,986)	(10,082)	(89,174)
Consolidated (Notes 3)	¥ 21,453	¥ 20,506	\$ 181,372

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**16. Segment information (continued)**

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
<b>II. Depreciation and amortization:</b>			
Parking business (Japan)	¥ 8,764	¥ 8,803	\$ 77,861
Parking business (Foreign countries)		1,253	11,083
Mobility business	12,250	13,533	119,698
Total	21,014	23,589	208,642
Reconciliations	766	829	7,332
Consolidated	¥ 21,780	¥ 24,418	\$ 215,974

Notes 1. Reconciliations of minus 10,082 million yen in operating profit include an amortization of goodwill of minus 153 million yen (unamortized balance: 232 million yen) and company-wide expenses of 9,846 million yen. Company-wide expenses are mainly expenses that do not belong to either of the reportable segments. Those expenses are relating to the administration division, including the general affairs department.

2. Operating profit of 116 million yen in Parking business (Foreign countries) includes an amortization of goodwill of minus 651 million yen (unamortized balance: 59,517 million yen). Unamortized balance includes a tentatively calculated amount related to the business combination conducted in the fourth quarter of the consolidated fiscal year under review.

3. Operating profit is adjusted in accordance with operating profit in the consolidated statements of income.

4. Reportable segments and main services in each segment

Reportable Segment	Main Services
Parking business (Japan)	24-hour self-service parking lot ("Times") Parking facility management (Japan)
Parking business (Foreign countries)	Parking facility management (Foreign countries)
Mobility business	Lending and sales of automobiles Roadside assistance

(4) Geographical information

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2017	2017	2017
<b>Operating revenues</b>			
Japan	¥ 209,286		\$ 1,851,106
Other regions	23,671		209,366
Total	232,957		2,060,472
<b>Tangible fixed assets</b>			
Japan	¥ 100,566		\$ 889,492
Other regions	14,976		132,461
Total	115,542		1,021,953

The operating revenues and tangible fixed assets outside Japan for the year ended October 31, 2016 were immaterial

**17. Selling, general and administrative expenses**

Selling, general and administrative expenses for the years ended October 31, 2016 and 2017 were principally as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Advertising and sales promotion	1,838	2,068	18,291
Transfer and transportation expenses	800	939	8,305
Salaries and bonuses	13,052	15,740	139,218
Retirement benefit expenses	396	607	5,369
Rental expenses	2,152	2,466	21,811
Remuneration and commission	3,630	5,588	49,425
Amortization of goodwill	154	805	7,120

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**17. Selling, general and administrative expenses (continued)**

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Provision of allowance for doubtful accounts	14	37	327
Directors' and corporate auditors' compensations and salaries	347	477	4,219
Provision for bonuses	851	856	7,571
Provision for directors' and corporate auditors' bonuses	86	111	982
Legal welfare expenses	1,654	1,828	16,168
Depreciation and amortization	936	1,169	10,340

**18. Related party transactions**

Material transactions of the Company with related companies and individuals for the years ended October 31, 2016 and 2017 were as follows:

Name of related company or individual	Paid-in capital	Principal business	Percentage of the Company's ownership held by related company or individual	Description of the Company's transactions	Millions of yen / Thousands of U.S. dollars			
					Transactions		Resulting account balance	
					For the year ended October 31,		At October 31,	
					2016	2017	2016	2017
LTK Reisebüro Japan Co., Ltd.	¥34 million	Travel agency	—	Purchase of ticket for business trip	¥ 40	¥ 34 (\$301)	¥ 4	¥ 2 (\$18)

- The terms and conditions of the above transactions were on an arm's-length basis.
- LTK Reisebüro Japan Co., Ltd. is owned by Tsunekazu Takeda, the Company's director (Audit & Supervisory Committee Member).

**19. Net income per share**

The reconciliations of the difference between basic and diluted net income per share for the years ended October 31, 2016 and 2017 were as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2016	2017	2017
Net income available to the common stockholders	¥ 13,964	¥ 13,440	\$ 118,875
Effect of dilutive securities	—	—	—
Net income available to the common stockholders for diluted net income per share	¥ 13,964	¥ 13,440	\$ 118,875

  

Years ended October 31	Thousands of shares	
	2016	2017
Weighted-average number of shares	145,840	146,617
Effect of dilutive securities: Common stock warrants	8,696	8,098
Weighted-average number of shares for diluted net income per share	154,536	154,715

  

Years ended October 31	Yen		U.S. dollars
	2016	2017	2017
Basic net income per share	¥ 95.75	¥ 91.67	\$ 0.81
Diluted net income per share	¥ 90.36	¥ 86.87	\$ 0.77

There was no potential common stock upon the exercise of a common stock warrant excluded from the computation of diluted net income per share having an exercise price in excess of the average market value of the common stock during the years ended October 31, 2016 and 2017.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**20. Shareholders' equity**

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the legal capital surplus) and retained earnings (other than the legal retained earnings) be transferred to the legal capital surplus and the legal retained earnings, respectively, until the sum of the legal capital surplus and the legal retained earnings equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the legal capital surplus nor the legal retained earnings is available for distribution.

**21. Vehicles reclassified as inventories**

The rent-a-car business includes sales of used cars as an operating cycle. For the years ended October 31, 2016 and 2017, the Companies reclassified ¥3,126 million and ¥3,959 million (\$35,017 thousand) of vehicles to inventories. The balance of these inventories as of October 31, 2016 and 2017 were ¥52 million and ¥10 million (\$88 thousand), respectively.

**22. Investments and rental properties**

The Companies own properties for parking facilities in Tokyo, Kanagawa and other areas. The carrying amount on the consolidated balance sheets, any increase or decrease during the year, as well as the market value of the properties as of October 31, 2016 and 2017 were as follows:

	Millions of yen			
	Amount on the consolidated balance sheet			
	November 1, 2015	Increase (Decrease)	October 31, 2016	Market value as of October 31, 2016
Rental properties	¥ 28,534	¥ (380)	¥ 28,154	¥ 34,050

	Millions of yen			
	Amount on the consolidated balance sheet			
	November 1, 2016	Increase (Decrease)	October 31, 2017	Market value as of October 31, 2017
Rental properties	¥ 28,154	¥ (372)	¥ 27,782	¥ 33,907

	Thousands of U.S. dollars			
	Amount on the consolidated balance sheet			
	November 1, 2016	Increase (Decrease)	October 31, 2017	Market value as of October 31, 2017
Rental properties	\$ 249,018	\$ (3,290)	\$ 245,728	\$ 299,903

- (1) Amount on the consolidated balance sheet is calculated as acquisition cost deducting accumulated depreciation and cumulative impairment losses.
- (2) Market values as of October 31, 2016 and 2017 were principally established in accordance with the "Real estate evaluation standards," and were adjusted using official indices.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**22. Investments and rental properties (continued)**

Revenues and expenses related to investment and rental properties for the years ended October 31, 2016 and 2017 were as follows:

2016	Millions of yen			
	Revenues	Expenses	Difference	Other
Rental properties	¥ 4,272	¥ 1,431	¥ 2,841	¥ —

2017	Millions of yen			
	Revenues	Expenses	Difference	Other
Rental properties	¥ 4,265	¥ 1,370	¥ 2,895	¥ —

2017	Thousands of U.S. dollars			
	Revenues	Expenses	Difference	Other
Rental properties	\$ 37,723	\$ 12,117	\$ 25,606	\$ —

**23. Subsequent events**

**(a) 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 October 31, 2017, was approved at an ordinary general meeting of shareholders held on January 25, 2018.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥70=U.S.\$0.62 per share)	¥ 10,271	\$ 90,846

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## Independent Auditor's Report

The Board of Directors  
PARK24 Co., Ltd.

We have audited the accompanying consolidated financial statements of PARK24 Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at October 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PARK24 Co., Ltd. and its consolidated subsidiaries as at October 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Emphasis of Matter*

As described in Note 22, on January 18, 2017, the Company completed the acquisition of 80% of the shares in each of Secure Parking Pty Ltd; which operates parking businesses in Australia, New Zealand and the United Kingdom; Secure Parking Singapore Pte. Ltd., which operates a parking business in Singapore; and Secure Parking Corporation Sdn. Bhd., which operates a parking business in Malaysia, based on the resolution of Board of Directors' meeting held on December 7, 2016. Our opinion is not qualified in respect of this matter.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

*Ernst & Young ShinVikon LLC*

January 26, 2017  
Tokyo, Japan

**PARK24 Co., Ltd. and Consolidated Subsidiaries**

**Consolidated Balance Sheets**

**As of October 31, 2015 and 2016**

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2015	2016	2016
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash on hand and in banks (Notes 4 and 7)	¥ 20,080	¥ 19,477	\$ 185,814
Notes and accounts receivable, trade (Note 7)	8,500	8,815	84,097
Less: allowance for doubtful accounts	(68)	(75)	(716)
Inventories (Note 20)	889	1,013	9,664
Prepaid expenses	7,952	8,589	81,941
Deferred tax assets (Note 10)	1,250	1,240	11,830
Other current assets	2,326	2,963	28,267
Total current assets	40,929	42,022	400,897
<b>Property, plant and equipment:</b>			
Buildings and structures	22,118	23,139	220,750
Machinery and vehicles (Note 20)	54,488	61,614	587,808
Equipment, furniture and fixtures	13,926	14,918	142,320
Leased assets	30,825	35,255	336,338
Land (Note 11)	24,304	24,304	231,864
Construction in progress	1,162	1,360	12,975
	146,823	160,590	1,532,055
Less: accumulated depreciation	(60,172)	(69,016)	(658,424)
Total property, plant and equipment, net	86,651	91,574	873,631
<b>Investments and other assets:</b>			
Investment securities (Notes 5 and 7)	2,410	2,479	23,650
Intangible assets	1,615	2,061	19,662
Goodwill	540	387	3,692
Long-term prepaid expenses	7,520	7,946	75,806
Lease deposits	3,820	4,765	45,459
Net defined benefit assets (Note 8)	99	—	—
Deferred tax asset (Note 10)	1,055	1,181	11,267
Other assets	838	539	5,142
Less: allowance for doubtful accounts	(15)	(15)	(143)
Total investments and other assets	¥ 17,882	¥ 19,343	\$ 184,535
Total assets	¥ 145,462	¥ 152,939	\$1,459,063

