

## TRANSLATION

(Company Code: 2158)

June 14, 2017

To our shareholders

2-12-23, Konan, Minato-ku, Tokyo

FRONTEO, Inc.

Masahiro Morimoto, Chief Executive Officer

### CONVOCATION NOTICE OF THE 14<sup>th</sup> GENERAL MEETING OF SHAREHOLDERS

FRONTEO, Inc. (the “Company”) would like to extend our deepest appreciation for the support of our shareholders.

You are cordially invited to attend the 14<sup>th</sup> General Meeting of Shareholders of FRONTEO, Inc.

If you are unable to attend the meeting, you may exercise your voting rights through either of the following methods; in which case, we ask that you exercise your voting rights by 6:00 p.m. on Wednesday, June 28, 2017 (Japan Time), after examining the attached Reference Documents for the Ordinary General Meetings of Shareholders.

#### **Voting by mail**

When you exercise your voting rights by mail, please indicate your approval or disapproval of each of the proposals in the enclosed Voting Form and return it to the Company by mail no later than the above voting deadline.

#### **Voting via the Internet**

When you exercise your voting rights via the Internet, please access the website designated by the Company (<http://www.evote.jp/>) and use the “login ID” and “temporary password” stated on the enclosed Voting Form, and enter your approval or disapproval of each of the proposals following the instructions on the site.

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For those attending the meeting, please submit the enclosed Voting Form at the reception desk on arrival at the meeting.

If the Reference Documents for the Ordinary General Meeting of Shareholders, and Business Report, Nonconsolidated Financial Statements, and Consolidated Financial Statements, are revised, the revisions shall be posted on the Company’s website (<http://www.fronteo.com/>).

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1. **Date/Time** June 29, 2017 (Thursday), 10:00 a.m.
2. **Venue** Hotel JAL City Tamachi Tokyo, B1 Floor, *Houou*  
3-16-18, Shibaura, Minato-ku, Tokyo  
(Please refer to the map and directions at the end of the document.)
3. **Meeting agenda**

### Items to be reported:

1. Details of the Business Report, Consolidated Financial Statements, and Audit Reports by the Independent Auditor and Audit and Supervisory Board on the audit results of the Consolidated Financial Statements for the fiscal year ended March 31, 2017.
2. Details of the Nonconsolidated Financial Statements for the fiscal year ended March 31, 2017.

### Items to be resolved:

- |                                |                                                                   |
|--------------------------------|-------------------------------------------------------------------|
| <b>1<sup>st</sup> Proposal</b> | Election of One (1) Substitute Audit and Supervisory Board Member |
| <b>2<sup>nd</sup> Proposal</b> | Issuance of Subscription Rights to Shares as Stock Options        |

## 4. Matters prescribed for convocation

- (1) If neither approval nor disapproval of each proposal is indicated on the Voting Form, the Company will deem that you have indicated your approval of the proposal.
- (2) If you have exercised your voting rights more than once via the Internet, the last vote shall prevail.
- (3) If you have exercised your voting rights both by mail and via the Internet, your vote via the Internet shall prevail.

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(Documents submitted)

### **Business Report**

( From April 1, 2016  
to March 31, 2017 )

#### **1. Current Condition of the Corporate Group**

##### **(1) Business conditions during the fiscal year ended March 31, 2017**

###### **1) Progress and results of operations**

In the fiscal year ended March 31, 2017 (from April 1, 2016 to March 31, 2017), the Japanese economy saw a moderate recovery due to improvements in corporate revenue and employment conditions, backed by economic and monetary policies adopted by the government and Bank of Japan. Meanwhile, the global economy experienced increased uncertainty and unpredictability resulting from unstable economic and political conditions, including the economic slowdown in China and emerging markets, rapid fluctuations in exchange rates, the UK's exit from EU, and the inauguration of a new administration with major policy changes in the United States.

Under this business environment, the FRONTEO Group (the "Group") has been developing data analysis technologies since its foundation for supporting investigation of illegal activities and international litigations under a challenging environment, which requires high accuracy within a limited time frame. It has utilized its technology to create an artificial intelligence ("AI") engine named "KIBIT,"\* which can comprehend subtle human emotions from training data, and is able to learn and assess the mechanism of expert judgements and decisions made through "tacit knowledge" supported by experience and intuition. Currently, KIBIT is one of a few such AI engines used in Japan. In addition to providing solutions for the legal field, it also provides solutions for the challenges faced by corporations and the society in fields such as healthcare, business intelligence, and digital marketing.

The Company made a renewed start under the new corporate name, FRONTEO, Inc. on July 1, 2016, in an effort to hasten development and fully express the philosophy of the Company, which values a "future for individuals and society," a slogan since its foundation. The new name signifies the Company's progressive mind-set, innovative technologies, and frontier-seeking spirit.

\*KIBIT is an artificial intelligence engine independently developed by the Company. It is equipped with a vast knowledge collected and systemized through the Company's unique artificial intelligence-related technology, the Company calls it "Landscaping," which performs learning and evaluation functions and, through its experience in data analysis, analyzes text data in various formats. With only a small amount of teaching data, the KIBIT AI engine can understand subtle elements of human behavior and personality (tacit knowledge, judgment, and sensations that vary on an individual level).

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In July 2016, the Group integrated its three U.S. subsidiaries in the legal business to drive the enhancement of internal controls. The Group's revenue increased for three consecutive years as a result of winning a large-scale project in Asia in the latter half of the fiscal year ended March 31, 2017, backed by the cooperation between the headquarters and U.S. subsidiaries.

In the AI business, the number of companies introducing KIBIT-embedded software in the fields of business intelligence and digital communication significantly increased by 2.3 times to 45 companies from the previous year, and net sales increased 2.4 times year-on-year. This proved the versatility of KIBIT as an AI technology, which can be effectively utilized in increasing operational efficiency in various industries, including manufacturing, finance, retail, and distribution. The Group considers the healthcare field to be a pillar of mid-term growth based on its potential opportunities in the market, and is making active investments in this field. In December 2016, the Group raised 2.5 billion yen for an investment fund in the healthcare field by issuing unsecured bonds with convertible bond type stock acquisition rights by third-party allotment. The Group has engaged in the "Cancer Precision Medicine AI System" project, working with the Japanese Foundation for Cancer Research, as well as the "Prediction of Patient Fall System" co-developed with NTT Medical Center Tokyo, using its proprietary KIBIT AI engine during the fiscal year ended March 31, 2017.

As a result of these activities, in the year ended March 31, 2017, the Group recorded net sales of 11,207,730 thousand yen (a 6.2% increase year-on-year). However, the Group recorded one-time expenses, such as trademark amortization due to the change in corporate name and the integration of three U.S. subsidiaries, along with increased audit fees due to an increase in the number of audit processes related to the acquisition, which negatively affected operating results. Due to such one-time expenses, the Group's operating results were an operating loss of 1,206,662 thousand yen (operating income of 71,346 thousand yen in the fiscal year ended March 31, 2016), ordinary loss of 1,254,944 thousand yen (ordinary income of 25,433 thousand yen in the fiscal year ended March 31, 2016), and net loss attributable to owners of the parent of 948,067 thousand yen (net loss attributable to owners of the parent of 194,529 thousand yen in the fiscal year ended March 31, 2016).

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The following table shows net sales by segment.

| Segment           |                                                     |                                        | Net sales<br>(Thousand yen) | Net sales<br>(%) |
|-------------------|-----------------------------------------------------|----------------------------------------|-----------------------------|------------------|
| Legal<br>business | eDiscovery                                          | eDiscovery service                     | 5,474,260                   | 48.8             |
|                   |                                                     | eDiscovery solution                    | 4,973,644                   | 44.4             |
|                   | Legal and<br>compliance<br>professional<br>services | Forensic service                       | 304,233                     | 2.7              |
|                   |                                                     | Forensic tool distribution and support | 29,971                      | 0.3              |
|                   |                                                     | Software sales                         | 44,954                      | 0.4              |
|                   |                                                     | Forensic training service              | 12,485                      | 0.1              |
|                   |                                                     | Compliance support                     | 15,615                      | 0.1              |
|                   |                                                     | Other                                  | 64,552                      | 0.6              |
|                   |                                                     | AI business                            |                             | 288,011          |
| Total             |                                                     | 11,207,730                             | 100.0                       |                  |

### (Legal business)

Net sales of the legal business were 10,919,718 thousand yen, an increase of 4.7% from the previous year. However, the Group recorded an operating loss of 477,736 thousand yen (operating income of 598,766 thousand yen in the fiscal year ended March 31, 2016) due to a decline in gross profit margin due to changes in product variety, in addition to the decline in sales from Korean clients and the recording of one-time expenses, such as trademark amortization and increased audit fees.

### (AI business)

Net sales from the AI business were 288,011 thousand yen, an increase of 142.2% the previous year. However, new business-related costs of 1,016,937 thousand yen for new product development, sales, and marketing activities, led to an operating loss of 728,925 thousand yen (operating loss of 527,420 thousand yen in the fiscal year ended March 31, 2016).

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### 2) Capital expenditures

Capital expenditures for the fiscal year ended March 31, 2017, mainly consisted of the following:

| Name of company | Details                   | Investment amount<br>(Thousand yen) | Launch month  |
|-----------------|---------------------------|-------------------------------------|---------------|
| FRONTEO, Inc.   | Lit i View version 7.10   | 69,986                              | July 2016     |
| FRONTEO, Inc.   | Lit i View version 7.11   | 58,719                              | October 2016  |
| FRONTEO, Inc.   | Lit i View version 7.12   | 53,037                              | January 2017  |
| FRONTEO, Inc.   | Lit i View version 7.13   | 44,386                              | April 2017    |
| FRONTEO, Inc.   | PATENT EXPLORER 1.2       | 16,968                              | July 2016     |
| FRONTEO, Inc.   | EMAIL AUDITOR Version 2.4 | 15,311                              | July 2016     |
| FRONTEO, Inc.   | EMAIL AUDITOR Version 2.5 | 31,251                              | February 2017 |
| FRONTEO, Inc.   | AI Sukedachi Samurai 1.3  | 9,234                               | July 2016     |
| FRONTEO, Inc.   | AI Sukedachi Samurai 2.0  | 25,500                              | October 2016  |
| FRONTEO, Inc.   | AI Sukedachi Samurai 2.1  | 16,172                              | February 2017 |
| FRONTEO, Inc.   | Kibiro 1.0                | 20,032                              | February 2017 |
| FRONTEO, Inc.   | VMware vcloud Suite 7 STD | 37,418                              | June 2016     |

### 3) Financing

The Company borrowed 1 billion yen on July 29, 2016, based on a term loan agreement with a financial institution, including an executable term dated at July 26, 2016; in addition, the Company borrowed 300 million yen on January 10, 2017, based on a term loan agreement with a financial institution, including an executable term dated at September 27, 2016.

The Company borrowed 500 million yen on December 26, 2016, and an additional 500 million thousand yen on January 10, 2017, based on a revolving credit facility agreement with a financial institution dated at December 28, 2012.

In December 2016, the Company raised 2.5 billion yen for an investment fund in the healthcare field by issuing unsecured bonds with convertible bond type stock acquisition rights by third-party allotment.

### 4) Significant corporate reorganization

In July 2016, the Company integrated Evolve Discovery Inc. ("EvD"), its U.S. subsidiary, EvD's two subsidiaries, UBIC North America, Inc. ("UNA"), and TechLaw Solutions, Inc. ("TLS") by merging UNA into EvD, creating FRONTEO USA, Inc. ("FRONTEO USA"), and re-branded TLS as "FRONTEO Government Services, Inc."

FRONTEO USA establish a new subsidiary, FRONTEO EMEA Ltd. and it has been included in the scope of the consolidation effective from August 2016.

In addition, in November 2016, FRONTEO USA acquired the business of Essential Discovery, Inc.