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2015	2016	2016
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Notes and accounts payable, trade	¥ 543	¥ 562	\$ 5,361
Short-term borrowings (Notes 6 and 7)	300	300	2,862
Current portion of long-term debt (Notes 6 and 7)	6,512	4,850	46,270
Current portion of lease obligations (Notes 6 and 7)	3,967	3,993	38,094
Notes payable, other	3,143	4,078	38,905
Accounts payable, other	5,297	5,415	51,660
Accrued expenses	5,551	6,035	57,575
Accrued income taxes	4,509	4,603	43,913
Other current liabilities	3,398	3,521	33,591
Total current liabilities	33,220	33,357	318,231
<b>Long-term liabilities:</b>			
Long-term debt (Notes 6 and 7)	32,781	31,901	304,341
Lease obligations (Notes 6 and 7)	7,648	7,895	75,320
Net defined benefit liability (Note 8)	—	154	1,469
Asset retirement obligations (Note 13)	4,617	4,841	46,184
Other long-term liabilities	1,314	1,520	14,501
Total long-term liabilities	46,360	46,311	441,815
<b>Net assets:</b>			
Shareholders' equity (Note 19):			
Common stock	8,378	9,367	89,363
Authorized:			
2015 and 2016 – 283,680,000 shares			
Issued and outstanding:			
2015 – 145,468,004 shares,			
2016 – 146,434,035 shares			
Capital surplus	10,131	11,120	106,087
Retained earnings (Note 22)	48,014	53,977	514,949
Treasury stock, at cost (2015 – 1,117 shares, 2016 – 1,185 shares)	(2)	(2)	(19)
	66,521	74,462	710,380
Accumulated other comprehensive income:			
Net unrealized gains on securities	130	87	830
Revaluation reserve for land (Note 11)	(1,053)	(1,053)	(10,046)
Foreign currency translation adjustments	54	(153)	(1,460)
Accumulated adjustments for retirement benefit	(290)	(438)	(4,178)
Total accumulated other comprehensive income	(1,159)	(1,557)	(14,854)
Stock acquisition rights (Note 9)	520	366	3,491
Total net assets	65,882	73,271	699,017
<b>Total liabilities and net assets</b>	<b>¥ 145,462</b>	<b>¥ 152,939</b>	<b>\$1,459,063</b>

The accompanying notes are an integral part of these statements.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Consolidated Statements of Income and**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended October 31, 2015 and 2016**

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2015	2016	2016
<b>Net sales</b>	¥ 179,699	¥ 194,398	\$ 1,854,589
<b>Cost of sales</b>	132,992	141,349	1,348,493
Gross profit	46,707	53,049	506,096
<b>Selling, general and administrative expenses</b> (Note 16)	27,976	31,596	301,431
Operating profit	18,731	21,453	204,665
<b>Other expenses (income):</b>			
Interest expense	68	68	649
Interest and dividend income	(8)	(9)	(86)
Foreign exchange loss (gain), net	(35)	139	1,326
Expenses incurred for evacuation of parking facilities	388	415	3,959
Loss on disposal of property, plant and equipment, and other assets	38	31	295
Void parking ticket income	(164)	(169)	(1,612)
Loss on a sale of investment securities	8	—	—
Impairment loss on fixed assets (Note 12)	57	55	525
Equity in earnings of affiliates	(29)	(28)	(267)
Other, net	(78)	(128)	(1,221)
	245	374	3,568
Income before income taxes and non-controlling interests	18,486	21,079	201,097
<b>Income taxes</b> (Note 10):			
Current	7,133	7,173	68,431
Deferred	(196)	(58)	(553)
	6,937	7,115	67,878
<b>Income before non-controlling interests</b>	11,549	13,964	133,219
<b>Net income attributable to:</b>			
Shareholders of PARK24 Co., Ltd.	¥ 11,549	¥ 13,964	\$ 132,219
	Yen		U.S. dollars (Note 3)
<b>Per share of common stock:</b>			
Net income (Note 18):			
Basic	¥ 79.45	¥ 95.75	\$ 0.91
Diluted	75.01	90.36	0.86
Cash dividends	55.00	65.00	0.62
Net assets	¥ 449.33	¥ 497.87	\$ 4.75
	Millions of yen		Thousands of U.S. dollars (Note 3)
<b>Income before non-controlling interests</b>	¥ 11,549	¥ 13,964	\$ 133,219
<b>Other comprehensive income</b> (Note 14):			
Net unrealized gains (losses) on securities	33	(43)	(410)
Adjustments for retirement benefit	10	(148)	(1,412)
Foreign currency translation adjustments	16	(66)	(630)
Share of other comprehensive income of affiliates accounted for using the equity method	24	(141)	(1,345)
Total other comprehensive income	83	(398)	(3,797)
<b>Comprehensive income</b>	¥ 11,632	¥ 13,566	\$ 129,422
<b>Comprehensive income attributable to:</b>			
Shareholders of PARK24 Co., Ltd.	¥ 11,632	¥ 13,566	\$ 129,422

The accompanying notes are an integral part of these statements.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Consolidated Statements of Changes in Net Assets**  
**For the years ended October 31, 2015 and 2016**

	Millions of yen					
	Number of common shares	Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance at November 1, 2014</b>	145,171,904	¥ 8,219	¥ 9,972	¥ 43,723	¥ (1)	¥ 61,913
Exercise of stock options	296,100	159	159	—	—	318
Net income	—	—	—	11,549	—	11,549
Cash dividends	—	—	—	(7,258)	—	(7,258)
Purchase of treasury stock	—	—	—	—	(1)	(1)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at November 1, 2015</b>	145,468,004	¥ 8,378	¥ 10,131	¥ 48,014	¥ (2)	¥ 66,521
Exercise of stock options	549,900	474	474	—	—	948
Conversion of convertible bonds	416,131	515	515	—	—	1,030
Net income	—	—	—	13,964	—	13,964
Cash dividends	—	—	—	(8,001)	—	(8,001)
Purchase of treasury stock	—	—	—	—	(0)	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at October 31, 2016</b>	146,434,035	¥ 9,367	¥ 11,120	¥ 53,977	¥ (2)	¥ 74,462

	Millions of yen						
	Accumulated other comprehensive income						
	Net unrealized gains on securities	Revaluation reserve for land	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
<b>Balance at November 1, 2014</b>	¥ 97	¥ (1,053)	¥ 14	¥ (300)	¥ (1,242)	¥ 400	¥61,071
Exercise of stock options	—	—	—	—	—	—	318
Net income	—	—	—	—	—	—	11,549
Cash dividends	—	—	—	—	—	—	(7,258)
Purchase of treasury stock	—	—	—	—	—	—	(1)
Net changes of items other than shareholders' equity	33	—	40	10	83	120	203
<b>Balance at November 1, 2015</b>	¥ 130	¥ (1,053)	¥ 54	¥ (290)	¥ (1,159)	¥ 520	¥65,882
Exercise of stock options	—	—	—	—	—	—	948
Conversion of convertible bonds	—	—	—	—	—	—	1,030
Net income	—	—	—	—	—	—	13,964
Cash dividends	—	—	—	—	—	—	(8,001)
Purchase of treasury stock	—	—	—	—	—	—	(0)
Net changes of items other than shareholders' equity	(43)	—	(207)	(148)	(398)	(154)	(552)
<b>Balance at October 31, 2016</b>	¥ 87	¥ (1,053)	¥ (153)	¥ (438)	¥ (1,557)	¥ 366	¥73,271

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Consolidated Statements of Changes in Net Assets (continued)**  
**For the years ended October 31, 2015 and 2016**

	Thousands of U.S. dollars (Note 3)					
	Number of common shares	Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance at November 1, 2015</b>	145,468,004	\$ 79,928	\$ 96,652	\$ 458,061	\$ (19)	\$ 634,622
Exercise of stock options	549,900	4,522	4,522	—	—	9,044
Conversion of convertible bonds	416,131	4,913	4,913	—	—	9,826
Net income	—	—	—	133,219	—	133,219
Cash dividends	—	—	—	(76,331)	—	(76,331)
Purchase of treasury stock	—	—	—	—	(0)	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at October 31, 2016</b>	<u>146,434,035</u>	<u>\$ 89,363</u>	<u>\$ 106,087</u>	<u>\$ 514,949</u>	<u>\$ (19)</u>	<u>\$ 710,380</u>

	Thousands of U.S. dollars (Note 3)						
	Accumulated other comprehensive income						
	Net unrealized gains on securities	Revaluation reserve for land	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
<b>Balance at November 1, 2015</b>	\$ 1,240	\$ (10,046)	\$ 515	\$ (2,766)	\$ (11,057)	\$ 4,960	\$628,525
Exercise of stock options	—	—	—	—	—	—	9,044
Conversion of convertible bonds	—	—	—	—	—	—	9,826
Net income	—	—	—	—	—	—	133,219
Cash dividends	—	—	—	—	—	—	(76,331)
Purchase of treasury stock	—	—	—	—	—	—	(0)
Net changes of items other than shareholders' equity	(410)	—	(1,975)	(1,412)	(3,797)	(1,469)	(5,266)
<b>Balance at October 31, 2016</b>	<u>\$ 830</u>	<u>\$ (10,046)</u>	<u>\$ (1,460)</u>	<u>\$ (4,178)</u>	<u>\$ (14,854)</u>	<u>\$ 3,491</u>	<u>\$699,017</u>

The accompanying notes are an integral part of these statements.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**

**Consolidated Statements of Cash Flows**

**For the years ended October 31, 2015 and 2016**

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2015	2016	2016
<b>Cash flows from operating activities:</b>			
Income before income taxes and non-controlling interests	¥ 18,486	¥ 21,079	\$ 201,097
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	20,383	21,780	207,785
Impairment loss on fixed assets	57	55	525
Increase in net defined benefit liabilities	—	72	687
Increase (decrease) in accrued retirement benefits for directors and corporate auditors	—	(10)	(96)
Interest and dividend income	(8)	(9)	(86)
Interest expense	68	68	649
Loss on disposal of property, plant and equipment, and other assets	38	31	296
Changes in assets and liabilities:			
Notes and accounts receivable, trade	(1,176)	(328)	(3,129)
Inventories	2,485	3,002	28,640
Prepaid expenses	(357)	(643)	(6,134)
Notes and accounts payable, trade	(75)	19	181
Notes payable, other	(574)	483	4,608
Accounts payable, other	(99)	300	2,862
Other	1,857	1,573	15,006
Subtotal	41,085	47,472	452,891
Interest and dividend income received	8	9	86
Interest expense paid	(64)	(68)	(649)
Income taxes paid	(5,874)	(7,785)	(74,270)
Net cash provided by operating activities	<u>35,155</u>	<u>39,628</u>	<u>378,058</u>
<b>Cash flows from investing activities:</b>			
Increase in time deposits due over three months	(16)	(16)	(153)
Decrease in time deposits due over three months	16	16	153
Payments for purchase of property, plant and equipment	(20,452)	(21,457)	(204,703)
Proceeds from sale of property, plant and equipment	35	13	124
Payments for purchase of intangible assets	(616)	(1,006)	(9,597)
Payments for purchase of investment securities	(51)	(248)	(2,366)
Payments of long-term prepaid expenses	(3,222)	(3,578)	(34,135)
Other	(322)	(872)	(8,319)
Net cash used in investing activities	<u>(24,628)</u>	<u>(27,148)</u>	<u>(258,996)</u>
<b>Cash flows from financing activities:</b>			
Decrease in short-term borrowings, net	(800)	—	—
Proceeds from long-term debt	11,150	5,000	47,701
Repayment of long-term debt	(5,279)	(6,513)	(62,135)
Repayment of lease obligations	(4,259)	(4,294)	(40,965)
Proceeds from issuance of additional shares of common stock	256	774	7,384
Dividends paid	(7,252)	(8,004)	(76,360)
Purchases of treasury stock	(0)	(0)	(0)
Other	21	—	—
Net cash used in financing activities	<u>(6,163)</u>	<u>(13,037)</u>	<u>(124,375)</u>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>7</u>	<u>(45)</u>	<u>(429)</u>
<b>Net increase in cash and cash equivalents</b>	4,371	(602)	(5,743)
<b>Cash and cash equivalents at beginning of year</b>	15,693	20,063	191,404
<b>Cash and cash equivalents at end of year (Note 4)</b>	<u>¥ 20,064</u>	<u>¥ 19,461</u>	<u>\$ 185,661</u>

The accompanying notes are an integral part of these statements.

## PARK24 Co., Ltd. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements

#### 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of PARK24 Co., Ltd. (the “Company”) and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

#### 2. Summary of significant accounting policies

##### (1) Basis of consolidation

###### a) Scope of consolidation

The consolidated financial statements as of October 31, 2016 include the accounts of the Company and its 11 significant (11 in 2015) subsidiaries (collectively, the “Companies”). Investments in 2 (2 in 2015) non-consolidated subsidiaries and 4 (4 in 2015) affiliated companies over which the Companies have the ability to exercise significant influence are accounted for using the equity method.

Under the control or influence concept, those companies in which the Company and/or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations are fully consolidated, and those companies over which the Company and/or its consolidated subsidiaries have the ability to exercise significant influence are accounted for using the equity method.

###### b) Names of consolidated subsidiaries and non-consolidated subsidiaries

The consolidated subsidiaries and non-consolidated subsidiaries as of October 31, 2016 were as follows:

###### Consolidated subsidiaries

Times24 Co., Ltd.  
Times Service Co., Ltd.  
Times Communication Co., Ltd.  
TPF1 Limited  
Taiwan Park24 Parking Co., Ltd.  
Times Mobility Networks Co., Ltd.  
Times Support Co., Ltd.  
TPF3 Co., Ltd.  
Times Rescue Co., Ltd.  
TFI Co., Ltd.  
Times Innovation Capital Co., Ltd.

###### Non-consolidated subsidiaries

Times Mobility Fukuoka Corporation  
(Subsidiary of Times Mobility Networks Co., Ltd.)  
Times Mobility Oita Corporation  
(Subsidiary of Times Mobility Networks Co., Ltd.)

###### c) Goodwill

The excess of the cost of an acquisition over the fair value of the net assets of the acquired consolidated subsidiary at the date of acquisition is being amortized over reasonably estimated periods, in which economic benefits are expected to be realized.



**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**2. Summary of significant accounting policies (continued)**

**(1) Basis of consolidation (continued)**

d) Consolidation and elimination

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Companies have been eliminated.

e) Fiscal periods of consolidated subsidiaries

Except for Taiwan Park24 Parking Co., Ltd. and TFI Co., Ltd., the accounts of the consolidated subsidiaries are prepared as of the same date as the consolidated financial statements and are included in the consolidated financial statements.

The fiscal year ends of Taiwan Park24 Parking Co., Ltd. and TFI Co., Ltd. are the ends of September and March, respectively. With respect to the preparation of the accompanying consolidated financial statements, Taiwan Park24 Parking Co., Ltd. uses financial statements as of its fiscal year-end, and adjustments are made for important transactions that occurred during the period from September 30 to October 31, and TFI Co., Ltd. uses provisional financial statements as of October 31.

f) Investments in affiliated companies

The Company had 4 affiliated companies as of October 31, 2015 and 2016. All affiliated companies were accounted for using the equity method.

The fiscal year-end of these affiliated companies differs from that of the Company. Provisional financial statements as of October 31 were utilized in the preparation of the consolidated financial statements.

g) Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements

The accounting standard for unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements requires: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

- 1) Amortization of goodwill
- 2) Scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity
- 3) Expensing capitalized development costs of R&D
- 4) Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
- 5) Exclusion of non-controlling interests from net income, if contained

**(2) Revenue recognition**

Parking fees are recorded at the time billings are made to customers based on seconds of use, on a monthly billing cycle basis.

**(3) Cash and cash equivalents**

Cash and cash equivalents are composed of cash on hand, bank deposits that are able to be withdrawn on demand and short-term investments with original maturities of three months or less which represent a minor risk of fluctuations in value.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**2. Summary of significant accounting policies (continued)**

**(4) Financial instruments**

“Other securities” for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount.

“Other securities” for which market quotations are unavailable are stated at cost, except in cases where they have declined significantly and such impairment of the value is not deemed temporary. Such securities are written down to fair value and the resulting losses are included in the net income or loss for the period.

**(5) Inventories**

Merchandise is stated at cost, cost being determined by the specific identification method or net realizable value. Supplies are stated at cost, cost being determined by the last-purchase-price method or net realizable value.

The accounting standard for measurement of inventories requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

**(6) Property, plant and equipment and depreciation**

Property, plant and equipment, including significant renewals, additions and betterments, are carried at cost. When retired or otherwise disposed of, the cost and the related depreciation are cleared from the respective accounts and the net difference, less the amount of any proceeds, is charged to income. Maintenance and repairs, including minor renewals and betterments, are charged to income as incurred.

Except for buildings acquired on or after April 1, 1998, lease assets, rent-a-car and structures acquired on or after April 1, 2016, depreciation is computed using the declining-balance method over the estimated useful lives of which the range is principally from 10 to 45 years. Depreciation of buildings acquired on or after April 1, 1998, rent-a-car and structures acquired on or after April 1, 2016, is computed by the straight-line method over the estimated useful lives of which the range is principally from 6 to 50 years. Depreciation of leased assets is computed by the straight-line method over the period of the lease contracts.

**(7) Long-lived assets**

The Companies review their long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**(8) Asset retirement obligations**

The accounting standard for asset retirement obligations defines an asset retirement obligation as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**2. Summary of significant accounting policies (continued)**

**(9) Intangible assets and amortization**

Intangible assets are carried at cost and amortized on a straight-line basis.

Expenditures related to computer software development for internal use are capitalized as an intangible asset and amortized on a straight-line basis over the estimated useful life of the software (5 years).

**(10) Allowance for doubtful accounts**

An allowance for doubtful accounts is provided for based on the amount deemed necessary to cover possible losses estimated by the management of the Companies, based on a ratio founded on past experience, plus specifically identified uncollectible receivables.

**(11) Retirement benefits for employees**

The Companies have primarily a defined benefit pension plan covering substantially all of the employees. The defined benefit plan provides for a lump-sum payment and, in certain cases, an annuity payment to terminated employees. In calculating retirement benefit obligation, the benefit formula basis method is used to attribute expected benefit to the period extending up to the end of fiscal year. Actuarial differences are amortized on a straight-line basis over a period of 5 years from the year following the year in which they arise. Prior service cost is charged to income when incurred.

**(12) Stock options**

The accounting standard for stock options requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, stock options are presented as stock acquisition rights and treated as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions.

**(13) Leases**

The accounting standard for lease transactions requires the Companies to capitalize leased assets and lease obligations.

**(14) Deferred charges**

Stock issuance costs and bond issuance costs are charged to income as incurred.

**(15) Income taxes**

Income taxes of the Companies consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. Deferred income taxes are provided for in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

**(16) Consumption taxes**

Consumption taxes are excluded from net sales, cost of sales and expenses.

**(17) Reclassifications**

Certain reclassifications of previously reported amounts have been made to conform with the current year's classifications.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**2. Summary of significant accounting policies (continued)**

**(18) Accounting changes and error corrections**

The accounting standard for accounting changes and error corrections requires the followings:

a) Changes in accounting policies

When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless revised accounting standards include specific transitional provisions. When revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

b) Changes in presentation

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

c) Changes in accounting estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

d) Corrections of prior period errors

When an error in prior period financial statements is discovered, those statements are restated.

**(19) Changes in accounting policies**

Effective from November 1, 2015, the Company and its consolidated subsidiaries adopted “Accounting Standard for Business Combinations” (ASBJ Statement No. 21 revised September 13, 2013; hereinafter “Business Combinations Accounting Standard”), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 revised September 13, 2013; hereinafter “Consolidation Accounting Standard”), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 revised September 13, 2013; hereinafter “Business Divestitures Accounting Standard”) and other standards.

Accordingly, the accounting method has been changed such that the differences associated with changes in equity in subsidiaries when the Company retains control of the Company are recorded in capital surplus, and acquisition-related costs are recorded as expenses for the fiscal year of incurrence. For business combinations implemented from the beginning of the fiscal year ended October 31, 2016, the accounting method has been changed so as to reflect the adjustments to the allocated amounts of acquisition costs on the finalization of the provisional accounting treatment in the consolidated financial statements for the fiscal year in which the business combinations occur. Additionally, the presentation method of “net income” was amended and the term “minority interests” was changed to “non-controlling interests”.

The Company and its consolidated subsidiaries have applied the standards mentioned above from the beginning of the fiscal year ended October 31, 2016, following the transitional treatment prescribed in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard.

There was no impact on income for the fiscal year ended October 31, 2016 as a result of this change.