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### (2) Assets and profit

#### 1) Assets and profit (loss) of the Group

|                                                                       | 11 <sup>th</sup> Term          | 12 <sup>th</sup> Term          | 13 <sup>th</sup> Term          | 14 <sup>th</sup> Term          |
|-----------------------------------------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                                                                       | (Year ended<br>March 31, 2014) | (Year ended<br>March 31, 2015) | (Year ended<br>March 31, 2016) | (Year ended<br>March 31, 2017) |
| Net sales (Thousand yen)                                              | 4,171,617                      | 6,274,460                      | 10,553,007                     | 11,207,730                     |
| Net income (loss) attributable to owners of the parent (Thousand yen) | (604,357)                      | 260,310                        | (194,529)                      | (948,067)                      |
| Net income (loss) per share (yen)                                     | (17.74)                        | 7.45                           | (5.47)                         | (26.07)                        |
| Total assets (Thousand yen)                                           | 4,888,680                      | 7,641,666                      | 12,916,100                     | 16,158,872                     |
| Net assets (Thousand yen)                                             | 3,533,169                      | 5,220,772                      | 4,657,450                      | 5,018,678                      |
| Net assets per share (yen)                                            | 96.34                          | 140.78                         | 122.10                         | 125.99                         |

(Note) The Company effected a ten-for-one split of its shares of common stock as of April 1, 2014. For the purpose of calculating net income (loss) per share and net assets per share, the stock split is assumed to have occurred at the beginning of the 11<sup>th</sup> term.

In the 14<sup>th</sup> Term, the provisional accounting treatment for the business combination that took place in the 13<sup>th</sup> Term, was finalized and related adjustments are now reflected in the consolidated financial statements as of and for the year ended March 31, 2016, accordingly.

#### 2) Assets and profit (loss) of the Company

|                                   | 11 <sup>th</sup> Term          | 12 <sup>th</sup> Term          | 13 <sup>th</sup> Term          | 14 <sup>th</sup> Term          |
|-----------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                                   | (Year ended<br>March 31, 2014) | (Year ended<br>March 31, 2015) | (Year ended<br>March 31, 2016) | (Year ended<br>March 31, 2017) |
| Net sales (Thousand yen)          | 2,665,496                      | 3,718,931                      | 4,560,299                      | 4,415,836                      |
| Net (loss) income (Thousand yen)  | (603,333)                      | 316,933                        | 74,432                         | 2,929                          |
| Net (loss) income per share (yen) | (17.71)                        | 9.07                           | 2.09                           | 0.08                           |
| Total assets (Thousand yen)       | 4,756,257                      | 7,377,724                      | 11,896,038                     | 15,888,059                     |
| Net assets (Thousand yen)         | 3,419,213                      | 5,032,824                      | 5,187,455                      | 6,548,327                      |
| Net assets per share (yen)        | 93.65                          | 135.86                         | 137.47                         | 167.18                         |

(Note) The Company effected a ten-for-one split of its shares of common stock as of April 1, 2014. For the purpose of calculating net income (loss) per share and net assets per share, the stock split is assumed to have occurred at the beginning of the 11<sup>th</sup> term.

In the 14<sup>th</sup> Term, the provisional accounting treatment for the business combination that took place in the 13<sup>th</sup> Term, was finalized and related adjustments are now reflected in the consolidated financial statements as of and for the year ended March 31, 2016, accordingly.

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### (3) Significant parent company and subsidiaries

#### 1) Parent company

Not applicable.

#### 2) Subsidiary

| Name of company                   | Location | Capital stock                     | Percentage of ownership | Main business                                |
|-----------------------------------|----------|-----------------------------------|-------------------------|----------------------------------------------|
| FRONTEO USA, Inc.                 | USA      | 100,000 US dollars                | 100.00%                 | eDiscovery-related services                  |
| Payment Card Forensics, Inc.      | Japan    | 10,000 thousand yen               | 60.00%                  | Card forensics investigation services        |
| FRONTEO Korea, Inc.               | Korea    | 700,000 thousand South Korean won | 100.00%                 | eDiscovery-related services                  |
| FRONTEO Taiwan, Inc.              | Taiwan   | 19,000 thousand Taiwan dollars    | 100.00%                 | eDiscovery-related services                  |
| FRONTEO Government Services, Inc. | USA      | —                                 | 100.00%                 | eDiscovery-related services                  |
| FRONTEO Healthcare, Inc.          | Japan    | 327,000 thousand yen              | 99.26%                  | Medical field information analyzing services |
| FRONTEO Communications, Inc.      | Japan    | 10,000 thousand yen               | 100.00%                 | Digital marketing services                   |

(Notes) In July 2016, the Company integrated EvD., its U.S. subsidiary, EvD's two subsidiaries, UNA, and TLS by merging UNA into EvD, creating FRONTEO USA, and re-branded TLS as "FRONTEO Government Services, Inc."

In July 2016, re-branded UBIC Korea, Inc. as "FRONTEO Korea, Inc."

In July 2016, re-branded UBIC Taiwan, Inc. as "FRONTEO Taiwan, Inc."

In July 2016, re-branded UBIC Medical, Inc. as "FRONTEO Healthcare, Inc."

In July 2016, re-branded Rappa, Inc. as "FRONTEO Communications, Inc."

#### 3) The status of a specified wholly-owned subsidiary as of the end of the fiscal year

| Name of company   | Address                                                                       | Carrying amount of shares | Total assets of the Company |
|-------------------|-------------------------------------------------------------------------------|---------------------------|-----------------------------|
| FRONTEO USA, Inc. | 611 Mission Street, 4 <sup>th</sup> Fl.<br>San Francisco, CA 94105,<br>U.S.A. | 5,867,416 thousand yen    | 15,888,059 thousand yen     |



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### (4) Tasks to be undertaken by management

The Group has the following key tasks:

#### 1) Reinforcement of the AI business structure

To move the business to a new stage, the three business fields (healthcare, digital communication, and business intelligence) in the AI business segment need to reach the income generation stage swiftly. In January 2017, dedicated personnel assumed a position to implement and reinforce business strategies in each of the business fields and as a result, structural improvements advanced considerably. Going forward, the Company will strive to recruit personnel with expertise in the three business fields to further strengthen marketing and development capabilities.

#### 2) Reinforcement of the operational structure of U.S. subsidiaries and establishment of a cross-border marketing framework

In July 2016, the Company integrated three U.S. subsidiaries and embarked on an organizational reform to enhance internal controls. The Company will continue to drive organizational optimization in order to streamline operations in the legal business segment across the globe and further enhance the performance of services. While a collaboration between U.S. subsidiaries and the Company in cross-border promotional activities has, to some extent, led to winning large projects in Asia, to successfully intensify such cross-border capabilities globally, the Company will establish an operational structure that can capture conditions in each country and customer needs, and facilitate speedy decision-making.

#### 3) Challenges to enhance management structure

The Company strives to establish and strengthen its management structure, which directly contributes to the Company's performance and growth, by further enhancing the internal control structure to the level that is expected of a company listed on Japan and U.S. exchanges, as well as by improving management efficiency and optimizing the Company's resource.

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### (5) Major businesses (As of March 31, 2017)

The Group is composed of the Company and nine consolidated subsidiaries, and it engages in legal and AI businesses.

| Business       |                                                    | Major products or services                                                                                                                                                                                                                                              |
|----------------|----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Legal business | eDiscovery business                                | Discovery (evidence discovery) support service<br>Special audit support service/software<br>FRONTEO Legal Cloud service<br>Evidence discovery support software “Lit i View”                                                                                             |
|                | Legal and compliance professional service business | Compliance support<br>Support for building compliance systems<br>Investigation service<br>Hardware for electronic evidence retention<br>Analysis software<br>Sales of self-developed software<br>Maintenance of forensic tools<br>Forensic investigator training course |
|                | Other businesses                                   | Various types of consulting services<br>Patent management services                                                                                                                                                                                                      |
| AI business    |                                                    | Self-developed software sales<br>Information analysis support in digital marketing, healthcare, and business intelligence fields                                                                                                                                        |

### (6) Principal offices (As of March 31, 2017)

#### 1) The Company

|               |                          |
|---------------|--------------------------|
| Headquarters  | Minato-ku, Tokyo         |
| Nagoya Branch | Atsuta-ku, Nagoya, Aichi |

#### 2) Major Subsidiaries

Please refer to “(3) Significant parent company and subsidiaries” for major subsidiaries and their locations.

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### (7) Employees (As of March 31, 2017)

#### 1) Employees of the Group

| Number of employees | Change from the end of the previous fiscal year |
|---------------------|-------------------------------------------------|
| 486 (1)             | Increased by 63 (decreased by 2)                |

(Note) The number of full-time employees. The yearly average number of part-time and non-regular staff (excluding temporary staff) is shown in parentheses.

#### 2) Employees of the Company

| Number of employees | Change from the end of the previous fiscal year | Average age | Average years of service |
|---------------------|-------------------------------------------------|-------------|--------------------------|
| 145 (1)             | 23 (decreased by 1)                             | 36.7        | 2.7                      |

(Note) The number of full-time employees. The yearly average number of part-time and non-regular staff (excluding temporary staff) is shown in parentheses.

### (8) Major borrowings (As of March 31, 2017)

(Thousands of yen)

| Financial institutions                 | Balance of borrowings |
|----------------------------------------|-----------------------|
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 3,124,464             |
| Sumitomo Mitsui Banking Corporation    | 2,520,712             |
| The Bank of Yokohama, Ltd.             | 400,000               |
| Resona Bank, Ltd.                      | 200,000               |
| Mizuho Bank, Ltd.                      | 200,000               |
| The Hyakujushi Bank, Ltd.              | 100,000               |
| Nippon Life Insurance Company          | 91,700                |

### (9) Other significant matters concerning the Group

Not applicable.

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### 2. Company information

#### (1) Stock information (As of March 31, 2017)

- 1) Total number of authorized shares: 72,000,000
- 2) Number of issued shares: 37,921,862
- 3) Number of shareholders: 20,030
- 4) Major shareholders (Top 10)

| Names of shareholders                                     | Number of shares | Percentage of shares (%) |
|-----------------------------------------------------------|------------------|--------------------------|
| Masahiro Morimoto                                         | 6,920,400        | 18.24                    |
| Focus Systems Corporation                                 | 2,984,720        | 7.87                     |
| Naritomo Ikeue                                            | 2,730,800        | 7.20                     |
| Japan Trustee Services Bank, Ltd.<br>(Trust Account)      | 964,900          | 2.54                     |
| The Dai-ichi Life Insurance Company, Ltd.                 | 545,900          | 1.43                     |
| Junichi Hayashi                                           | 497,300          | 1.31                     |
| Tadahiro Kanbayashi                                       | 429,800          | 1.13                     |
| Fumiya Shino                                              | 406,500          | 1.07                     |
| Japan Trustee Services Bank, Ltd.<br>(Trust Account No.9) | 345,000          | 0.90                     |
| The Master Trust Bank of Japan, Ltd.<br>(Trust Account)   | 338,800          | 0.89                     |

(Note) Percentage of shares is calculated excluding treasury stock (630 shares).