**3. U.S. dollar amounts**

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥104.82 = U.S.\$1, the rate of exchange on October 31, 2016, has been used in translation. The inclusion of such amounts is not intended to imply that the Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**4. Cash and cash equivalents**

Reconciliations of cash on hand and in banks to cash and cash equivalents at October 31, 2015 and 2016 were as follows:

October 31	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash on hand and in banks	¥ 20,080	¥ 19,477	\$ 185,814
Time deposits due over three months	(16)	(16)	(153)
Cash and cash equivalents	<u>¥ 20,064</u>	<u>¥ 19,461</u>	<u>\$ 185,661</u>

**5. Investment securities**

Investment securities classified as “other securities” at October 31, 2015 and 2016 were as follows:

**(1) Other securities for which market quotations are available**

October 31	Millions of yen						Thousands of U.S. dollars			
	2015			2016			2016			
	Cost	Fair value (Carrying amount)	Difference	Cost	Fair value (Carrying amount)	Difference	Cost	Fair value (Carrying amount)	Difference	
<b>Securities for which market value exceeds cost:</b>										
Equity securities	¥ 93	¥ 261	¥ 168	¥ 114	¥ 239	¥ 125	\$ 1,088	\$ 2,280	\$ 1,192	
Debt securities	10	11	1	10	11	1	95	105	10	
	103	272	169	124	250	126	1,183	2,385	1,202	
<b>Securities for which market value does not exceed cost:</b>										
Equity securities	—	—	—	—	—	—	—	—	—	
Debt securities	—	—	—	—	—	—	—	—	—	
	—	—	—	—	—	—	—	—	—	
Total	<u>¥ 103</u>	<u>¥ 272</u>	<u>¥ 169</u>	<u>¥ 124</u>	<u>¥ 250</u>	<u>¥ 126</u>	<u>\$ 1,183</u>	<u>\$ 2,385</u>	<u>\$ 1,202</u>	

**(2) Debt securities with maturity**

October 31	Millions of yen						Thousands of U.S. dollars		
	2015			2016			2016		
	Within 1 year	1-5 years	More than 5 years	Within 1 year	1-5 years	More than 5 years	Within 1 year	1-5 years	More than 5 years
Government bonds	¥ —	¥ —	¥ 11	¥ —	¥ 11	¥ —	\$ —	\$ 105	\$ —

**6. Short-term borrowings, long-term debt and lease obligations**

Short-term borrowings at October 31, 2015 and 2016 comprised the following:

October 31	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Loans from banks with weighted average interest rates of 0.28% for the years ended October 31, 2015 and 2016:			
—Unsecured	¥ 300	¥ 300	\$ 2,862
	<u>¥ 300</u>	<u>¥ 300</u>	<u>\$ 2,862</u>

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**6. Short-term borrowings, long-term debt and lease obligations (continued)**

Long-term debt and lease obligations at October 31, 2015 and 2016 comprised the following:

October 31	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unsecured zero coupon convertible bonds due 2026	¥ 1,000	¥ —	\$ —
Unsecured zero coupon convertible bonds due 2018	20,000	19,970	190,517
Unsecured loans, principally from banks, with weighted average interest rates of 0.16% due 2017 – 2020	18,293	16,781	160,094
Lease obligations	11,615	11,888	113,414
	50,908	48,639	464,025
Less current portion	(10,479)	(8,843)	(84,364)
Total	¥ 40,429	¥ 39,796	\$ 379,661

The aggregate annual maturities of long-term debt and lease obligations at October 31, 2016 were as follows:

Years ending October 31	Millions of yen	Thousands of U.S. dollars
2017	¥ 8,843	\$ 84,364
2018	26,446	252,299
2019	4,737	45,192
2020	6,714	64,053
2021	1,169	11,153
2022 and thereafter	730	6,964
Total	¥ 48,639	\$ 464,025

The conversion price of the unsecured zero coupon convertible bonds due 2018 is ¥2,630.5 (\$25.10) as of October 31, 2016 (¥2,621.8 (\$25.01) after November 1, 2016). Convertible bonds outstanding at October 31, 2016 would have been convertible into 7,616,904 shares of common stock of the Company.

Bondholders of the unsecured zero coupon convertible bonds due 2018 had the right to require the Company to redeem the bonds on April 26, 2016 at 100% of their principal amount.

**7. Financial instruments**

**(1) Policy for financial instruments**

With respect to cash management, temporary surplus funds are invested in short-term, low-risk financial instruments only. The Companies have a policy to procure the funds for capital expenditures by using bond issuances and borrowings from financial institutions. Fund procurement for operating funds is financed by short-term borrowings from financial institutions. Derivative transactions are undertaken only for the purpose of hedging risks of fluctuations in interest rates and foreign currency exchange rates. As a matter of policy, the Companies do not undertake derivative transactions for speculative purposes.

**(2) Nature and risks of financial instruments and risk management**

Short-term borrowings, long-term debt and lease obligations are mainly used for capital expenditures. Debt with floating interest rates is subject to interest-rate fluctuation risk.

**(3) Supplemental explanation regarding fair value of financial instruments**

Fair values of financial instruments are based on the quoted price in active markets. If a quoted price is not available, other reasonably assessed values are used. Fair values of financial instruments of which the quoted price is not available are calculated based on certain assumptions, and the fair values might differ if different assumptions are used.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**7. Financial instruments (continued)**

**(3) Supplemental explanation regarding fair value of financial instruments (continued)**

The carrying amount, fair value and unrealized gain or loss on financial instruments as of October 31, 2015 and 2016 were as follows:

	Millions of yen		
	2015		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash on hand and in banks	¥ 20,080	¥ 20,080	¥ —
Notes and accounts receivables, trade	8,500	8,500	—
Other securities in investment securities	272	272	—
Short-term borrowings	300	300	—
Convertible bonds	21,000	23,163	(2,163)
Long-term debt (including current portion)	18,293	18,270	23
Lease obligations (including current portion)	11,615	11,475	140
	Millions of yen		
	2016		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash on hand and in banks	¥ 19,477	¥ 19,477	¥ —
Notes and accounts receivables, trade	8,815	8,817	—
Other securities in investment securities	250	250	—
Short-term borrowings	300	300	—
Convertible bonds	19,970	25,462	(5,492)
Long-term debt (including current portion)	16,781	16,790	(9)
Lease obligations (including current portion)	11,888	11,784	104
	Thousands of U.S. dollars		
	2016		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash on hand and in banks	\$ 185,814	\$ 185,814	\$ —
Notes and accounts receivables, trade	84,097	84,116	—
Other securities in investment securities	2,385	2,385	—
Short-term borrowings	2,862	2,862	—
Convertible bonds	190,517	242,912	(52,395)
Long-term debt (including current portion)	160,094	160,179	(86)
Lease obligations (including current portion)	113,414	112,421	993

**Cash on hand and in banks**

Since these items are settled in a short period of time, their carrying value approximates fair value.

**Notes and accounts receivables**

The carrying value of notes and accounts receivable approximates fair value because of their short maturities.

**Other securities in investment securities**

The fair value of these items is based on quoted market prices.

**Short-term borrowings**

Since these items are settled in a short period of time, their carrying value approximates fair value.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**7. Financial instruments (continued)**

**(3) Supplemental explanation regarding fair value of financial instruments (continued)**

**Convertible bonds**

The fair value of convertible bonds is based on the quoted market price, if available. Otherwise the fair value of the bonds is the present value of the discounted cash flows using the interest rate determined by the remaining period and current credit risk.

**Long-term debt (including current portion)**

The fair value of long-term borrowings is measured based on the current total amount of principal and interest, discounted by the expected interest rate if the borrowings were refinanced at present.

**Lease obligations (including current portion)**

The fair value of lease obligations is measured based on the current total amount of future payments, discounted by the average interest rate for long-term borrowings.

The carrying amounts of financial instruments whose fair value can not be reliably determined as of October 31, 2015 and 2016 were as follows:

October 31	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Investment securities	¥ 2,138	¥ 2,229	\$ 21,265

Maturities of financial assets and securities were as follows:

	Millions of yen			
	Within 1 year	1-5 years	5-10 years	More than 10 years
Time deposits	¥ 26	¥ —	¥ —	¥ —
Notes and accounts receivables, trade	8,815	—	—	—
Other securities with contractual maturities	—	11	—	—
	<u>¥ 8,841</u>	<u>¥ 11</u>	<u>¥ —</u>	<u>¥ —</u>
	Thousands of U.S. dollars			
	Within 1 year	1-5 years	5-10 years	More than 10 years
Time deposits	\$ 248	\$ —	\$ —	\$ —
Notes and accounts receivables, trade	84,116	—	—	—
Other securities with contractual maturities	—	105	—	—
	<u>\$ 84,364</u>	<u>\$ 105</u>	<u>\$ —</u>	<u>\$ —</u>

**8. Retirement benefit plans**

The Companies have funded pension plans or termination allowance plans as part of their defined benefit plans.

Additional employee retirement benefits, which are not included in the calculation of the projected benefit obligation, might be paid in certain circumstances.

Certain consolidated subsidiaries apply the simplified method for the calculation of retirement benefits.



**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**8. Retirement benefit plans (continued)**

The changes in the retirement benefit obligation during the years ended October 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Beginning balance of retirement benefit obligation	¥ 2,610	¥ 1,699	\$ 16,209
Cumulative effect of change in accounting policies	(1,369)	—	—
Restated balance	1,241	1,699	16,209
Service cost	325	382	3,644
Interest cost	17	13	124
Actuarial loss	146	319	3,043
Retirement benefits paid	(30)	(75)	(715)
Ending balance of retirement benefit obligation	<u>¥ 1,699</u>	<u>¥ 2,338</u>	<u>\$ 22,305</u>

The changes in plan assets during the years ended October 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Beginning balance of plan assets	¥ 1,414	¥ 1,798	\$ 17,153
Expected return on plan assets	11	15	143
Actuarial gain	15	21	200
Contributions by the Company	386	425	4,055
Retirement benefits paid	(28)	(75)	(715)
Ending balance of plan assets	<u>¥ 1,798</u>	<u>¥ 2,184</u>	<u>\$ 20,836</u>

The following table sets forth the funded status of plans and the amounts recognized in the consolidated balance sheets as of October 31, 2015 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Funded retirement benefit obligation	¥ 1,699	¥ 2,338	\$ 22,304
Plan assets at fair value	(1,798)	(2,184)	(20,835)
	(99)	154	1,469
Net (asset) liability for retirement benefits in the balance sheet	(99)	154	1,469
Net defined benefit liability	—	154	1,469
Net defined benefit asset	(99)	—	—
Net (asset) liability for retirement benefits in the balance sheet	<u>¥ (99)</u>	<u>¥ 154</u>	<u>\$ 1,469</u>

The components of retirement benefit expense for the years ended October 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Service cost	¥ 325	¥ 382	\$ 3,644
Interest cost	17	13	124
Expected return on plan assets	(11)	(15)	(143)
Amortization of actuarial loss	146	118	1,126
Retirement benefit expense	<u>¥ 477</u>	<u>¥ 498</u>	<u>\$ 4,751</u>

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**8. Retirement benefit plans (continued)**

Actuarial loss (gain) included in other comprehensive income (before tax effect) for the years ended October 31, 2015 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Actuarial loss (gain)	¥ 15	¥ (180)	\$ (1,717)
Total	¥ 15	¥ (180)	\$ (1,717)

Unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of October 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unrecognized actuarial loss	¥ 452	¥ 632	\$ 6,029
Total	¥ 452	¥ 632	\$ 6,029

The fair value of plan assets, by major category, as a percentage of total plan assets as of October 31, 2015 and 2016 were as follows:

	2015	2016
Life insurance company general accounts	100%	100%
Total	100%	100%

The expected return on plan assets has been estimated based on the expected long-term returns on the minimum guarantees for the yield of life insurance company general accounts.

The assumptions used in accounting for the above plans were as follows:

	2015	2016
Discount rates	1.0%	0.1%
Expected rates of return on plan assets	0.9%	0.9%

Contributions to defined contribution plans of a certain subsidiary for the years ended October 31, 2015 and 2016 were ¥69 million and ¥71 million (\$677 thousand), respectively.

**9. Stock options plan**

Summarized information on the stock options granted as of October 31, 2016 was as follows:

**(1) Stock option plan approved by the Board of Directors on June 18, 2009**

	Stock options granted on July 8, 2009
Number of shares for options granted	1,134,500
Number of shares for options outstanding	102,500
Exercise price	¥888 (\$8.47)
Exercisable period	December 1, 2011 – January 31, 2017

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**9. Stock options plan (continued)**

**(2) Stock option plan approved by the Board of Directors on June 15, 2011**

	Stock options granted on July 4, 2011
Number of shares for options granted	1,519,500
Number of shares for options outstanding	380,100
Exercise price	¥867 (\$8.27)
Exercisable period	December 1, 2013 – January 31, 2019

**(3) Stock option plan approved by the Board of Directors on July 16, 2013**

	Stock options granted on August 6, 2013
Number of shares for options granted	989,200
Number of shares for options outstanding	650,100
Exercise price	¥1,884 (\$17.97)
Exercisable period	December 1, 2015 – January 31, 2021

**(4) Stock option plan approved by the Board of Directors on May 28, 2015**

	Stock options granted on June 22, 2015
Number of shares for options granted	1,224,000
Number of shares for options outstanding	1,212,000
Exercise price	¥2,342 (\$22.34)
Exercisable period	February 1, 2018 – January 31, 2023

The number of shares of common stock to be newly issued or to be transferred from treasury stock of the Company, which had been approved by the shareholders in the previous years, decreased by 549,900 shares due to the exercise of options and also decreased by 20,600 shares due to the resignation of the directors and employees of the Company and its subsidiaries who had been granted stock options.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**10. Income taxes**

At October 31, 2015 and 2016, significant components of deferred tax assets and liabilities were as follows:

October 31	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
<b>Deferred tax assets:</b>			
Accrued enterprise taxes	¥ 404	¥ 410	\$ 3,912
Accrued bonuses	495	507	4,837
Depreciation	476	437	4,169
Revaluation of land	340	322	3,072
Asset retirement obligations	1,441	1,472	14,043
Other	1,022	937	8,939
Less: valuation allowance	(895)	(803)	(7,661)
Total deferred tax assets	3,283	3,282	31,311
<b>Deferred tax liabilities:</b>			
Net defined benefit asset	25	(37)	(353)
Unrealized gains on securities	62	39	372
Asset retirement cost	917	894	8,529
Other	15	8	76
Total deferred tax liabilities	1,019	904	8,624
Net deferred tax assets	¥ 2,264	¥ 2,378	\$ 22,687

For the years ended October 31, 2015 and 2016 reconciliations of the difference between the statutory income tax rates and the effective income tax rates were as follows:

Years ended October 31	2015	2016
Statutory income tax rates	35.6%	33.1%
Valuation allowance	0.2	(0.2)
Non-deductible expenses for tax purposes	0.4	0.5
Per capita levy of inhabitants' taxes	0.4	0.4
Effect of changes in tax laws and corporate tax rates in Japan	0.1	0.7
Other	0.8	(0.7)
Effective income tax rates	37.5%	33.8%

In assessing the realizability of deferred tax assets, management of the Companies considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which these temporary differences become deductible. Although realization is not assured, management considered the projected future taxable income in making this assessment. Based on these factors, management believes it is more likely than not that the Companies will realize the benefits of these deductible differences, net of the existing valuation allowance.

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act for Partial Amendment of the Local Tax Law, etc” (Act No. 13 of 2016) were promulgated on March 31, 2016.

As a result, the effective statutory tax rate used to measure the Company’s deferred tax assets and liabilities was changed from 32.3% to 30.9% for the temporary differences expected to be realized or settled from the fiscal year beginning November 1, 2016 and to 30.6% for those expected to be realized or settled from the fiscal year beginning November 1, 2018.

**11. Revaluation of land**

On October 31, 2000, the Company revalued its land held for business purposes in accordance with the “Law on Land Revaluation.” The method followed for this land revaluation was determined in accordance with the

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**11. Revaluation of land (continued)**

“Enforcement Act Concerning Land Revaluation.” Differences arising from the land revaluation have been accounted for as revaluation reserve for land under net assets.

The carrying value of this land after the revaluation was down from its fair value as of October 31, 2015 and 2016 by ¥49 million and ¥90 million (\$859 thousand), respectively.

**12. Impairment loss on fixed assets**

The Companies review their long-lived assets in operation for impairment by asset group. An asset group consists of the lowest level of geographical area under business classification. Mainly headquarters’ assets and leased assets are allocated to a single group as corporate common assets. When the above asset group makes continuing loss in operation, the Companies reduce the carrying amount of the asset group to the recoverable amount.

The related assets which incurred impairment losses for the years ended October 31, 2015 and 2016 were as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Related assets			
Buildings and structures	¥ 15	¥ 24	\$ 229
Other tangible fixed assets	—	0	0
Long-term prepaid expenses	42	31	296
Total	¥ 57	¥ 55	\$ 525

The recoverable value of assets in the asset group was calculated using estimates of the value in use and the adjusted appraisal value, and future cash flows from these assets were discounted to the present using a discount rate of 5%.

**13. Asset retirement obligations**

(1) General information about asset retirement obligations

Asset retirement obligations are based upon estimated future restoration obligations pursuant to parking facilities rental agreements.

(2) Calculation method of the asset retirement obligations

Asset retirement obligations are calculated based upon the estimated period of use depending on the useful life of the relevant tangible fixed assets (mainly 15 years) and discounted by relevant discount rates which are estimated based upon the rate of return on government bonds with corresponding maturity periods.

(3) Asset retirement obligations for the years ended October 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Beginning of year	¥ 4,248	¥ 4,617	\$ 44,047
New obligations by acquisition of fixed assets	409	417	3,978
Accretion expense	64	63	601
Settlement payment	(104)	(256)	(2,442)
End of year	¥ 4,617	¥ 4,841	\$ 46,184

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**14. Other comprehensive income**

The components of other comprehensive income for the years ended October 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net unrealized gains on securities			
Gains (losses) arising during the year	¥ 33	¥ (43)	\$ (410)
Reclassification adjustments to profit or loss	8	(23)	(220)
Amount before income tax effect	41	(66)	(630)
Income tax effect	(8)	23	220
Total	<u>33</u>	<u>(43)</u>	<u>(410)</u>
Foreign currency translation adjustments			
Adjustments arising during the year	16	(66)	(630)
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	16	(66)	(630)
Income tax effect	—	—	—
Total	<u>16</u>	<u>(66)</u>	<u>(630)</u>
Share of other comprehensive income of affiliates accounted for using the equity method			
Gains (losses) arising during the year	24	(141)	(1,345)
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	24	(141)	(1,345)
Income tax effect	—	—	—
Total	<u>24</u>	<u>(141)</u>	<u>(1,345)</u>
Accumulated adjustments for retirement benefit			
Adjustments arising during the year	(131)	(298)	(2,843)
Reclassification adjustments to profit or loss	146	118	1,126
Amount before income tax effect	15	(180)	(1,717)
Income tax effect	(5)	32	305
Total	<u>10</u>	<u>(148)</u>	<u>(1,412)</u>
Total other comprehensive income	<u>¥ 83</u>	<u>¥ (398)</u>	<u>\$ (3,797)</u>

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**15. Segment information**

(1) Overview of reportable segments

The Company's reportable segments are components of the Group for which discrete financial information is available and which is regularly examined by the Board of Directors to determine the allocation of management resources and evaluate performance. The Company's two separate reportable segments are Parking business and Mobility business.

(2) Method of calculating net sales, profits or losses, assets, obligations and other flows by segment

The accounting treatment for reportable segments is generally similar to the descriptions under "Summary of significant accounting policies". Profits of reportable segments are the figures based on operating profit. The Company does not allocate assets and liabilities to reportable segments.

(3) Information on operating revenues, operating profits and other flows by reportable segments for the years ended October 31, 2015 and 2016 were as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
<b>I. Operating revenues and operating profit: (Notes 1)</b>			
<b>Operating revenues</b>			
<b>(1) Outside customers</b>			
Parking business	¥ 134,267	¥ 142,143	\$ 1,356,068
Mobility business	45,432	52,255	498,521
Total	179,699	194,398	1,854,589
Reconciliations	—	—	—
Consolidated	179,699	194,398	1,854,589
<b>(2) Inter-segment</b>			
Parking business	81	99	944
Mobility business	75	46	439
Total	156	145	1,383
Reconciliations	(156)	(145)	(1,383)
Consolidated	—	—	—
<b>Total operating revenue</b>			
Parking business	134,348	142,242	1,357,012
Mobility business	45,507	52,301	498,960
Total	179,855	194,543	1,855,972
Reconciliations	(156)	(145)	(1,383)
Consolidated	179,699	194,398	1,854,589
<b>Operating expenses</b>			
Parking business	111,304	117,261	1,118,689
Mobility business	42,664	47,843	456,430
Total	153,968	165,104	1,575,119
Reconciliations	7,000	7,841	74,805
Consolidated	160,968	172,945	1,649,924
<b>Operating profit</b>			
Parking business	23,044	24,981	238,323
Mobility business	2,843	4,458	42,530
Total	25,887	29,439	280,853
Reconciliations	(7,156)	(7,986)	(76,188)
Consolidated	¥ 18,731	¥ 21,453	\$ 204,665

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**15. Segment information (continued)**

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
<b>II. Depreciation and amortization:</b>			
Parking business	¥ 8,543	¥ 8,764	\$ 83,610
Mobility business	11,090	12,250	116,867
Total	19,633	21,014	200,477
Reconciliations	750	766	7,308
Consolidated	¥ 20,383	¥ 21,780	\$ 207,785

Notes: 1. Reportable segments and main services in each segment

Reportable Segment	Main Services
Parking business	24-hour self-service parking lot (“Times”) Parking facility management
Mobility business	Lending and sales of automobiles Roadside assistance

(4) Geographical information

The operating revenues and tangible fixed assets outside Japan were immaterial.

**16. Selling, general and administrative expenses**

Selling, general and administrative expenses for the years ended October 31, 2015 and 2016 were principally as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Advertising and sales promotion	¥ 1,744	¥ 1,838	\$ 17,535
Transfer and transportation expenses	712	800	7,632
Salaries and bonuses	11,859	13,052	124,518
Retirement benefit expenses	382	396	3,778
Rental expenses	2,090	2,152	20,530
Remuneration and commission	2,477	3,630	34,631
Amortization of goodwill	154	154	1,469
Provision of allowance for doubtful accounts	20	14	134
Directors’ and corporate auditors’ compensations and salaries	279	347	3,310
Provision for bonuses	726	851	8,119
Provision for directors’ and corporate auditors’ bonuses	66	86	820
Legal welfare expenses	1,515	1,654	15,779
Depreciation and amortization	879	936	8,930

**17. Related party transactions**

Material transactions of the Company with related companies and individuals for the years ended October 31, 2015 and 2016 were as follows:

Name of related company or individual	Paid-in capital	Principal business	Percentage of the Company’s ownership held by related company or individual	Description of the Company’s transactions	Millions of yen / Thousands of U.S. dollars			
					Transactions		Resulting account balance	
					For the year ended October 31,		At October 31,	
				2015	2016	2015	2016	
LTK Reisebüro Japan Co., Ltd.	¥34 million	Travel agency	—	Purchase of tickets for business trip	¥ 16	¥ 40 (\$382)	¥ —	¥ 4 (\$38)

- The terms and conditions of the above transactions were on an arm’s-length basis.
- LTK Reisebüro Japan Co., Ltd. is owned by Tsunekazu Takeda, the Company’s director (Audit & Supervisory Committee Member).