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### (2) Subscription rights to shares

- 1) Subscription rights to shares issued to the Company's executives as remuneration for performance of their duties (As of March 31, 2017)

| Name of subscription rights                                                  |                                     | The sixth subscription rights to shares                                                   |
|------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------------------------------------|
| Resolution date for issuance                                                 |                                     | June 1, 2012                                                                              |
| Number of subscription rights                                                |                                     | 400                                                                                       |
| Class and number of shares for subscription rights                           |                                     | Common stock of the Company 40,000<br>(100 shares for every subscription right to shares) |
| Issue price of subscription rights                                           |                                     | Issued without consideration                                                              |
| Value of property to be contributed upon exercise of each subscription right |                                     | Value per subscription right to shares 80,960 yen<br>(Value per share 810 yen)            |
| Exercise period                                                              |                                     | From June 22, 2015 to June 21, 2018                                                       |
| Conditions for exercise                                                      |                                     | (Note 1)                                                                                  |
| Subscription rights held by executives (Note 2)                              | Outside directors                   | Number of subscription rights 200                                                         |
|                                                                              |                                     | Number of shares for subscription rights 20,000                                           |
|                                                                              |                                     | Number of holders 2                                                                       |
|                                                                              | Audit and Supervisory Board Members | Number of subscription rights 200                                                         |
|                                                                              |                                     | Number of shares for subscription rights 20,000                                           |
|                                                                              |                                     | Number of holders 2                                                                       |

(Notes) 1. 1) A person to whom the subscription rights to shares have been allotted (hereinafter referred to as "holder") must be a director, Audit and Supervisory Board Member, corporate officer, or employee of the Company or its subsidiaries (including collaborators for the Sixth subscription rights to shares) when exercising the rights unless the holder is no longer in such a position because he or she has retired at the end of his or her term or reached retirement age, received notification of compulsory redundancy, or for some other valid reason.

- 2) Inheritance of subscription rights to shares is not permitted.
- 3) Partial exercise of subscription rights to shares is not permitted.
- 4) Other conditions are defined in "Allotment of Share Subscription Rights Agreement" concluded between the Company and the holder in accordance with the Board of Directors' resolution.
2. There is no applicable information for directors, excluding outside directors.

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- 2) Issuance of subscription rights to shares to the Company's employees and the subsidiaries' executives and employees as remuneration for performance of their duties for the year ended March 31, 2017

|                                                                              |                                              |                                                                                            |         |
|------------------------------------------------------------------------------|----------------------------------------------|--------------------------------------------------------------------------------------------|---------|
| Name of subscription rights                                                  |                                              | The 13th subscription rights to shares                                                     |         |
| Resolution date for issuance                                                 |                                              | June 21, 2016                                                                              |         |
| Number of subscription rights                                                |                                              | 1,400                                                                                      |         |
| Class and number of shares for subscription rights                           |                                              | Common stock of the Company 140,000<br>(100 shares for every subscription right to shares) |         |
| Issue price of subscription rights                                           |                                              | Issued without consideration                                                               |         |
| Value of property to be contributed upon exercise of each subscription right |                                              | Value per subscription right to shares 118,100 yen<br>(Value per share 1,181 yen)          |         |
| Exercise period                                                              |                                              | From June 23, 2019 to June 22, 2022                                                        |         |
| Conditions for exercise                                                      |                                              | (Note 1)                                                                                   |         |
| Subscription rights held by executives and employees                         | Employees of the Company                     | Number of subscription rights                                                              | 1,075   |
|                                                                              |                                              | Number of shares for subscription rights                                                   | 107,500 |
|                                                                              |                                              | Number of holders                                                                          | 33      |
|                                                                              | Executives and employees of the subsidiaries | Number of subscription rights                                                              | 230     |
|                                                                              |                                              | Number of shares for subscription rights                                                   | 23,000  |
|                                                                              |                                              | Number of holders                                                                          | 5       |

|                                                                              |                                            |                                                                                           |        |
|------------------------------------------------------------------------------|--------------------------------------------|-------------------------------------------------------------------------------------------|--------|
| Name of subscription rights                                                  |                                            | The 14th subscription rights to shares                                                    |        |
| Resolution date for issuance                                                 |                                            | August 25, 2016                                                                           |        |
| Number of subscription rights                                                |                                            | 700                                                                                       |        |
| Class and number of shares for subscription rights                           |                                            | Common stock of the Company 70,000<br>(100 shares for every subscription right to shares) |        |
| Issue price of subscription rights                                           |                                            | Issued without consideration                                                              |        |
| Value of property to be contributed upon exercise of each subscription right |                                            | Value per subscription right to shares 80,900 yen<br>(Value per share 809 yen)            |        |
| Exercise period                                                              |                                            | From August 27, 2019, to August 26, 2022                                                  |        |
| Conditions for exercise                                                      |                                            | (Note 1)                                                                                  |        |
| Subscription rights held by executives and employees                         | Officers and employees of the subsidiaries | Number of subscription rights                                                             | 595    |
|                                                                              |                                            | Number of shares for subscription rights                                                  | 59,500 |
|                                                                              |                                            | Number of holders                                                                         | 31     |

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|                                                                              |                            |                                                                                           |        |
|------------------------------------------------------------------------------|----------------------------|-------------------------------------------------------------------------------------------|--------|
| Name of subscription rights                                                  |                            | <b>The 15th subscription rights to shares</b>                                             |        |
| Resolution date for issuance                                                 |                            | December 22, 2016                                                                         |        |
| Number of subscription rights                                                |                            | 150                                                                                       |        |
| Class and number of shares for subscription rights                           |                            | Common stock of the Company 15,000<br>(100 shares for every subscription right to shares) |        |
| Issue price of subscription rights                                           |                            | Issued without consideration                                                              |        |
| Value of property to be contributed upon exercise of each subscription right |                            | Value per subscription right to shares 90,100 yen<br>(Value per share 901 yen)            |        |
| Exercise period                                                              |                            | From December 24, 2019, to December 23, 2022                                              |        |
| Conditions for exercise                                                      |                            | (Note 1)                                                                                  |        |
| Subscription rights held by executives and employees                         | An officer of a subsidiary | Number of subscription rights                                                             | 150    |
|                                                                              |                            | Number of shares for subscription rights                                                  | 15,000 |
|                                                                              |                            | Number of holders                                                                         | 1      |

(Notes) 1. 1) A person to whom the subscription rights to shares have been allotted (hereinafter referred to as "holder") must be a director, Audit and Supervisory Board Member, corporate officer, or employee of the Company when exercising the rights unless the holder is no longer in such a position because he or she has retired at the end of his or her term or reached retirement age, received notification of compulsory redundancy, or for some other valid reason.

2) Inheritance of subscription rights to shares is not permitted.

3) Exercise of less than one subscription right to shares is not permitted.

4) Other conditions are defined in "Allotment of Share Subscription Rights Agreement" concluded between the Company and the holder in accordance with the Board of Directors' resolution.

### 3) Other significant matters related to subscription rights to shares

Outline of the issuance of subscription rights to shares for the 2nd unsecured convertible bonds with stock acquisition rights in accordance with the Board of Directors' resolution on November 14, 2016

|                                                                                              |                                                                                                                                    |
|----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                              | Subscription rights to shares for the 2nd unsecured convertible bonds with stock acquisition right<br>(Issued on December 1, 2016) |
| Number of subscription rights to shares                                                      | 40                                                                                                                                 |
| Class and number of shares for subscription rights                                           | Common stock of the Company (Note 1)                                                                                               |
| Amount paid for subscription rights to shares                                                | Zero                                                                                                                               |
| Conversion price                                                                             | ¥813                                                                                                                               |
| Exercise period of subscription rights to shares                                             | From December 1, 2016, to November 28, 2019                                                                                        |
| Conditions for exercise of subscription rights to shares                                     | Partial exercise of subscription rights to shares is not permitted.                                                                |
| Balance of subscription rights to shares for convertible bonds with stock acquisition rights | 1,250,000 thousand yen                                                                                                             |

(Notes) 1. The class of shares for the subscription rights is the Company's common stock. The number of shares of common stock newly issued or, optionally, treasury shares of common stock disposed of on exercising of the subscription rights to shares is the largest whole number obtained by dividing the amount paid for the bonds with subscription rights to shares by the exercise price. However, a fractional share, less than one share, on exercising of the subscription rights is rounded off and no cash will be paid in compensation for such shares.

## TRANSLATION

### (3) Company executives

#### 1) Directors and Audit and Supervisory Board Members of the Company (As of March 31, 2017)

| Position                                                      | Name              | Concurrent positions                                                                                                                                                                                                               |
|---------------------------------------------------------------|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Chief Executive Officer and Chairman of the Board             | Masahiro Morimoto | Director of FRONTEO USA, Inc.<br>Director of FRONTEO Healthcare, Inc.<br>Director of FRONTEO Communications, Inc.                                                                                                                  |
| Executive Vice-President Chief Operating Officer and Director | Naritomo Ikeue    | Director of FRONTEO USA, Inc.<br>Chief Executive Officer of FRONTEO Healthcare, Inc.<br>Director of FRONTEO Communications, Inc.                                                                                                   |
| Director                                                      | Hideki Takeda     | Director of FRONTEO Healthcare, Inc.<br>Director of FRONTEO Communications, Inc.                                                                                                                                                   |
| Director                                                      | Makoto Funahashi  | Chief Executive Officer of The Institute of Security Technology<br>Director of Japan Image Analysis Association<br>Director of Medical IT Security Forum                                                                           |
| Director                                                      | Hirooki Kirisawa  | Chairman of HIBIKI Tax Accountants Corporation<br>Chief Executive Officer of Management Farm K.K.                                                                                                                                  |
| Audit and Supervisory Board Member (Full-time)                | Kunihiro Sudo     | N/A                                                                                                                                                                                                                                |
| Audit and Supervisory Board Member                            | Takaharu Yasumoto | President of Yasumoto CPA Office<br>Audit and Supervisory Board Member of FAST RETAILING CO., LTD.<br>Audit and Supervisory Board Member of LINK THEORY JAPAN CO., LTD.<br>Audit and Supervisory Board Member of ASKUL Corporation |
| Audit and Supervisory Board Member                            | Kei Okubo         | Partner of Nagashima Ohno & Tsunematsu Law Offices                                                                                                                                                                                 |

- (Notes) 1. The following are registered with the Tokyo Stock Exchange as independent directors: Mr. Makoto Funahashi, Mr. Hirooki Kirisawa, Mr. Kunihiro Sudo, and Mr. Takaharu Yasumoto.
2. Mr. Makoto Funahashi and Mr. Hirooki Kirisawa are outside directors.
3. Mr. Kunihiro Sudo, Mr. Takaharu Yasumoto, and Mr. Kei Okubo are outside Audit and Supervisory Board Members.
4. Mr. Kunihiro Sudo has extensive knowledge in accounting and corporate management, and the Company believes that he has comprehensive knowledge in the areas of finance and accounting.
5. Mr. Takaharu Yasumoto is a certified public accountant and the Company believes that he has comprehensive knowledge in the areas of finance and accounting.
6. Mr. Kei Okubo is a registered attorney, and the Company believes that he has comprehensive knowledge in the area of law.



## TRANSLATION

### 2) Outline of a limited liability contract

The Company has entered into agreements, in accordance with the provision of Article 427, Paragraph 1 of the Companies Act, with all the outside directors and the Audit and Supervisory Board Members to limit their liabilities to compensate damages under Article 423, Paragraph 1 of the Companies Act. These agreements limit the amount of their liability to compensate damages to the minimum liability amount stipulated by laws and regulations.

### 3) Compensation to Directors and Audit and Supervisory Board Members

| Position                           | Number of people | Total compensation<br>(thousands of yen) |
|------------------------------------|------------------|------------------------------------------|
| Director                           | 5                | 123,100                                  |
| Audit and Supervisory Board Member | 4                | 22,000                                   |
| Total                              | 9                | 145,100                                  |

- (Notes) 1. The compensation for directors was authorized, by resolution of the ninth general ordinary meeting of shareholders on June 22, 2014, as within the annual amount of 350,000 thousand yen (excluding the amount of compensation as employees).
2. Total compensation to directors includes 12,000 thousand yen paid to two outside directors.
3. The compensation for Audit and Supervisory Board Members was authorized, by resolution of the special general meeting of shareholders on February 6, 2007, as within the annual amount of 80,000 thousand yen.
4. Total compensation to Audit and Supervisory Board Members includes 22,000 thousand yen paid to four outside Audit and Supervisory Board Members (including 1 Audit and Supervisory Board Member whose terms of office expired at the conclusion of the 13<sup>th</sup> General Meeting of Shareholders).

### 4) Outside Executives

#### I. Important positions held concurrently and relationships between the Company and respective organizations

| Position                                   | Name              | Concurrent positions                                                                                                                                                                                                                |
|--------------------------------------------|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Outside Director                           | Makoto Funahashi  | Chief Executive Officer of The Institute of Security Technology<br>Director of Japan Image Analysis Association<br>Director of Medical IT Security Forum                                                                            |
| Outside Director                           | Hirooki Kirisawa  | Chairman of HIBIKI Tax Accountants Corporation<br>Chief Executive Officer of Management Farm KK                                                                                                                                     |
| Outside Audit and Supervisory Board Member | Takaharu Yasumoto | President of Yasumoto CPA Office<br>Audit and Supervisory Board Member of FAST RETAILING CO., LTD.<br>Audit and Supervisory Board Member of, LINK THEORY JAPAN CO., LTD.<br>Audit and Supervisory Board Member of ASKUL Corporation |
| Outside Audit and Supervisory Board Member | Kei Okubo         | Partner of Nagashima Ohno & Tsunematsu Law Offices                                                                                                                                                                                  |

(Note) The Company does not have significant transactions with the organizations where the outside directors have concurrent positions.

## TRANSLATION

### II. Activities during the fiscal year ended March 31, 2017

#### • Meeting attendance

|                                                              | Board of Directors' meeting<br>(held 19 times) |                 | Audit and Supervisory Board<br>Members' meeting (held 16<br>times) |                  |
|--------------------------------------------------------------|------------------------------------------------|-----------------|--------------------------------------------------------------------|------------------|
|                                                              | Number of<br>meetings attended                 | Attendance rate | Total number of<br>meetings attended                               | Attendance rates |
| Makoto Funahashi<br>(Director)                               | 19                                             | 100%            | —                                                                  | —                |
| Hirooki Kirisawa<br>(Director)                               | 19                                             | 100%            | —                                                                  | —                |
| Kunihiro Sudo<br>(Audit and Supervisory<br>Board Member)     | 19                                             | 100%            | 16                                                                 | 100%             |
| Takaharu Yasumoto<br>(Audit and Supervisory<br>Board Member) | 19                                             | 100%            | 16                                                                 | 100%             |
| Kei Okubo<br>(Audit and Supervisory<br>Board Member)         | 13                                             | 92.8%           | 12                                                                 | 100%             |

(Notes) 1. The following are registered with the Tokyo Stock Exchange as independent executives:

Mr. Makoto Funahashi; Mr. Hirooki Kirisawa; Mr. Kunihiro Sudo, and Mr. Takaharu Yasumoto.

2. The numbers regarding Mr. Kei Okubo present attendance after being appointed at 13th General Meeting of Shareholders held on June 29, 2016 as an Outside Audit and Supervisory Board Member.

- Mr. Makoto Funahashi (Director) offers advice and recommendations based on his executive experience and knowledge as an ex-Deputy Director General of National Police Agency.
- Mr. Hirooki Kirisawa (Director) is a certified public tax accountant and provides advice based on technical expertise and experience.
- Mr. Kunihiro Sudo (Audit and Supervisory Board Member) has extensive knowledge in accounting and corporate management and provides advice based on his years of experience and wide knowledge.
- Mr. Takaharu Yasumoto (Audit and Supervisory Board Member) is a certified public accountant and provides advice based on technical expertise and experience.
- Mr. Kei Okubo (Audit and Supervisory Board Member) is a registered attorney and provides advice based on technical expertise and experience.

## TRANSLATION

### (4) Independent auditors

1) Name: Ernst & Young ShinNihon LLC

2) Fees for professional services rendered during the fiscal year ended March 31, 2017:

|                                                                                                   | Fees paid<br>(thousands of yen) |
|---------------------------------------------------------------------------------------------------|---------------------------------|
| Audit fees                                                                                        | 229,000                         |
| Total amount of money and other financial benefits to be paid by the Company and the subsidiaries | 229,000                         |

(Note) The audit agreement between the Company and the independent auditors does not clearly distinguish nor allow segregating the amount of audit fees based on the Companies Act from those based on the Financial Instruments and Exchange Act and PCAOB Audit Standards. Therefore, the total amount shows the aggregate audit fees for the fiscal year.

The audit fees include fees for audits for FRONTEO USA, the Company's consolidated subsidiaries, conducted by Ernst & Young LLC, a member firm of the Company's independent auditors.

The audit fees other than above includes additional audit fees from previous fiscal year which is JPY87,000 thousands of yen.

3) Non-audit services

Not applicable.

4) Reason that the Audit and Supervisory Board agreed on the remuneration of independent auditors

The Audit and Supervisory Board has agreed on the remuneration of independent auditors as stipulated in Paragraph 1, Article 399 of the Companies Act as a result of reviewing the independent auditors' audit plan, execution of duties in previous fiscal years, and calculation grounds of the estimated remuneration by obtaining necessary materials from and through interviews with the Board of Directors, related internal departments, and the independent auditors.

Increase in accounting auditor remuneration is mainly due to the implementation of audits for EvD, Inc. (acquired in July 2015) from the beginning of FY 2016.

5) Policy on decision to dismiss or not to reappoint independent auditors

The Audit and Supervisory Board shall determine, when it is necessary to raise a proposal at a shareholders' meeting, the dismissal or non-reappointment of independent auditors (for example, when it is deemed difficult for an auditor to conduct an audit appropriately).

In the event the independent auditors fall under any of the situations stipulated in the clauses of the first paragraph of Article 340 of the Companies Act, the Audit and Supervisory Board shall dismiss the independent auditors, subject to the consent of all of the Audit and Supervisory Board Members. In such cases, the Audit and Supervisory Board Member elected by the Audit and Supervisory Board shall report such fact and the reason for the dismissal at the first shareholders' meeting convened after the dismissal.

6) Outline of a limited liability contract

Although there is no separate limited liability contract with the independent auditors, the Company's Articles of Incorporation in accordance with the provisions of the first paragraph of Article 426 of the Companies Act stipulate that the independent auditors' liability to the Company may be exempted within the statutory limitations upon resolution by the Board of Directors.

## TRANSLATION

- 7) Matters related to a disciplinary action in which the independent auditors received a business suspension order during the past two years

Outline of the action announced by the Financial Services Agency as of December 22, 2015

I. Party subject to the action

Ernst & Young ShinNihon LLC

II. Description of the action

- i) Suspension order on accepting new engagements for three months

(From January 1, 2016 to March 31, 2016)

- ii) Operational improvement order (Improvement of operational management system)

III. Reason for the action

- False attestation by partners of the firm in negligence of due care
- Significantly inappropriate operation of the firm

**(5) Systems for ensuring the propriety of operations and operation of the systems**

The following is an outline of decisions on the systems ensuring that directors and employees execute their duties in compliance with the laws and regulations and the Articles of Incorporation, and other systems necessary to ensure the propriety of operations of the Company, and operation of such systems:

- 1) Systems for ensuring that directors and employees execute their duties in compliance with the laws and regulations and the Articles of Incorporation

I. A compliance manual is established and defined as the code of conduct for the directors and employees.

II. The directors report the execution status of their duties to the Board of Directors, and mutually monitor and supervise the execution status of the duties of other directors.

III. The Audit and Supervisory Board Members audit the execution status of duties by the directors based on the “Audit and Supervisory Board Regulations.”

IV. The internal audit group audits the status of the compliance.

V. A direct reporting framework for compliance violations by the directors and employees is established.

- 2) Systems for archiving and managing information on the execution of duties by the directors

I. Information about the execution of duties by the directors, including the minutes of the Board of Directors, is recorded either in writing or electronically, and archived and managed in conformity with the “Document Management Rules.”

II. The directors and the Audit and Supervisory Board Members may, at any time, inspect the record or electronic records of the information about the execution of the duties by the directors.

- 3) Systems and rules for managing the risks of loss

I. Each responsible division manages risks attributable to its administrative operations.

II. The risk management committee monitors cross-divisional risks and addresses them on a Company-wide basis.

III. The Board of Directors promptly addresses new risks.

## TRANSLATION

- 4) Systems for ensuring the effectiveness of the execution of duties by the directors
  - I. In addition to the regular board meetings held once a month, extraordinary board meetings are convened as needed.
  - II. Management meetings are set to exchange opinions between directors and corporate officers to allow for prompt and accurate management decisions.
  - III. The directors accomplish their duties toward the achievement of the management plan. Meanwhile, the performance and operations of each division are promptly reported to, and deliberated by, the Board of Directors.
- 5) Systems for ensuring the propriety of operations in the business group
  - I. Rules and structures are also arranged and established for our Group companies to comply with laws and regulations, and operate in an appropriate and efficient manner.
  - II. When a subsidiary initiates an intergroup transaction that potentially has a material impact on the Group's operations, the subsidiary shall consult with the Company in advance regarding the appropriateness and legality of such transaction in accordance with the Company's fundamental policy for intergroup transactions before submitting a resolution or notification at the shareholders' meeting. Furthermore, when the Company or a subsidiary conducts an intergroup transaction, it shall ensure the necessity of the transaction and that the terms of the transaction are not significantly different from those that would be outlined in an arm's-length transactions to protect the interests of noncontrolling shareholders.
  - III. The directors instruct Group companies regarding appropriate and efficient management according to their job specifications.
  - IV. The internal audit group also conducts an internal audit on the general operations within the Group companies.
  - V. The Audit and Supervisory Board Members also monitor and audit the operations within the Group companies.
- 6) Matters relating to the Audit and Supervisory Board Members' request to have employees assist with their duties

The Company does not assign employees to assist with the Audit and Supervisory Board Members' duties; however, the Board of Directors may appoint and assign such employees after discussion with the Audit and Supervisory Board Members, if necessary.
- 7) Matters relating to the independence of the employees in the preceding paragraph from the directors

When employees of concern are put in place, their appointment, transfer, evaluation, and castigation are decided in accordance with the opinion of the Audit and Supervisory Board Members, and the independence of the employees from the directors is secured.
- 8) Systems for directors and employees to report to Audit and Supervisory Board Members

In addition to the matters prescribed in applicable laws and regulations, directors and employees must report the following to Audit and Supervisory Board Members without any delay:

  - I. Matters that may have a significant operational impact on the Company;
  - II. Results of internal audits conducted by the internal audit group;
  - III. Results of internal control assessments conducted by the internal audit group.
  - IV. The status of reports under the whistleblower system.
- 9) Other systems for ensuring the effectiveness of audit activities conducted by Audit and Supervisory Board Members
  - I. More than half of the Audit and Supervisory Board consists of outside Audit and Supervisory Board Members to ensure transparency of management.

## TRANSLATION

- II. Audit and Supervisory Board Members hold regular meetings with directors to exchange information and opinions on significant audit issues.
- III. Audit and Supervisory Board Members hold regular meetings with the internal audit group and independent auditors, and ensure effectiveness of the audit activities through close coordination.
- IV. Audit and Supervisory Board Members may request the internal audit group to perform an internal investigation as necessary.

### 10) Systems for ensuring the appropriateness and reliability of financial reporting

To ensure the appropriateness and reliability of the Group's financial reporting, the Company makes rigorous efforts to improve relevant policies such as "Accounting Rules" and established a "Basic Policy for Internal Control over Financial Reporting" under which the Company designs and operates internal controls on an ongoing basis and performs periodic assessments of the effectiveness of such controls.

### 11) Systems for elimination of anti-social forces

The Company has never had any relationships with, and stands firmly against, anti-social forces that threaten the social order and safety of people. The Company declares this as the basic principle of its compliance manual and ensures full compliance with this basic principle.

### 12) Status of operation of the systems for ensuring the propriety of operations

#### I. Execution of duties by directors

Internal rules, such as board regulations, are in place to ensure that directors act in accordance with the applicable laws and regulations, the Articles of Incorporation, and company rules. At board of directors meetings, which are held once or twice a month, the effectiveness of decision-making and monitoring is maintained through an active exchange of opinions on each agenda item and monitoring of the execution of duties by directors.