**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**18. Net income per share**

The reconciliations of the difference between basic and diluted net income per share for the years ended October 31, 2015 and 2016 were as follows:

Years ended October 31	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net income available to the common stockholders	¥ 11,549	¥13,964	\$ 133,219
Effect of dilutive securities	—	—	—
Net income available to the common stockholders for diluted net income per share	<u>¥ 11,549</u>	<u>¥13,964</u>	<u>\$ 133,219</u>

  

Years ended October 31	Thousands of shares	
	2015	2016
Weighted-average number of shares	145,364	145,840
Effect of dilutive securities: Common stock warrants	<u>8,606</u>	<u>8,696</u>
Weighted-average number of shares for diluted net income per share	<u>153,970</u>	<u>154,536</u>

Years ended October 31	Yen		U.S. dollars
	2015	2016	2016
Basic net income per share	¥ 79.45	¥ 95.75	\$ 0.91
Diluted net income per share	¥ 75.01	¥ 90.36	\$ 0.86

There was no potential common stock upon the exercise of a common stock warrant excluded from the computation of diluted net income per share having an exercise price in excess of the average market value of the common stock during the years ended October 31, 2015 and 2016.

**19. Shareholders' equity**

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the legal capital surplus) and retained earnings (other than the legal retained earnings) be transferred to the legal capital surplus and the legal retained earnings, respectively, until the sum of the legal capital surplus and the legal retained earnings equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the legal capital surplus nor the legal retained earnings is available for distribution.

**20. Vehicles reclassified as inventories**

The rent-a-car business includes sales of used cars as an operating cycle. For the years ended October 31, 2015 and 2016, the Companies reclassified ¥2,606 million and ¥3,126 million (\$29,823 thousand) of vehicles to inventories. The balance of these inventories as of October 31, 2015 and 2016 were ¥36 million and ¥52 million (\$496 thousand), respectively.

**21. Investments and rental properties**

The Companies own properties for parking facilities in Tokyo, Kanagawa and other areas. The carrying amount on the consolidated balance sheets, any increase or decrease during the year, as well as the market value of the properties as of October 31, 2015 and 2016 were as follows:

	Millions of yen			
	Amount on the consolidated balance sheet			
	November 1, 2014	Increase (Decrease)	October 31, 2015	Market value as of October 31, 2015
Rental properties	<u>¥ 28,889</u>	<u>¥ (355)</u>	<u>¥ 28,534</u>	<u>¥ 34,178</u>

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**21. Investments and rental properties (continued)**

	Millions of yen			
	Amount on the consolidated balance sheet			
	November 1, 2015	Increase (Decrease)	October 31, 2016	Market value as of October 31, 2016
Rental properties	¥ 28,534	¥ (380)	¥ 28,154	¥ 34,050

  

	Thousands of U.S. dollars			
	Amount on the consolidated balance sheet			
	November 1, 2015	Increase (Decrease)	October 31, 2016	Market value as of October 31, 2016
Rental properties	\$ 272,219	\$ (3,625)	\$ 268,594	\$ 324,843

- (1) Amount on the consolidated balance sheet is calculated as acquisition cost deducting accumulated depreciation and cumulative impairment losses.
- (2) Market values as of October 31, 2015 and 2016 were principally established in accordance with the “Real estate evaluation standards,” and were adjusted using official indices.

Revenues and expenses related to investment and rental properties for the years ended October 31, 2015 and 2016 were as follows:

	Millions of yen			
	Revenues	Expenses	Difference	Other
2015				
Rental properties	¥ 4,253	¥ 1,422	¥ 2,831	¥ —

  

	Millions of yen			
	Revenues	Expenses	Difference	Other
2016				
Rental properties	¥ 4,272	¥ 1,431	¥ 2,841	¥ —

  

	Thousands of U.S. dollars			
	Revenues	Expenses	Difference	Other
2016				
Rental properties	\$ 40,756	\$ 13,652	\$ 27,104	\$ —

**22. Subsequent events**

**(a) 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 October 31, 2016, was approved at an ordinary general meeting of shareholders held on January 26, 2017.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥65=U.S.\$0.62 per share)	¥ 9,518	\$ 90,803

**(b) Incorporation of subsidiaries**

The Company has established local subsidiaries in Australia, Singapore and Malaysia based on a resolution of the Board of Directors’ meeting held on December 7, 2016. With the establishment of these three subsidiaries, the Company then completed the acquisition of the shares in Secure Parking Pty Ltd; which operates a parking business in Australia, New Zealand and the United Kingdom; Secure Parking Singapore Pte. Ltd.; which operates a parking business in Singapore; and Secure Parking Corporation Sdn. Bhd.; which operates a parking business in Malaysia, thus making these companies its local subsidiaries.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**22. Subsequent events (continued)**

**(b) Incorporation of subsidiaries (continued)**

**Overview of newly established subsidiaries**

**① Australia**

Company name	Park24 Australia Pty Ltd
Location	Ashurst-Australia, Level 26 181 William Street Melbourne VIC3000, Australia
Representative name	Kenichi Sasaki
Capital	AUD 126.6 million
Date of establishment	December 20, 2016
Business description	Holding company
Shareholding ratio	100%

**② Singapore**

Company name	Park24 Singapore Pte. Ltd.
Location	112 Robinson Road 03-04 Robinson112 Singapore 068902
Representative name	Kenichi Sasaki
Capital	SGD 59.1 million
Date of establishment	December 21, 2016
Business description	Holding company
Shareholding ratio	100%

**③ Malaysia**

Company name	Park24 Malaysia Sdn. Bhd.
Location	348, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Representative name	Kenichi Sasaki
Capital	MYR 74.3 million
Date of establishment	December 23, 2016
Business description	Holding company
Shareholding ratio	100%

**Acquisition of companies through shares purchases**

On January 18, 2017, the Company completed the acquisition of 80% of the shares in each of Secure Parking Pty Ltd, which operates parking businesses in Australia, New Zealand and the United Kingdom; Secure Parking Singapore Pte. Ltd., which operates a parking business in Singapore; and Secure Parking Corporation Sdn. Bhd., which operates a parking business in Malaysia, based on the resolution of the Board of Directors' meeting held on December 7, 2016.

Furthermore, the share acquisitions of shares were carried out by each local holding company, Park24 Australia Pty Ltd., Park24 Singapore Pte. Ltd. and Park24 Malaysia Sdn. Bhd., respectively.

**(1) Purpose of acquisition**

“Secure Parking” which established its parking business in Australia in 1979, is a global parking business group, operating in eleven nations worldwide with a particular focus in Asia and Oceania regions. The Company is welcoming “Secure Parking” businesses in five out of eleven nations, including Australia, New Zealand, the United Kingdom, Singapore and Malaysia (aggregate of 881 parking sites and 318,862 spaces) to the Group. Amongst these five nations, “Secure Parking” is the market leader in Australia, Singapore and Malaysia.

As a consequence of the formation of this international partnership, the Group will become these largest parking business operator worldwide in terms of the number of operating parking sites. In addition, the Company will aim at not only faster business development in the existing markets, but also the entrance into new markets /

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**22. Subsequent events (continued)**

**(1) Purpose of acquisition (continued)**

geographical areas by collaborating in development and in operation know-hows that both parties have developed thus far, and by leveraging the Company’s credibility, IT system and IT development capability, and the global development capability of “Secure Parking”. The Company also contemplates to begin a car sharing business that is currently operated in Japan by leveraging the established parking business.

The Company acquired 80% of the shares in “Secure Parking” companies in the target nations and has formed a partnership with the remaining shareholders to achieve a stabilized business from retention and enhancement of managements, and to achieve faster business development from the generation of synergies.

The Company aims to achieve a “comfortable automobile society” in a global scale as a global player of parking and mobility businesses with a presence around the world.

**(2) Names of counterparties**

- Three private shareholders..... Brett Mathews, Garth Mathews, and Winardi Pranatajaya
- Four corporate shareholders..... Ariadne Holdings Pty Ltd, Orion Development Pty Ltd, Allenwood Investments Limited, and Dekad Mutiara Sdn. Bhd.

**(3) Corporate name, business description and scale of financial information on acquired subsidiaries**

**① Auspark Holdings Pty. Ltd**

Corporate name	Auspark Holdings Pty. Ltd
Location of head office	New South Wales, Australia
Capital	AUD 200 as of June 30, 2016
Net assets	AUD 52.3 million as of June 30, 2016
Total assets	AUD 55.0 million as of June 30, 2016
Business description	Holding company possessing 50.0% of Secure Parking Pty Ltd

**② Periman Pty. Ltd.**

Corporate name	Periman Pty. Ltd.
Location of head office	New South Wales, Australia
Capital	AUD 2 as of June 30, 2016
Net assets	AUD 35.8 million as of June 30, 2016
Total assets	AUD 35.8 million as of June 30, 2016
Business description	Holding company possessing 50.0% of Secure Parking Pty Ltd

**③ Secure Parking Pty Ltd**

Corporate name	Secure Parking Pty Ltd
Location of head office	New South Wales, Australia
Capital	AUD 4 as of June 30, 2016
Consolidated net assets	AUD 20.9 million as of June 30, 2016
Consolidated total assets	AUD 92.2 million as of June 30, 2016
Consolidated revenue	AUD 274.8 million in the fiscal year ended June 30 2016
Business description	Operating a parking business in Australia, New Zealand and United Kingdom

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**

**22. Subsequent events (continued)**

**(3) Corporate name, business description and scale of financial information on acquired subsidiaries (continued)**

**④ Secure Parking Singapore Pte. Ltd.**

Corporate name	Secure Parking Singapore Pte. Ltd.
Location of head office	Singapore
Capital	SGD 6.5 million as of March 31, 2016
Net assets	SGD 8.6 million as of March 31, 2016
Total assets	SGD 34.9 million as of March 31, 2016
Revenue	SGD 49.1 million in the fiscal year ended March 31 2016
Business description	Operating a parking business in Singapore

**⑤ Secure Parking Corporation Sdn. Bhd**

Corporate name	Secure Parking Corporation Sdn. Bhd
Location of head office	Kuala Lumpur, Malaysia
Capital	MYR 3.0 million as of December 31, 2015
Net assets	MYR 7.5 million as of December 31, 2015
Total assets	MYR 31.9 million as of December 31, 2015
Revenue	MYR 80.0 million in the fiscal year ended December 31, 2015
Business description	Operating a parking business in Malaysia

Notes: 1. An overview of Secure Parking Pty Ltd is disclosed because it is the core business company in Australia. It is a subsidiary of Auspark Holdings Pty. Ltd and Periman Pty. Ltd. and was acquired in an indirect transaction.

2. In addition to the above subsidiaries, the Company has acquired six subsidiaries of Secure Parking Pty Ltd and two subsidiaries of Secure Parking Corporation Sdn. Bhd. in an indirect transaction.

**(4) Number of acquired shares, acquisition cost and ownership ratio after acquisition**

**① Periman Pty. Ltd.**

Number of shares acquired	8 shares
Acquisition cost	AUD 43.1 million
Ownership ratio after acquisition	80.0%

Note: This is an immediate share-holding company controlling shares in Auspark Holdings Pty. Ltd and Secure Parking Pty Ltd.

**② Auspark Holdings Pty. Ltd**

Number of shares acquired	160 shares
Acquisition cost	AUD 106.2 million
Ownership ratio after acquisition	80.0%

Note: This is an immediate share-holding company controlling shares in Secure Parking Pty Ltd and acquired via Periman Pty. Ltd.

**③ Secure Parking Singapore Pte. Ltd.**

Number of shares acquired	4,177,200 shares
Acquisition cost	AUD 56 million
Ownership ratio after acquisition	80.0%

**④ Secure Parking Corporation Sdn. Bhd.**

Number of shares acquired	2,400,000 shares
Acquisition cost	AUD 22.4 million
Ownership ratio after acquisition	80.0%

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## INDEX TO THE UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

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## Independent Auditor's Quarterly Review Report

The Board of Directors  
PARK24 Co., Ltd.

We have reviewed the accompanying quarterly consolidated financial statements of PARK24 Co., Ltd. and its consolidated subsidiaries, which comprise the quarterly consolidated balance sheet as at July 31, 2018, and the quarterly consolidated statements of income, comprehensive income and cash flows for the nine-month periods ended July 31, 2018 and 2017 and the related notes, all expressed in Japanese yen.

### *Management's Responsibility for the Quarterly Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these quarterly consolidated financial statements in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the quarterly consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on these quarterly consolidated financial statements based on our review. We conducted our review in accordance with review standards for quarterly financial statements generally accepted in Japan.

A review of quarterly consolidated financial statements consists of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan.

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

### *Auditor's Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the quarterly consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of PARK24 Co., Ltd. and its consolidated subsidiaries as at July 31, 2018 and their consolidated financial performance and cash flows for the nine-month periods ended July 31, 2018 and 2017 in conformity with the accounting principles for quarterly consolidated financial statements generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these quarterly consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, based on our review, the accompanying quarterly consolidated financial statements have been properly translated on the basis described in Note 8.

*Ernst & Young ShinNihon LLC*

September 13, 2018  
Tokyo, Japan

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**QUARTERLY CONSOLIDATED BALANCE SHEETS (Unaudited)**  
**As of July 31, 2018 and October 31, 2017**

	Millions of yen		Thousands of U.S. dollars (Note 8)
	October 31 2017	July 31 2018	July 31 2018
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash on hand and in banks	¥ 18,152	¥ 27,658	\$ 249,149
Notes and accounts receivable, trade	15,250	16,921	152,428
Less: allowance for doubtful accounts	(208)	(210)	(1,892)
Inventories	1,469	1,588	14,305
Other current assets	24,434	26,723	240,726
Total current assets	59,097	72,680	654,716
<b>Property, plant and equipment:</b>			
Buildings and structures, net	15,492	18,618	167,717
Machinery and vehicles, net	43,747	51,498	463,908
Lease assets, net	18,577	17,951	161,705
Land	24,454	24,764	223,079
Other property, plant and equipment, net	13,272	11,500	103,589
Total property, plant and equipment, net	115,542	124,331	1,119,998
<b>Investments and other assets:</b>			
Intangible assets	2,771	2,826	25,457
Goodwill	59,751	55,192	497,180
Net defined benefit assets	701	1,113	10,026
Other assets	18,480	18,761	169,004
Total investments and other assets	81,703	77,892	701,667
Total assets	¥ 256,342	¥ 274,903	\$ 2,476,381

	Millions of yen		Thousands of U.S. dollars (Note 8)
	October 31 2017	July 31 2018	July 31 2018
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Notes and accounts payable, trade	¥ 714	¥ 714	\$ 6,432
Short-term borrowings (including current portion of long-term debt)	63,738	41,097	370,208
Provision for bonuses	1,752	1,126	10,140
Other provision	113	86	770
Accrued income taxes	4,975	2,353	21,196
Other current liabilities	42,752	53,250	479,687
Total current liabilities	114,044	98,626	888,433
<b>Long-term liabilities:</b>			
Long-term debt	40,699	64,729	583,092
Net defined benefit liability	156	137	1,234
Asset retirement obligations	6,203	6,200	55,851
Other long-term liabilities	16,435	14,913	134,340
Total long-term liabilities	63,493	85,979	774,517
<b>Net assets:</b>			
Shareholders' equity:			
Common stock	9,550	19,661	177,110
Authorized:			
2017 and 2018 – 283,680,000 shares			
Issued and outstanding:			
2017 – 146,722,835 shares,			
2018 – 154,516,369 shares			
Capital surplus	11,302	15,678	141,231
Retained earnings	57,899	56,637	510,197
Treasury stock, at cost	(2)	(2)	(18)
	78,749	91,974	828,520
Accumulated other comprehensive income:			
Net unrealized gains on securities	142	114	1,027
Revaluation reserve for land	(1,053)	(1,053)	(9,486)
Deferred losses on hedges	(76)	(72)	(649)
Foreign currency translation adjustments	675	(1,296)	(11,665)
Accumulated adjustments for retirement benefit	(324)	97	874
Total accumulated other comprehensive income	(636)	(2,210)	(19,899)
Stock acquisition rights	299	271	2,441
Non-controlling interests	393	263	2,369
Total net assets	78,805	90,298	813,431
Total liabilities and net assets	¥ 256,342	¥ 274,903	\$ 2,476,381

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**QUARTERLY CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**  
**For the nine-month periods ended July 31 2017 and 2018**

	Millions of yen		Thousands of U.S. dollars (Note 8)
	2017	2018	2018
<b>Net sales:</b>	¥ 167,889	¥ 216,030	\$ 1,946,041
<b>Cost of sales:</b>	125,578	164,897	1,485,425
Gross profit	42,311	51,133	460,616
<b>Selling, general and administrative expenses:</b>	28,593	36,002	324,313
Operating profit	13,718	15,131	136,303
<b>Other expenses (income):</b>			
Interest expense	190	622	5,603
Interest and dividend income	(26)	(10)	(90)
Expenses incurred for evacuation of parking facilities	254	320	2,883
Void parking ticket income	(139)	(155)	(1,396)
Equity in loss (earnings) of affiliates	3	20	180
Foreign exchange loss (gain)	(109)	(4)	(36)
Loss on disposal of property and equipment	—	8	72
Loss on valuation of investment securities	—	251	2,261
Penalty income charged to customers for cancellation of parking facilities	—	(113)	(1,021)
Other, net	(81)	(302)	(2,727)
	92	637	5,729
Income before income taxes	13,626	14,494	130,574
<b>Income taxes:</b>			
Current	4,318	4,990	44,951
Deferred	240	254	2,297
	4,558	5,244	47,248
<b>Income before non-controlling interests</b>	9,068	9,250	83,326
<b>Net income attributable to:</b>			
Non-controlling interests	34	245	2,207
Shareholders of PARK24 Co., Ltd.	¥ 9,034	¥ 9,005	\$ 81,119
	Yen		U.S. dollars (Note 7)
	2017	2018	2018
<b>Per share of common stock:</b>			
Net income			
Basic	¥ 61.62	¥ 60.24	\$ 0.54
Diluted	¥ 58.39	¥ 58.13	\$ 0.52

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**QUARTERLY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**  
**For the nine-month periods ended July 31 2017 and 2018**

	Millions of yen		Thousands of U.S. dollars (Note 8)
	2017	2018	2018
<b>Income before non-controlling interests</b>	¥ 9,068	¥ 9,250	\$ 83,326
<b>Other comprehensive income</b>			
Net unrealized gains (losses) on securities	34	(28)	(252)
Deferred gains (losses) on hedges	(85)	4	36
Foreign currency translation adjustments	49	(1,955)	(17,602)
Adjustments for retirement benefit	86	421	3,792
Share of other comprehensive income (loss) of affiliated companies	55	(20)	(189)
Total other comprehensive income	139	(1,578)	(14,215)
<b>Comprehensive income</b>	¥ 9,207	¥ 7,672	\$ 69,111
<b>Comprehensive income attributable to:</b>			
Shareholders of PARK24 Co., Ltd.	9,170	7,431	66,940
Non-controlling interests	¥ 37	¥ 241	\$ 2,171

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**QUARTERLY CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
**For the nine-month periods ended July 31, 2017 and 2018**

	Millions of yen		Thousands of U.S. dollars (Note 8)
	2017	2018	2018
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 13,626	¥ 14,494	\$ 130,574
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	18,494	21,012	189,280
Interest and dividend income	(26)	(10)	(90)
Interest expense	190	622	5,603
Loss on disposal of property and equipment	—	8	72
Loss on valuation of investment securities	—	251	2,261
Changes in assets and liabilities:			
Notes and accounts receivable, trade	(1,550)	(1,619)	(14,584)
Inventories	2,028	4,223	38,042
Prepaid expenses	(1,335)	(1,551)	(13,972)
Notes and accounts payable, trade	32	(117)	(1,054)
Notes payable, property and equipment	940	(81)	(730)
Accounts payable, other	3,134	2,872	25,872
Other	(2,313)	667	5,999
Subtotal	33,220	40,771	367,273
Interest and dividend income received	26	11	99
Interest expense paid	(154)	(583)	(5,252)
Income taxes paid	(7,374)	(6,731)	(60,634)
Net cash provided by operating activities	25,718	33,468	301,486
<b>Cash flows from investing activities:</b>			
Decrease in time deposits due over three months	(6)	(6)	(54)
Increase in time deposits due over three months	16	6	54
Payments for purchase of property and equipment	(20,565)	(21,410)	(192,866)
Proceeds from sales of property and equipment	3	11	99
Payments for purchase of intangible assets	(883)	(719)	(6,477)
Payments for purchase of subsidiary involving change in scope of consolidation	(16,025)	—	—
Payments of long-term prepaid expenses	(3,131)	(2,848)	(25,646)
Other	(33,132)	(188)	(1,702)
Net cash used in investing activities	(73,723)	(25,154)	(226,592)
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term borrowings, net	35,809	(1,834)	(16,521)
Proceeds from long-term debt	24,700	27,063	243,789
Repayment of long-term debt	(3,871)	(3,360)	(30,268)
Repayment of lease obligations	(4,326)	(4,260)	(38,375)
Proceeds from issuance of additional shares of common stock	248	172	1,549
Payments for purchase of treasury stock	—	(0)	(3)
Payments for shares of subsidiaries that do not result in change in scope of consolidation	—	(5,891)	(53,063)
Dividends paid to shareholders of PARK24 Co., Ltd.	(9,514)	(10,273)	(92,541)
Dividends paid to non-controlling interests	—	(188)	(1,694)
Net cash provided by financing activities	43,046	1,429	12,873
<b>Effect of exchange rate changes on cash and cash equivalents</b>	54	(198)	(1,784)
<b>Net increase (decrease) in cash and cash equivalents</b>	(4,905)	9,545	85,983
<b>Cash and cash equivalents at beginning of year</b>	19,461	17,775	160,121
<b>Cash and cash equivalents at end of year</b>	¥ 14,556	¥ 27,320	\$ 246,104

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Quarterly Consolidated Financial Statements**

**1. Basis of preparation of quarterly consolidated financial statements**

The quarterly consolidated financial statements of the Company are prepared in accordance with the Ministry of Finance Ordinance No. 64, 2007 “Regulations Concerning the Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements” (“Regulations for Quarterly Consolidated Financial Statements”). In addition, pursuant to Article 5-2, Paragraph 3 of the Regulations for Quarterly Consolidated Financial Statements, the quarterly consolidated statements of cash flows are prepared.