#### II. Execution of duties by Audit and Supervisory Board Members

Meetings of the Audit and Supervisory Board are held at least once a month and Audit and Supervisory Board Members perform audits in accordance with audit plans decided upon at such meetings. Further, the Audit and Supervisory Board Members audit the execution of duties by directors and review the design and implementation of the internal control system by, for example, attending meetings of the Board of Directors and other corporate meetings and regularly exchanging information with the Chief Executive Officer of the Company, independent auditors, and the internal audit group.

#### III. Ensuring the propriety of operations of subsidiaries

In regard to subsidiaries, a system is in place by which monitoring is performed to ensure adequate management whereby, for example, items related to certain criteria are approved in advance at important meetings such as meetings of the board of directors, and the status of implementation of such items is required to be reported to the board of directors.

#### IV. Compliance and risk management

A whistleblowing system was established, as part of which a 24-hour hotline and an external reporting hotline were set up to allow personnel with knowledge of compliance violations or possible violations to report such violations at any time, and the existence of these hotlines was communicated throughout the Company. Additionally, disaster drills for major earthquakes are carried out, and the safety of personnel and provision of supplies for personnel with difficulty returning home in the case of such disasters are continually maintained.

#### V. Elimination of anti-social forces

Provisions related to the elimination of anti-social forces are stipulated in contracts and information is regularly gathered about all clients to ensure that they are not involved with anti-social forces.

# TRANSLATION

## Consolidated Balance Sheet

(as of March 31, 2017)

(Thousands of yen)

| Assets                                |                   | Liabilities                                           |                   |
|---------------------------------------|-------------------|-------------------------------------------------------|-------------------|
| <b>Current Assets</b>                 | <b>9,034,162</b>  | <b>Current liabilities</b>                            | <b>3,696,999</b>  |
| Cash and deposits                     | 4,536,426         | Accounts payable - trade                              | 513,223           |
| Notes and accounts receivable - trade | 3,319,973         | Short-term loans payable                              | 1,000,000         |
| Merchandise                           | 69,396            | Current portion of long-term loans payable            | 798,269           |
| Supplies                              | 4,072             | Accounts payable - other                              | 196,038           |
| Deferred tax assets                   | 660,810           | Income taxes payable                                  | 150,260           |
| Other                                 | 609,117           | Provision for bonuses                                 | 153,622           |
| Allowance for doubtful accounts       | (165,634)         | Other                                                 | 885,583           |
| <b>Noncurrent assets</b>              | <b>7,124,709</b>  | <b>Noncurrent liabilities</b>                         | <b>7,443,194</b>  |
| <b>Property, plant, and equipment</b> | <b>1,176,857</b>  | Bonds with stock acquisition rights                   | 1,250,000         |
| Buildings                             | 707,815           | Long-term loans payable                               | 4,838,607         |
| Accumulated depreciation              | (185,225)         | Deferred tax liabilities                              | 758,068           |
| Buildings, net                        | 522,590           | Liabilities for retirement benefits                   | 35,678            |
| Tools, furniture, and fixtures        | 1,432,040         | Asset retirement obligations                          | 44,747            |
| Accumulated depreciation              | (900,269)         | Other                                                 | 516,092           |
| Tools, furniture, and fixtures, net   | 531,770           | <b>Total liabilities</b>                              | <b>11,140,193</b> |
| Vehicles                              | 11,222            | <b>Net assets</b>                                     |                   |
| Accumulated depreciation              | (5,228)           | <b>Shareholders' equity</b>                           | <b>4,847,559</b>  |
| Vehicles, net                         | 5,993             | <b>Capital stock</b>                                  | <b>2,481,621</b>  |
| Leased assets                         | 125,824           | <b>Capital surplus</b>                                | <b>2,266,210</b>  |
| Accumulated depreciation              | (13,097)          | <b>Retained earnings</b>                              | <b>99,753</b>     |
| Leased assets, net                    | 112,727           | <b>Treasury stock</b>                                 | <b>(26)</b>       |
| Other                                 | 3,775             | <b>Accumulated other comprehensive loss</b>           | <b>(69,786)</b>   |
| <b>Intangible assets</b>              | <b>5,027,355</b>  | Valuation difference on available-for-sale securities | 272,559           |
| Software                              | 910,176           | Foreign currency translation adjustments              | (342,345)         |
| Goodwill                              | 2,001,315         | <b>Subscription rights to shares</b>                  | <b>208,560</b>    |
| Customer-related assets               | 1,913,459         | <b>Noncontrolling interests</b>                       | <b>32,344</b>     |
| Other                                 | 202,404           |                                                       |                   |
| <b>Investments and other assets</b>   | <b>920,496</b>    | <b>Total net assets</b>                               | <b>5,018,678</b>  |
| Investment securities                 | 500,414           | <b>Total liabilities and net assets</b>               | <b>16,158,872</b> |
| Guarantee deposits                    | 140,641           |                                                       |                   |
| Long-term time deposits               | 224,380           |                                                       |                   |
| Deferred tax assets                   | 4,062             |                                                       |                   |
| Other                                 | 50,997            |                                                       |                   |
| <b>Total assets</b>                   | <b>16,158,872</b> |                                                       |                   |

(Note) Amounts are rounded down to the nearest thousand yen.

## TRANSLATION

### Consolidated Statement of Operations

(from April 1, 2016 to March 31, 2017)

(Thousands of yen)

| Accounts                                                   | Amounts   |                   |
|------------------------------------------------------------|-----------|-------------------|
| <b>Net sales</b>                                           |           | <b>11,207,730</b> |
| <b>Cost of sales</b>                                       |           | <b>6,873,770</b>  |
| <b>Gross profit</b>                                        |           | <b>4,333,960</b>  |
| <b>Selling, general, and administrative expenses</b>       |           | <b>5,540,622</b>  |
| <b>Operating loss</b>                                      |           | <b>1,206,662</b>  |
| <b>Non-operating income</b>                                |           |                   |
| Interest income                                            | 3,634     |                   |
| Dividend income                                            | 14,400    |                   |
| Other                                                      | 34,039    | 52,074            |
| <b>Non-operating expenses</b>                              |           |                   |
| Interest expenses                                          | 28,981    |                   |
| Bond issuance cost                                         | 16,036    |                   |
| Syndicated loan fees                                       | 11,783    |                   |
| Foreign exchange losses                                    | 14,593    |                   |
| Other                                                      | 28,962    | 100,356           |
| <b>Ordinary loss</b>                                       |           | <b>1,254,944</b>  |
| <b>Extraordinary income</b>                                |           |                   |
| Gains on sales of noncurrent assets                        | 685       | 685               |
| <b>Extraordinary losses</b>                                |           |                   |
| Losses on retirement of noncurrent assets                  | 15,652    |                   |
| Loss on sale of noncurrent assets                          | 28,464    |                   |
| Loss on sale of investment securities                      | 2,441     |                   |
| Special retirement benefits                                | 70,049    | 116,607           |
| <b>Loss before income taxes</b>                            |           | <b>1,370,867</b>  |
| Income taxes – current                                     | 39,996    |                   |
| Income taxes – deferred                                    | (468,991) | (429,024)         |
| <b>Net loss</b>                                            |           | <b>941,842</b>    |
| <b>Net income attributable to noncontrolling interests</b> |           | <b>6,224</b>      |
| <b>Net loss attributable to owners of the parent</b>       |           | <b>948,067</b>    |

(Note) Amounts are rounded down to the nearest thousand yen.



## TRANSLATION

### Consolidated Statement of Changes in Net Assets

(from April 1, 2016 to March 31, 2017)

(Thousands of yen)

|                                                                                                 | Shareholders' equity |                 |                   |                |                            |
|-------------------------------------------------------------------------------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|
|                                                                                                 | Capital stock        | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the current period                                                  | 1,705,931            | 1,493,391       | 1,152,850         | (26)           | 4,352,146                  |
| Cumulative effects on the finalization of the provisional accounting for a business combination |                      |                 | 2,222             |                | 2,222                      |
| Balance at beginning of current period after retrospective application (as restated)            | 1,705,931            | 1,493,391       | 1,155,073         | (26)           | 4,354,369                  |
| Changes in items during the period                                                              |                      |                 |                   |                |                            |
| Issuance of new shares                                                                          | 775,689              | 775,689         |                   |                | 1,551,379                  |
| Dividends from retained earnings                                                                |                      |                 | (107,252)         |                | (107,252)                  |
| Net loss attributable to owners of the parent                                                   |                      |                 | (948,067)         |                | (948,067)                  |
| Capital increase of consolidated subsidiaries                                                   |                      | (2,870)         |                   |                | (2,870)                    |
| Net changes in items other than shareholders' equity                                            |                      |                 |                   |                | —                          |
| Total changes in items during the period                                                        | 775,689              | 772,819         | (1,055,319)       | —              | 493,189                    |
| Balance at the end of the current period                                                        | 2,481,621            | 2,266,210       | 99,753            | (26)           | 4,847,559                  |

(Continued)

## TRANSLATION

(Thousands of yen)

|                                                                                                 | Accumulated other comprehensive income                |                                   |                                         |                                              | Subscription rights to shares | Noncontrolling interests | Total net assets |
|-------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------|-----------------------------------------|----------------------------------------------|-------------------------------|--------------------------|------------------|
|                                                                                                 | Valuation difference on available-for-sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustment | Total accumulated other comprehensive income |                               |                          |                  |
| Balance at the beginning of the current period                                                  | 298,327                                               | (3,942)                           | (282,692)                               | 11,692                                       | 272,920                       | 19,197                   | 4,655,957        |
| Cumulative effects on the finalization of the provisional accounting for a business combination |                                                       |                                   | (730)                                   | (730)                                        |                               |                          | 1,492            |
| Balance at beginning of current period after retrospective application (as restated)            | 298,327                                               | (3,942)                           | (283,423)                               | 10,961                                       | 272,920                       | 19,197                   | 4,657,450        |
| Changes in items during the period                                                              |                                                       |                                   |                                         |                                              |                               |                          |                  |
| Issuance of new shares                                                                          |                                                       |                                   |                                         |                                              |                               |                          | 1,551,379        |
| Dividends from retained earnings                                                                |                                                       |                                   |                                         |                                              |                               |                          | (107,252)        |
| Net loss attributable to owners of the parent                                                   |                                                       |                                   |                                         |                                              |                               |                          | (948,067)        |
| Capital increase of consolidated subsidiaries                                                   |                                                       |                                   |                                         |                                              |                               |                          | (2,870)          |
| Net changes in items other than shareholders' equity                                            | (25,768)                                              | 3,942                             | (58,922)                                | (80,748)                                     | (64,359)                      | 13,146                   | (131,961)        |
| Total changes in items during the period                                                        | (25,768)                                              | 3,942                             | (58,922)                                | (80,748)                                     | (64,359)                      | 13,146                   | 361,228          |
| Balance at the end of the current period                                                        | 272,559                                               | –                                 | (342,345)                               | (69,786)                                     | 208,560                       | 32,344                   | 5,018,678        |

(Note) Amounts are rounded down to the nearest thousand yen.

(Concluded)

# TRANSLATION

## Nonconsolidated Balance Sheet

(as of March 31, 2017)

(Thousands of yen)

| Assets                                                    |                   | Liabilities                                           |                   |
|-----------------------------------------------------------|-------------------|-------------------------------------------------------|-------------------|
| <b>Current Assets</b>                                     | <b>7,217,489</b>  | <b>Current liabilities</b>                            | <b>3,017,967</b>  |
| Cash and deposits                                         | 3,181,531         | Accounts payable - trade                              | 206,158           |
| Accounts receivable - trade                               | 1,978,036         | Short-term loans payable                              | 1,000,000         |
| Merchandise                                               | 26                | Current portion of long-term loans payable            | 798,269           |
| Supplies                                                  | 3,110             | Lease obligations                                     | 18,006            |
| Prepaid expenses                                          | 76,293            | Accounts payable - other                              | 714,247           |
| Short-term loans to subsidiaries and associated companies | 1,307,345         | Accrued expenses                                      | 81,144            |
| Advances paid to subsidiaries and associated companies    | 558,582           | Accrued consumption taxes                             | 9,008             |
| Income taxes receivable                                   | 6,007             | Advances received                                     | 19,763            |
| Deferred tax assets                                       | 67,415            | Deposits received                                     | 28,293            |
| Other                                                     | 369,522           | Provision for bonuses                                 | 135,451           |
| Allowance for doubtful accounts                           | (330,382)         | Other                                                 | 7,624             |
| <b>Noncurrent assets</b>                                  | <b>8,670,570</b>  | <b>Noncurrent liabilities</b>                         | <b>6,321,764</b>  |
| <b>Property, plant, and equipment</b>                     | <b>375,010</b>    | Bonds with stock acquisition rights                   | 1,250,000         |
| Buildings                                                 | 213,050           | Long-term loans payable                               | 4,838,607         |
| Accumulated depreciation                                  | (89,120)          | Lease obligations                                     | 64,302            |
| Buildings, net                                            | 123,929           | Provision for retirement benefits                     | 29,803            |
| Tools, furniture, and fixtures                            | 482,791           | Asset retirement obligations                          | 44,747            |
| Accumulated depreciation                                  | (307,533)         | Deferred tax liabilities                              | 93,196            |
| Tools, furniture, and fixtures, net                       | 175,257           | Other                                                 | 1,106             |
| Leased assets                                             | 85,974            | <b>Total liabilities</b>                              | <b>9,339,731</b>  |
| Accumulated depreciation                                  | (10,150)          | <b>Net Assets</b>                                     |                   |
| Leased assets, net                                        | 75,823            | <b>Shareholders' equity</b>                           | <b>6,067,207</b>  |
| <b>Intangible assets</b>                                  | <b>947,046</b>    | <b>Capital stock</b>                                  | <b>2,481,621</b>  |
| Software                                                  | 833,204           | <b>Capital surplus</b>                                | <b>2,269,081</b>  |
| Software in progress                                      | 67,265            | Legal capital surplus                                 | 2,213,371         |
| Other                                                     | 46,576            | Other capital surplus                                 | 55,709            |
| <b>Investments and other assets</b>                       | <b>7,348,513</b>  | <b>Retained earnings</b>                              | <b>1,316,530</b>  |
| Investment securities                                     | 500,414           | Other retained earnings                               | 1,316,530         |
| Shares of subsidiaries and associated companies           | 6,481,747         | Retained earnings brought forward                     | 1,316,530         |
| Long-term time deposits                                   | 224,380           | <b>Treasury stock</b>                                 | <b>(26)</b>       |
| Investments in capital                                    | 10                | <b>Valuation and translation adjustments</b>          | <b>272,559</b>    |
| Long-term prepaid expenses                                | 34,379            | Valuation difference on available-for-sale securities | 272,559           |
| Long-term loans to subsidiaries and associated companies  | 28,048            | <b>Subscription rights to shares</b>                  | <b>208,560</b>    |
| Guarantee deposits                                        | 79,533            | <b>Total net assets</b>                               | <b>6,548,327</b>  |
| <b>Total assets</b>                                       | <b>15,888,059</b> | <b>Total liabilities and net assets</b>               | <b>15,888,059</b> |

(Note) Amounts are rounded down to the nearest thousand yen.

## TRANSLATION

### Nonconsolidated Statement of Income

(from April 1, 2016 to March 31, 2017)

(Thousands of yen)

| Accounts                                             | Amounts  |                  |
|------------------------------------------------------|----------|------------------|
| <b>Net sales</b>                                     |          | <b>4,415,836</b> |
| <b>Cost of sales</b>                                 |          | <b>2,359,782</b> |
| <b>Gross profit</b>                                  |          | <b>2,056,053</b> |
| <b>Selling, general, and administrative expenses</b> |          | <b>1,958,483</b> |
| <b>Operating income</b>                              |          | <b>97,569</b>    |
| <b>Non-operating income</b>                          |          |                  |
| Interest income                                      | 11,269   |                  |
| Dividend income                                      | 14,400   |                  |
| Fiduciary obligation fee                             | 4,200    |                  |
| Other                                                | 3,014    | 32,884           |
| <b>Non-operating expenses</b>                        |          |                  |
| Interest expenses                                    | 23,913   |                  |
| Foreign exchange losses                              | 13,917   |                  |
| Bond issuance cost                                   | 16,036   |                  |
| Provision of allowance for doubtful accounts         | 7,727    |                  |
| Syndicated loan fees                                 | 11,783   |                  |
| Other                                                | 4,923    | 78,302           |
| <b>Ordinary income</b>                               |          | <b>52,151</b>    |
| <b>Extraordinary income</b>                          |          |                  |
| Gains on sale of noncurrent assets                   | 685      | 685              |
| <b>Extraordinary losses</b>                          |          |                  |
| Loss on sales of investment securities               | 2,441    |                  |
| Loss on sales of non-current assets                  | 28,411   |                  |
| Loss on retirement of non-current assets             | 15,533   | 46,385           |
| <b>Income before income taxes</b>                    |          | <b>6,451</b>     |
| Income taxes - current                               | 29,590   |                  |
| Income taxes - deferred                              | (26,069) | 3,521            |
| <b>Net income</b>                                    |          | <b>2,929</b>     |

(Note) Amounts are rounded down to the nearest thousand yen.

## TRANSLATION

### Nonconsolidated Statement of Changes in Net Assets

(from April 1, 2016 to March 31, 2017)

(Thousands of yen)

|                                                      | Shareholders' equity |                       |                       |                       |                                                              |                         |
|------------------------------------------------------|----------------------|-----------------------|-----------------------|-----------------------|--------------------------------------------------------------|-------------------------|
|                                                      | Capital stock        | Capital surplus       |                       |                       | Retained earnings                                            |                         |
|                                                      |                      | Legal capital surplus | Other capital surplus | Total capital surplus | Other retained earnings<br>Retained earnings brought forward | Total retained earnings |
| Balance at the beginning of the current period       | 1,705,931            | 1,437,681             | 55,709                | 1,493,391             | 1,420,853                                                    | 1,420,853               |
| Changes in items during the period                   |                      |                       |                       |                       |                                                              |                         |
| Issuance of new shares                               | 775,689              | 775,689               |                       | 775,689               |                                                              |                         |
| Dividends from retained earnings                     |                      |                       |                       |                       | (107,252)                                                    | (107,252)               |
| Net income                                           |                      |                       |                       |                       | 2,929                                                        | 2,929                   |
| Net changes in items other than shareholders' equity |                      |                       |                       |                       |                                                              |                         |
| Total changes in items during the period             | 775,689              | 775,689               | –                     | 775,689               | (104,322)                                                    | (104,322)               |
| Balance at the end of the current period             | 2,481,621            | 2,213,371             | 55,709                | 2,269,081             | 1,316,530                                                    | 1,316,530               |

(Continued)

## TRANSLATION

(Thousands of yen)

|                                                      | Shareholders' equity |                            | Valuation and translation adjustments                 |                                   |                                             | Subscription rights to shares | Total net assets |
|------------------------------------------------------|----------------------|----------------------------|-------------------------------------------------------|-----------------------------------|---------------------------------------------|-------------------------------|------------------|
|                                                      | Treasury stock       | Total shareholders' equity | Valuation difference on available-for-sale securities | Deferred gains (losses) on hedges | Total valuation and translation adjustments |                               |                  |
| Balance at the beginning of the current period       | (26)                 | 4,620,150                  | 298,327                                               | (3,942)                           | 294,384                                     | 272,920                       | 5,187,455        |
| Changes in items during the period                   |                      |                            |                                                       |                                   |                                             |                               |                  |
| Issuance of new shares                               |                      | 1,551,379                  |                                                       |                                   |                                             |                               | 1,551,379        |
| Dividends from retained earnings                     |                      | (107,252)                  |                                                       |                                   |                                             |                               | (107,252)        |
| Net income                                           |                      | 2,929                      |                                                       |                                   |                                             |                               | 2,929            |
| Net changes in items other than shareholders' equity |                      |                            | (25,768)                                              | 3,942                             | (21,825)                                    | (64,359)                      | (86,185)         |
| Total changes in items during the period             | –                    | 1,447,057                  | (25,768)                                              | 3,942                             | (21,825)                                    | (64,359)                      | 1,360,871        |
| Balance at the end of the current period             | (26)                 | 6,067,207                  | 272,559                                               | –                                 | 272,559                                     | 208,560                       | 6,548,327        |

(Note) Amounts are rounded down to the nearest thousand yen.

(Concluded)

## TRANSLATION

### Audit Report on the Consolidated Financial Statements

(TRANSLATION)

#### INDEPENDENT AUDITOR'S REPORT

June 13, 2017

To the Board of Directors of FRONTEO, Inc.:

Ernst & Young ShinNihon LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Ryo Kayama

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Takuya Tanaka

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2017, of FRONTEO, Inc. (the "Company") and its consolidated subsidiaries, and the related consolidated statement of operations and changes in net assets for the fiscal year from April 1, 2016, to March 31, 2017, and the related notes.

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

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects,

## TRANSLATION

the financial position of FRONTEO, Inc. and its consolidated subsidiaries as of March 31, 2017, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in Japan.

### Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.



## TRANSLATION

### Audit Report on the Nonconsolidated Financial Statements

(TRANSLATION)

#### INDEPENDENT AUDITOR'S REPORT

June 13, 2017

To the Board of Directors of FRONTEO, Inc.:

Ernst & Young ShinNihon LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Ryo Kayama

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Takuya Tanaka

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the nonconsolidated financial statements, namely the balance sheet as of March 31, 2017, of FRONTEO, Inc. (the "Company"), and the related nonconsolidated statements of income and changes in net assets for the 14<sup>th</sup> fiscal year from April 1, 2016, to March 31, 2017, and the related notes and the accompanying supplemental schedules.

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

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on these nonconsolidated financial statements and the accompanying supplemental schedules 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 nonconsolidated financial statements and the accompanying supplemental schedules are free from material misstatement.

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

## TRANSLATION

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

### Audit Opinion

In our opinion, the nonconsolidated financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of FRONTEO, Inc., as of March 31, 2017, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

### Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

**Audit Report of the Board of Audit and Supervisory Board Members**

(TRANSLATION)

**AUDIT REPORT**

With respect to the directors' performance of their duties during the 12th business year from April 1, 2016, to March 31, 2017, the Board of Audit and Supervisory Board Members has prepared this audit report after deliberations, as the unanimous opinion of all Audit and Supervisory Board Members, based on the audit reports prepared by each Audit and Supervisory Board Member, and hereby report as follows:

**1. Method and Contents of Audit by the Audit and Supervisory Board Members and the Board of Audit and Supervisory Board Members**

- (1) The Audit and Supervisory Board has established the audit policies in this fiscal year, audit plan, etc., and received a report from each Audit and Supervisory Board Member regarding the status of implementation of their audits and results thereof. In addition, the Audit and Supervisory Board has received reports from the directors, etc., and the accounting auditor regarding the status of performance of their duties, and requested explanations as necessary.
- (2) In conformity with the auditing standards of Audit and Supervisory Board Members established by the Audit and Supervisory Board, and in accordance with the audit policies in this fiscal year and audit plan, etc., each Audit and Supervisory Board Member endeavored to facilitate a mutual understanding with the directors, the internal audit group, and other employees, etc.; endeavored to collect information and maintain and improve the audit environment; and performed the audit by the methods below:
  - 1) Each Audit and Supervisory Board Member has attended the meetings of the Board of Directors and other important meetings; received reports on the status of performance of duties from the directors and internal audit group and requested explanations as necessary; examined important approval/decision documents; and inspected the status of the corporate affairs and assets at the head office and major subsidiaries; communicated and exchanged information with the directors and the Audit and Supervisory Board Members of subsidiaries; and received reports from subsidiaries, as necessary.
  - 2) Each Audit and Supervisory Board Member monitored and inspected the status of (i) the contents of the Board of Directors' resolutions regarding the development and maintenance of a system to ensure that the directors' performance of their duties stated in the business report complied with all laws, regulations, and the articles of incorporation of the company and other systems that are set forth in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act of Japan as being necessary for ensuring the appropriateness of the corporate affairs of a joint stock company (kabushiki kaisha) and the corporate group consisting of its subsidiaries, and (ii) the systems (internal control systems) based on such resolutions.
  - 3) Each Audit and Supervisory Board Member monitored and verified whether the accounting auditor maintained its independence and properly conducted its audit, received a report from the accounting auditor on the status of its performance of duties, and requested explanations as necessary. Each Audit and Supervisory Board Member was notified by the accounting auditor that it had established a "system to ensure that the performance of the duties of the accounting auditor was properly conducted" (the matters listed in the items of Article 131 of the Company Accounting Regulations) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council on October 28, 2005), and requested explanations as necessary.