**2. Quarterly consolidated balance sheets**

- (1) Amounts of allowance for doubtful accounts directly deducted from the amounts of assets as of October 31, 2017 and July 31, 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2017	2018	2018	
Investments and other assets	¥ 13	¥ 13	\$ 120	

- (2) Changes in holding purpose of tangible fixed assets during the periods ended October 31, 2017 and July 31, 2018 were as follows:

In order to carry out the sale of used vehicles as part of the sales cycle in the rent-a-car business, in the previous fiscal year and the current quarterly period, the following transfers to inventories were recognized.

	Millions of yen		Thousands of U.S. dollars	
	2017	2018	2018	
Inventories	¥ 3,959	¥ 4,359	\$ 39,264	

**3. Quarterly consolidated statements of cash flows**

Reconciliations of cash on hand and in banks to cash and cash equivalents at July 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2017	2018	2018	
Cash on hand and in banks	¥ 47,083	¥ 27,658	\$ 249,149	
Time deposits due over three months	(6)	(6)	(54)	
Escrow account	(32,520)	—	—	
Compulsory deposits	—	(333)	(2,997)	
Cash and cash equivalents	¥ 14,556	¥ 27,320	\$ 246,104	

**4. Shareholders' equity**

- (1) Dividends paid

- a) Nine-month period ended July 31, 2017 (From November 1, 2016 to July 31, 2017)

Type of stock	Dividends paid (Millions of yen)	Per share (yen)	Dividends paid (Thousands of U.S. dollars)	Per share (U.S. dollars)
Common stock	¥ 9,518	¥ 65	\$ 85,741	\$ 0.59

- b) Nine-month period ended July 31, 2018 (From November 1, 2017 to July 31, 2018)

Type of stock	Dividends paid (Millions of yen)	Per share (yen)	Dividends paid (Thousands of U.S. dollars)	Per share (U.S. dollars)
Common stock	¥ 10,271	¥ 70	\$ 92,519	\$ 0.63

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Quarterly Consolidated Financial Statements**

**4. Shareholders' equity (continued)**

(2) Significant changes in shareholders' equity

As a result of the conversion of the euro-yen denominated convertible bonds due 2018 with stock acquisition rights into shares in the second quarter of the current fiscal year, common stock and capital surplus increased by ¥ 9,984 million and ¥ 9,984 million, respectively.

Furthermore, on July 2, 2018, the Company acquired the remaining 20% of shares of consolidated subsidiaries Periman Pty. Ltd. and Secure Parking Singapore Pte. Ltd. for an additional acquisition price of ¥5,891 million.

As a result, during the third quarter of the current fiscal year, the Company's voting rights ratio in these subsidiaries increased to 100% while capital surplus decreased by ¥5,681 million, and non-controlling interests decreased by ¥209 million.

**5. Business combinations**

Transactions under common control

Acquisition of additional shares of subsidiaries

(1) Outline of transaction

a) Names of combined companies and business description

Names of the combined companies: Periman Pty. Ltd.

Secure Parking Singapore Pte. Ltd.

Description of business: Parking facility management

b) Date of business combination

July 2, 2018

c) Statutory form of business combination

Acquisition of shares from non-controlling shareholders

d) Company names after transaction

No change

e) Other matters concerning the outline of this transaction

The percentage of voting rights corresponding to the additional shares acquired is 20%, and through this transaction, Periman Pty. Ltd. and Secure Parking Singapore Pte. Ltd. are wholly owned subsidiaries of the Company.

This additional acquisition is aimed at realizing a fusion of business know-how of each country, including Japan, and synergy effects at an earlier stage.

(2) Outline of accounting treatment applied

Based on "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures", the transactions were accounted for as transactions with non-controlling shareholders.

(3) Matters concerning acquisition of additional shares of subsidiaries

Breakdown by type of consideration paid and acquisition cost.

		Millions of Australian dollars	Millions of yen	Thousands of U.S. dollars
Type of consideration	Cash	\$ 72	¥ 5,891	\$ 53,065
Acquisition cost		\$ 72	¥ 5,891	\$ 53,065



**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Quarterly Consolidated Financial Statements**

**5. Business combinations (continued)**

(4) Matters concerning changes in shareholders' equity of the Company related to transactions with non-controlling shareholders

a) Main reason for change in capital surplus

Acquisition of additional shares of subsidiaries

b) Decrease in capital surplus due to transactions with non-controlling shareholders

¥5,681 million

**6. Segment information**

(1) Method of calculating net sales, profits or losses, assets, obligations and other flows by segment

The accounting treatment for reportable segments is generally similar to that described in "Summary of significant accounting policies" in the Company's annual consolidated financial statements. Profits of reportable segments are the figures based on operating profit. The Company does not allocate assets and liabilities to reportable segments.

(2) In the 1st quarter of the previous fiscal year, in line with the expansion of parking operations in Australia, New Zealand, the United Kingdom through Secure Parking Pty Ltd, Singapore parking operations through Secure Parking Singapore Pte. Ltd., and Malaysia parking operations through Secure Parking Corporation Sdn. Bhd., which were included in the scope of consolidation following the acquisition of 80% of their shares, these were added to the Parking business (Foreign countries) segment.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Quarterly Consolidated Financial Statements**

**6. Segment information (continued)**

(3) Information on operating revenues, operating profits and other flows by reportable segments for July 31, 2017 and 2018 were as follows:

Nine months ended July 31	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
<b>I. Operating revenues and operating profit: (Notes 4)</b>			
<b>Operating revenues</b>			
<b>(1) Outside customers</b>			
Parking business (Japan)	¥ 109,835	¥ 116,151	\$ 1,046,312
Parking business (Foreign countries)	15,785	48,036	432,719
Mobility business	42,269	51,843	467,010
Total	167,889	216,030	1,946,041
Reconciliations	—	—	—
Consolidated	167,889	216,030	1,946,041
<b>(2) Inter-segment</b>			
Parking business (Japan)	97	143	1,284
Parking business (Foreign countries)	—	—	—
Mobility business	24	70	630
Total	121	213	1,914
Reconciliations	(121)	(213)	(1,914)
Consolidated	—	—	—
<b>Total operating revenue</b>			
Parking business (Japan)	109,932	116,294	1,047,596
Parking business (Foreign countries)	15,785	48,036	432,719
Mobility business	42,293	51,913	467,640
Total	168,010	216,243	1,947,955
Reconciliations	(121)	(213)	(1,914)
Consolidated	167,889	216,030	1,946,041
<b>Operating expenses</b>			
Parking business (Japan)	91,591	96,811	872,092
Parking business (Foreign countries)	15,665	48,412	436,107
Mobility business	40,058	48,467	436,602
Total	147,314	193,690	1,744,801
Reconciliations	6,857	7,209	64,941
Consolidated	154,171	200,899	1,809,742
<b>Operating profit (loss)</b>			
Parking business (Japan)	18,341	19,483	175,505
Parking business (Foreign countries) (Note 1)	119	(376)	(3,388)
Mobility business	2,235	3,445	31,037
Total	20,695	22,552	203,154
Reconciliations (Note 2)	(6,977)	(7,421)	(66,851)
Consolidated (Note 3)	¥ 13,718	¥ 15,131	\$ 136,303

- Notes 1. Operating loss of ¥376 million in the Parking business (Foreign countries) includes amortization of goodwill of ¥2,245 million. Amortization of goodwill includes a tentatively calculated amount related to the business combination conducted in the fourth quarter of the previous fiscal year.
2. Reconciliations of ¥ (7,421) million in operating profit include amortization of goodwill of ¥115 million and company-wide expenses of ¥7,306 million. Company-wide expenses are mainly expenses that do not belong to any of the reportable segments. Those expenses are relating to the administration division, including the general affairs department.
3. Operating profit is adjusted in accordance with operating profit in the quarterly consolidated statements of income.

**PARK24 Co., Ltd. and Consolidated Subsidiaries**  
**Notes to Quarterly Consolidated Financial Statements**

**6. Segment information (continued)**

4. Reportable segments and main services in each segment

Reportable Segment	Main Services
Parking business (Japan)	24-hour self-service parking lot (“Times”) Parking facility management (Japan)
Parking business (Foreign countries)	Parking facility management (Foreign countries)
Mobility business	Lending and sales of automobiles Roadside assistance

**7. Quarterly net income per share**

Quarterly basic net income per share and quarterly diluted net income per share and the basis for their calculation are as follows:

Nine months ended July 31	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Net income available to the common stockholders	¥ 9,034	¥ 9,005	\$ 81,119
Effect of dilutive securities	—	—	—
Net income available to the common stockholders for diluted net income per share	¥ 9,034	¥ 9,005	\$ 81,119
		Thousands of shares	
Nine months ended July 31		2017	2018
Weighted-average number of shares		146,597	149,488
Effect of dilutive securities:			
Common stock warrants		8,112	5,403
Weighted-average number of shares for diluted net income per share		154,709	154,891
		Yen	U.S. dollars
Nine months ended July 31	2017	2018	2018
Basic net income per share	¥ 61.62	¥ 60.24	\$ 0.54
Diluted net income per share	¥ 58.39	¥ 58.13	\$ 0.52

There was no potential common stock upon the exercise of a common stock warrant excluded from the computation of quarterly diluted net income per share having an exercise price in excess of the average market value of the common stock during the nine months ended July 31, 2017 and 2018.

**8. U.S. dollar amounts**

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥111.01 = U.S.\$1, the rate of exchange on July 31, 2018, has been used in translation. The inclusion of such amounts is not intended to imply that the Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

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