Based on the above-described methods, each Audit and Supervisory Board Member examined the business report and the annexed specifications thereto, accounting documents (nonconsolidated balance sheet, nonconsolidated statement of income, nonconsolidated statement of changes in net assets, and schedule of individual notes) and the annexed specifications thereto, as well as the consolidated accounting documents

## TRANSLATION

(consolidated balance sheet, consolidated statement of operations, consolidated statement of changes in net assets, and schedule of consolidated notes), for the business year under consideration.

### 2. Results of Audit

#### (1) Results of Audit of Business Report, etc.

- 1) We acknowledge that the business report and the annexed specifications thereto fairly present the status of the Company in conformity with the applicable laws and regulations and the Articles of Incorporation of the Company.
- 2) We acknowledge that no misconduct or material fact constituting a violation of any law or regulation or the Articles of Incorporation of the Company was found with respect to the directors' performance of their duties.
- 3) We acknowledge that the Board of Directors' resolutions with respect to the internal control systems are appropriate. We did not find any matter to be mentioned with respect to the directors' performance of their duties concerning the internal control systems.

#### (2) Results of Audit of Accounting Documents and their Annexed Specifications

We acknowledge that the methods and results of audit performed by the accounting auditor, Ernst & Young ShinNihon LLC, are appropriate.

#### (3) Results of Audit of Consolidated Accounting Documents

We acknowledge that the methods and results of audit performed by the accounting auditor, Ernst & Young ShinNihon LLC, are appropriate.

June 14, 2017

Audit and Supervisory Board Members of FRONTEO, Inc.

Standing Auditor and Supervisory Board Member

(Outside Audit and Supervisory Board Member): Kunihiro Sudo (seal)

Auditor and Supervisory Board Member

(Outside Audit and Supervisory Board Member): Takaharu Yasumoto (seal)

Auditor and Supervisory Board Member

(Outside Audit and Supervisory Board Member): Kei Okubo (seal)

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

## TRANSLATION

### Reference Documents for the Ordinary General Meeting for Shareholders

#### Agenda of the meeting and reference matters:

#### Item 1 Election of One (1) Substitute Audit and Supervisory Board Member

The appointment of Mr. Akira Suzuki as a substitute Audit and Supervisory Board Member, which was resolved at the 13th Ordinary General Meeting of Shareholders held on June 29, 2016, will become invalid at the commencement of this meeting of shareholders, and accordingly, this proposal recommends election of one (1) substitute Audit and Supervisory Board Member in preparation for the shortage of the number of Audit and Supervisory Board Members stipulated in laws and ordinances.

The consent of Board of Audit and Supervisory Board Members has been given to this proposal.

The candidate for the position of substitute Audit and Supervisory Board Member is as follows:

| Name<br>(Date of Birth)                       | Career summary and position in the Company<br>(important concurrent positions at other organizations) |                                                                                         | Number of the Company's<br>shares held by candidate<br>(As of March, 31, 2017) |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| Akira Suzuki<br>(Born on January<br>27, 1937) | April 1962                                                                                            | Joined Victor Company of Japan, Limited<br>(currently JVC KENWOOD Corporation)          | 0                                                                              |
|                                               | January 1986                                                                                          | Assistant Head of Corporate Planning Office,<br>Victor Company of Japan, Limited        |                                                                                |
|                                               | October 1990                                                                                          | Assistant Head of System Development Office,<br>Victor Company of Japan, Limited        |                                                                                |
|                                               | September 2000                                                                                        | Joined International Information Science<br>Laboratory, Inc. as Head of General Affairs |                                                                                |
|                                               | February 2007                                                                                         | Full-time Audit and Supervisory Board<br>Member, the Company                            |                                                                                |
|                                               | April 2011                                                                                            | Advisor, the Company (current)                                                          |                                                                                |

- (Notes) 1. There is no special interest between the candidate for substitute Audit and Supervisory Board Member and the Company.
2. Reasons for nomination as a candidate for substitute Audit and Supervisory Board Member
- Mr. Akira Suzuki has a wealth of knowledge about general affairs, accounting, and business management and considerable expertise in finance and accounting. In line with the aim of promoting sustainable business management and increasing corporate

## TRANSLATION

value of the Company, he is expected to apply his experience over long years and extensive knowledge to auditing of the Company and thus his election is proposed.

### **Item 2 Issuance of Subscription Rights to Shares as Stock Options**

This is a proposal, in accordance with Articles 236, 238 and 239 of the Companies Act of Japan, to approve the delegation of authority over the determination of the subscription requirements of subscription rights to shares to be issued as stock options to Directors, Audit and Supervisory Board Members, Corporate Officers (*Shikko Yakuin*), and employees of the Company, and Directors and employees of the Company's subsidiaries to the Board of Directors of the Company.

In addition, since the gratis issuance of subscription rights to shares to Directors or Audit and Supervisory Board Members of the Company falls under their remunerations, etc. that are not monetary, and thus its amount is not fixed, it is also a proposal to approve the specific method for calculating the amount and their specific contents.

As for the amount of remunerations for Directors and Audit and Supervisory Board Members of the Company, the 9th Ordinary General Meeting of Shareholders held on June 22, 2012 approved that Directors' annual remuneration amount shall be not more than JPY 350,000,000 (excluding salaries received as employees), and the Extraordinary General Meeting of Shareholders held on February 6, 2007 approved that Audit and Supervisory Board Members' annual remuneration amount shall be not more than JPY 80,000,000, however, this proposal recommends approval for a separate category of remunerations for Directors and Audit and Supervisory Board Members.

#### Notes

#### 1. Reasons for issuance of subscription rights to shares with particularly favorable conditions

The purpose is to further enhance the rights holders' motivation or morale to contribute to the Company's performance on a consolidated basis, further promote business aiming to increase stock value and thereby make contributions to improve the Company's performance as well as to raise Audit and Supervisory Board Members' awareness of appropriate audit procedures.

#### 2. Details of issuance of subscription rights to shares (the "Share Options")

##### (1) Persons entitled to the allotment of the Share Options

## TRANSLATION

Directors, Audit and Supervisory Board Members, Corporate Officers (*Shikko Yakuin*), and employees of the Company, and Directors and employees of the Company's subsidiaries

### (2) Class and number of shares covered by the Share Options

Up to 200,000 common shares of the Company.

Out of such number, up to 100,000 common shares for Directors of the Company (including 30,000 for Outside Directors), and up to 30,000 common shares for Audit and Supervisory Board Members of the Company.

In case of adjustment set forth below, the above number shall be revised to the number of granted shares after adjustment multiplied by the total number of Share Options.

Number of shares covered by one (1) Share Option (the "Number of Granted Shares") shall be 100 common shares. In the event of a stock split (including a gratis allotment of common stock and this being applicable hereinafter, as well) or a reverse split by the Company after the day when the Share Options are allotted (the "Date of Allotment"), the following formula shall be used to adjust the Number of Granted Shares covered by the Share Options that have not been exercised at the time of adjustment. Fractional shares resulting from adjustment shall be discarded.

Number of Granted Shares after adjustment = Number of Granted Shares before adjustment × ratio of split or reverse split

Any adjustment of the Number of Granted Shares which may be required in other situations shall be made to a reasonable extent.

### (3) Total number of Share Options

Up to 2,000.

Out of such number, up to 1,000 Share Options for Directors of the Company (including 300 for Outside Directors), and up to 300 Share Options for Audit and Supervisory Board Members of the Company.

### (4) Amount payable in exchange of the Share Options

No payment is required in exchange of the Share Options

### (5) Manner of calculating the value of assets contributed in exercising the Share Options

## TRANSLATION

Value of assets contributed in exercising one (1) Share Option shall be obtained by multiplying the amount paid per share for the shares delivered upon exercise of the Share Option (the “Exercise Price”) by the Number of Granted Shares.

The Exercise Price shall be as follows:

The Exercise Price is the amount obtained by multiplying by 1.05 the average of the closing prices of the Company’s common share on the Tokyo Stock Exchange on all trading days (excluding days where no trades were made) of the month preceding the month in which the Date of Allotment falls, and fractional yen resulting from said calculation shall be rounded up to the nearest yen; provided, however, that if that amount is less than the closing price of the Company’s common share on the Tokyo Stock Exchange on the Date of Allotment (or on the most recent day a trade was made if no trade was made on the Date of Allotment), then said closing price shall be the Exercise Price. If any of the following events occurs on or after the Date of Allotment, the Exercise Price shall be adjusted as follows.

- (i) For the share split or reverse split by the Company, the Exercise Price shall be adjusted in accordance with the formula stated below and fractional yen resulting from the adjustment shall be rounded up to the nearest yen.

$$\begin{array}{ccccccc} \text{Exercise Price after} & & \text{Exercise Price before} & & & & 1 \\ \text{adjustment} & = & \text{adjustment} & \times & \frac{}{\text{ratio of share split or reverse split}} \end{array}$$

- (ii) If the Company issues new shares at a price below the market price or dispose of the treasury stock, the Exercise Price shall be adjusted in accordance with the formula stated below and fractional yen resulting from the adjustment shall be rounded up to the nearest yen.

$$\begin{array}{ccccccc} \text{Exercise} & & \text{Exercise} & & \text{number of} & + & \text{number of newly} & & \text{amount paid per} \\ \text{Price after} & = & \text{Price before} & \times & \text{issued} & & \text{issued shares} & \times & \text{share} \\ \text{adjustment} & & \text{adjustment} & & \text{shares} & & & & \\ & & & & \frac{}{\text{number of issued shares + number of newly issued shares}} & & \frac{\text{market price}}{} & & \end{array}$$

In the above formula, the “number of issued shares” means the total number of shares issued by the Company less the number of treasury stock in the possession of the Company. In case of the disposition of treasury stock, the “number of newly issued shares” shall read “number of treasury stock disposed of.”

- (iii) In case of merger or company split of the Company or other inevitable situations which require the adjustment of the Exercise Price, the adjustment shall be made to a reasonable extent taking into account the conditions of merger or company split, etc.

## (6) Period during which the Share Options can be exercised



## TRANSLATION

Three (3) years from the date on which three (3) years have elapsed from the date following the Date of Allotment.

### (7) Conditions to exercise the Share Options

- (i) To exercise the Share Options, the person to whom they are allotted (the “Share Option Holder”) must meet the following requirements: (i) the person has continuously been either a Director (including Officer in the U.S.), Audit and Supervisory Board Member, Corporate Officer (*Shikko Yakuin*) or employee (including those who became temporary employees by re-employment rules) of the Company or its subsidiaries for at least three (3) years before the time of exercising the option, and at the same time, (ii) the person is either a Director (including Officer in the U.S.), Audit and Supervisory Board Member, Corporate Officer (*Shikko Yakuin*) or employee (including those who became temporary employees by re-employment rules) of the Company or its subsidiaries at the time of exercising the option. However, if such person does not meet requirement (ii) at the time of exercising the option because of resignation due to expiry of term of office, retirement by age limit or other reasons that are justified by the Board of Directors, within 90 days after losing such positions, the person can exercise the option by meeting requirement (i) only.
- (ii) No Share Option shall be inherited.
- (iii) No Share Option shall be partially exercised.
- (iv) All other conditions shall be as set forth in the “Agreement for Share Options Allotment” to be entered into between the Company and the Share Option Holder pursuant to the relevant resolution of the Board of Directors of the Company.

### (8) Reasons and conditions for acquisition of the Share Options

In the event that a proposal to approve a merger agreement where the Company is to be extinguished is approved at the General Meeting of Shareholders of the Company, or that a proposal to approve a stock swap agreement or a proposal to approve a stock transfer plan where the Company is to be wholly owned is approved at the General Meeting of Shareholders of the Company (or, if a resolution of the General Meeting of Shareholders is not required, is resolved by the Board of Directors of the Company), the Company may acquire the Share Options at free on the day separately designated by the Board of Directors.

### (9) Restriction on acquisition of the Share Options by assignment

Acquisition of the Share Options by assignment shall require an approval of the Board of Directors of the Company.

## TRANSLATION

### (10) Conditions for the capital and capital reserve increase by issuance of shares upon exercise of the Share Options

- (i) Amount of capital increase when the shares are issued upon exercise of the Share Options shall be one half of the maximum capital increase calculated in accordance with Article 17, Paragraph 1 of the Ordinance on Company Accounting and fractional yen resulting from the calculation shall be rounded up to the nearest yen.
- (ii) Amount of capital reserve increase when the shares are issued upon exercise of the Share Options shall be the maximum capital increase referred to in the item (i) above less the amount of capital increase obtained under the item (i) above.

### (11) Handling of the Share Options in case of corporate reorganization

In the event of a merger (limited to the cases where the Company is to be extinguished due to such merger), absorption-type company split or incorporation-type company split (limited to the cases where the Company is to be split in the both types of company split), or stock swap or stock transfer (limited to the cases where the Company is to be a wholly-owned subsidiary in the stock swap or stock transfer) (collectively, the “Corporate Reorganization”), the Company shall deliver the share options of a stock company prescribed in Article 236, Paragraph 1, Item 8, (a) to (e) of the Companies Act of Japan (the “Reorganized Company”), in each case, to the Share Option Holder who has the Share Options remaining (the “Remaining Share Options”) immediately prior to the day when the Corporate Reorganization comes into effect (that is, for an absorption-type merger, the day when the absorption-type merger comes into effect; for a consolidation-type merger, the day when a stock company is incorporated through the consolidation-type merger; for an absorption-type company split, the day when the absorption-type company split comes into effect; for an incorporation-type company split, the day when a stock company is incorporated through the incorporation-type company split; for a stock swap, the day when the stock swap comes into effect; and for a stock transfer, the day when a wholly owning parent company is incorporated through stock transfer, and these being applicable hereinafter, as well). In this case, the Remaining Share Options shall be extinguished and the Reorganized Company shall newly issue the Share Options, provided that the absorption-type merger agreement, consolidation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, stock swap agreement or stock transfer plan shall contain the statement that the Reorganized Company will deliver the Share Options in accordance with the provisions of following items.

- (i) Number of Share Options of the Reorganized Company to be delivered

## TRANSLATION

The same number as the Remaining Share Options in the possession of the Share Option Holder shall be delivered in each case.

(ii) Class of shares of the Reorganized Company covered by the Share Options

Common shares of the Reorganized Company

(iii) Number of shares of the Reorganized Company covered by the Share Options

They shall be determined in accordance with the above “(2) Class and number of shares covered by the Share Options” taking into account the conditions, etc. of the Corporate Reorganization.

(iv) Manner of calculating the value of assets contributed in exercising the Share Options

Value of assets contributed in exercising one (1) Share Option to be delivered shall be obtained by multiplying the Exercise Price after adjustment prescribed in the item (5) (iii) above by the number of shares of the Reorganized Company covered by such Share Option, which shall be determined under the item (iii) above.

(v) Period during which the Share Options can be exercised

From the day when the above “(6) Period during which the Share Options can be exercised” commences or the day when the Corporate Reorganization comes into effect, whichever is the later, to the day when the above “(6) Period during which the Share Options can be exercised” expires.

(vi) Conditions for the capital and capital reserve increase by issuance of shares upon exercise of the Share Options

They shall be determined in accordance with the above “(10) Conditions for the capital and capital reserve increase by issuance of shares upon exercise of the Share Options.”

(vii) Restriction on acquisition of the Share Options by assignment

Acquisition of the Share Options by assignment shall require an approval of the Board of Directors of the Reorganized Company.

(viii) Reasons and conditions for acquisition of the Share Options

They shall be determined in accordance with the above “(8) Reasons and conditions for acquisition of the Share Options.”

(12) Handling of fractional shares in the shares delivered upon exercise of the Share Options

Fractional shares in the shares delivered upon exercise of the Share Options shall be discarded.

3. The specific method for calculating the amount of remunerations, etc. for Directors and Audit and Supervisory Board Members

## TRANSLATION

The amount for remunerations, etc. for Directors and Audit and Supervisory Board Members of the Company with respect to the Share Options shall be determined by multiplying the fair value of one (1) Share Option, calculated on the Date of Allotment, by the total number of the Share Options allotted to Directors and Audit and Supervisory Board Members incumbent on the Date of Allotment (up to 1,000 for Directors (including 300 for Outside Directors), and up to 300 for Audit and Supervisory Board Members). The fair value of one (1) Share Option shall be calculated using the Black-Scholes model based on various conditions on the Date of Allotment including stock price of the Company and the Exercise Price. At present, the Company has five (5) Directors (including two (2) Outside Directors) and three (3) Audit and Supervisory Board Members.

End

## TRANSLATION

### Procedures for Exercising Voting Rights via the Internet

When you exercise your voting rights via the Internet, please read through the following procedures.

If you attend the general meeting of shareholders in person, you do not need to vote by mail or via the Internet.

#### 1. Website for voting

- (1) Voting via the Internet is available only by accessing the Company's designated voting website (<http://www.evot.jp/>) from a PC, a smartphone or a mobile phone (i-mode, EZweb or Yahoo! Keitai)\*. However, please note that you cannot vote via the Internet on the designated website between 2:00 a.m. and 5:00 a.m.

\* i-mode, EZweb and Yahoo! are trademarks or registered trademarks of NTT DOCOMO, INC., KDDI CORPORATION and Yahoo! Inc. in the United States, respectively.

- (2) Please note that you may not be able to vote via PC or smartphone on the designated voting website when your Internet settings have, for example, a firewall or similar functions in place to regulate your Internet connection, when anti-virus software has been installed on your PC, when a proxy server is used to access the Internet or when Transport Layer Security (TLS) encrypted communication was not specified.
- (3) When exercising your voting rights via mobile phone, please use one of the following services: i-mode, EZweb or Yahoo! *Keitai* (mobile phone). For security reasons, you are not allowed to vote using mobile devices that cannot send TLS encrypted messages or terminal ID information.
- (4) The Company will accept votes via the Internet received by 6 p.m. on Wednesday, June 28, 2017; however, you are advised to vote earlier. Please contact the Help Desk described below for any questions or inquiries.

#### 2. How to vote via the Internet

- (1) Access the website and use the "login ID" and "temporary password" stated on the Voting Form, and enter your approval or disapproval on each of the proposals by following the instructions on the site.
- (2) Please note that, in order to prevent unauthorized access to the designated website by third parties other than the shareholders (persons impersonating shareholders) and the alteration of votes, we will request the shareholders who use the site to change their "temporary password" to a permanent password on the designated voting website.
- (3) We will provide you a new "login ID" and "temporary password" each time a general meeting of shareholders is convened.

#### 3. Handling of multiple voting

- (1) If you have exercised your voting rights both by mail and via the Internet, the vote via the Internet shall prevail.
- (2) If you have exercised your voting rights more than once via the Internet, the last vote shall prevail. If you vote multiple times using different devices, such as a PC, a smartphone and a mobile phone, the last vote shall prevail.

## TRANSLATION

### 4. Charges associated with accessing the voting website

Any charges associated with accessing the voting website (e.g., internet connection fees) are to be borne by the shareholders. When voting via smartphone or mobile phone, packet communication fees and other mobile phone charges incurred in the use of a smartphone or a mobile phone are also to be borne by the shareholders.

For further assistance regarding voting via the Internet, please contact:  
Securities Agency Department (Help Desk)  
Mitsubishi UFJ Trust and Banking Corporation  
Phone: 0120-173-027 (9:00 a.m. to 9:00 p.m. (Japan Time);  
toll free only within Japan)

## TRANSLATION

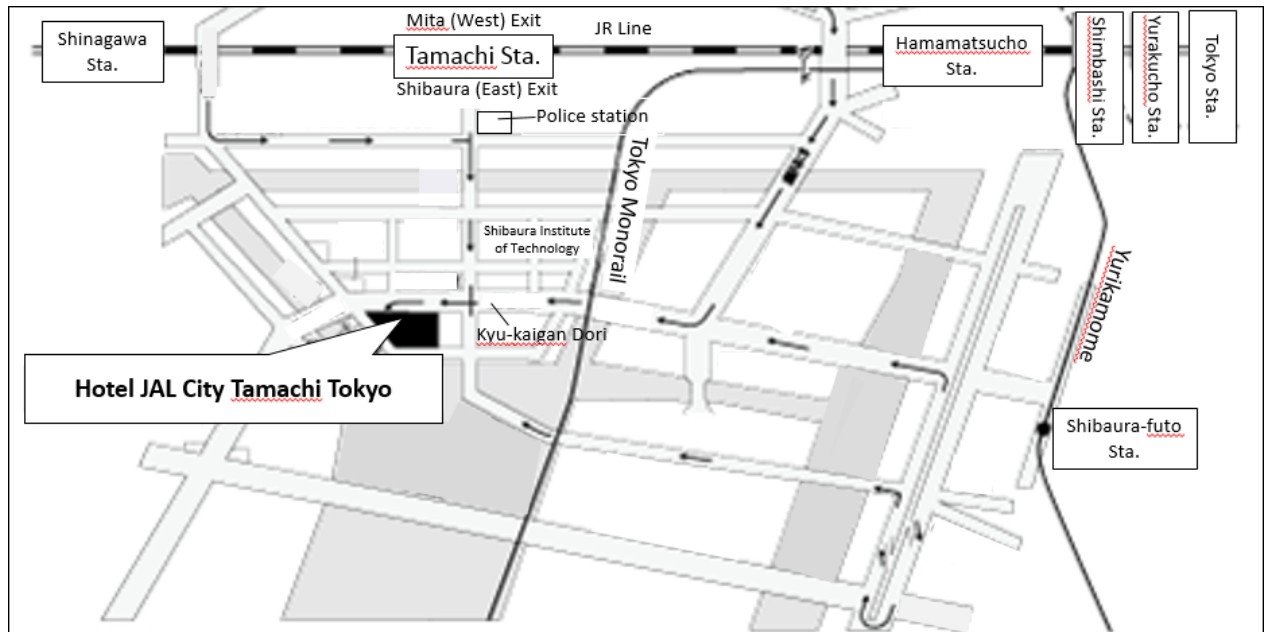
### Maps and Directions to the Venue of the General Meeting of Shareholders

3-16-18, Shibaura, Minato-ku, Tokyo 108-0023

Phone 03 (5444) 0202

Hotel JAL City Tamachi Tokyo, B1 Floor, *Houou*

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How to get to the venue:

● JR line

Tamachi Station, Shibaura Exit (East Exit); five minutes on foot

\*Please kindly refrain from coming to the venue by car.