

(Company Code: 2158)

June 2, 2014

To Our shareholders

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

UBIC, Inc.

Masahiro Morimoto, Chief Executive Officer

## **CONVOCATION NOTICE OF THE 11<sup>th</sup> GENERAL MEETING OF SHAREHOLDERS**

UBIC, Inc. (the “Company”), would like to extend our deepest appreciation for the support of our shareholders. You are cordially invited to attend the 11<sup>th</sup> General Meeting of Shareholders of UBI, 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 June 23, 2014, Monday at 6:00 PM (Japan Time), after examining the attached reference documents.

### **[Voting by mail]**

When you exercise your voting rights by mail, please indicate your approval or disapproval on 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 and use the “temporary password” stated on the enclosed Voting Form, and enter your approval or disapproval on each of the proposals following instructions on the site.

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When you attend the meeting, please submit the enclosed Voting Form at the reception desk on arrival at the meeting.

If the Reference Documents for Annual General Meeting of Shareholders, and Business Report, Non-consolidated Financial Statements, and Consolidated Financial Statements, are revised, the revision shall be posted on the Company’s website (<http://www.ubic.co.jp/>).

1. **Date/Time** June 24, 2014, Tuesday at 10:00 AM
2. **Venue** Hotel Azur Takeshiba, 14th Floor, Tenpyo  
11-2, Kaigan 1-chome, Minato-ku, Tokyo

3. **Meeting agenda**

**Items to be reported:**

1. Details of 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, 2014.
2. Details of the Nonconsolidated Financial Statements for the fiscal year ended March 31, 2014.

**Items to be resolved:**

- |                                |                                                            |
|--------------------------------|------------------------------------------------------------|
| <b>1<sup>st</sup> Proposal</b> | Partial Amendments to the Articles of Incorporation        |
| <b>2<sup>nd</sup> Proposal</b> | Election of Four (4) Directors                             |
| <b>3<sup>rd</sup> Proposal</b> | Election of Two (2) Statutory Auditors                     |
| <b>4<sup>th</sup> Proposal</b> | Election of One (1) Substitute Statutory Auditor           |
| <b>5<sup>th</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 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, the vote via the Internet shall prevail.

(Documents submitted)

## **Business Report**

( From April 1, 2013  
to March 31, 2014 )

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

#### **(1) Business conditions during the fiscal year ended March 31, 2014**

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

In the year ended March 31, 2014, widening disparity was seen in the global economy, the economies of the United States and Europe grew due to a loosening of budgetary constraints, and the economic growth in emerging countries decelerated as a result of stringent monetary conditions. Although the Japanese yen has remained consistently weak under the economic policy of the Abe administration and the Bank of Japan's monetary policy, the outlook of the Japanese economy still remains uncertain due to adverse effects of the consumption tax hike in April 2014.

The market environment of "eDiscovery" (evidence discovery), the main service line of UBIC group (the "Group"), showed steady growth in Japan, Korea, and Taiwan, where global enterprises have been involved in litigation in the United States in various areas, including patents, intellectual property, product safety, price cartels, and foreign corrupt practices. In addition, those enterprises are required to manage volumes of electronic data that are larger than ever. On the other hand, discovery-related costs for Asian enterprises tend to remain higher compared with those for the U.S. and European enterprises. One of the major reasons is that Asian enterprises are significantly influenced by U.S. law firms in selecting a discovery vendor. Hence, in many cases, our Group is precluded from the vendor selection process despite our competence in quality, cost benefit, and data security. To break through this barrier, the Group was listed on the National Association of Securities Dealers Automated Quotation (NASDAQ) Global Market on May 16, 2013, the first Japanese company to do so in 14 years, increasing our credibility and brand image in the United States, and was upgraded to the NASDAQ Global Select Market seven months later. Since the listing ceremony on the NASDAQ in August 2013, the Group has gained recognition as a leading company in the "information analysis industry" with increasing exposure through TV programs, major newspapers, magazines, and other media in Japan. For two years in a row, the Group has participated in LegalTech New York, one of the world's largest legal technology exhibitions, as the only Japanese company, where the Group has introduced the new functionalities of "Lit i View." All such activities and efforts contributed to increased visibility and recognition for the Group by many customers and law firms as a highly acclaimed company with technological competence. However, such increased visibility did not contribute to a significant increase in revenue and profit in the year ended March 31, 2014. Thus, to overcome this challenge, the Group will pursue full-scale marketing activities in the years to come.

Meanwhile, the Group advocated the unique concept of "Behavior Informatics," which was built on experiences and achievements through the litigation support business since the founding of the Group, and

successfully developed a “Virtual Data Scientist” equipped with an artificial intelligence featuring human behavior patterns. In April 2014, the Group launched a new service called “Lit i View EMAIL AUDITOR” (hereinafter referred to as “EMAIL AUDITOR”), which is a new email audit product utilizing artificial intelligence technology. With the Group’s unique technology “Behavior Informatics,” the Group started exploring and building up results in various fields in addition to the fields of litigation and forensics.

The number of document reviews utilizing our “predictive coding,” a computer technology developed in 2013 that makes automated decisions based on human behavior study, increased from the previous year. The technology was positively evaluated by Asian enterprises and law firms not only for its proven Asian language analytical capabilities but also for its outstanding processing speed and cost efficiency. At the same time, in order to further enhance efficiency, the Group merged outside review centers with the new “Discovery Operations Center,” renovated exclusively for eDiscovery within the Group’s headquarters. Designed and equipped to be accessible by any location around the world (Tokyo, Redwood City, New York, Seoul, and Taipei) on a real-time, 24/7 basis, the Discovery Operations Center is capable of providing high-speed services and the highest standard of quality.

As a result, net sales for the year ended March 31, 2014, were 4,171 million yen, a 10.8% decrease from the previous year. The Group recorded an operating loss of 598 million yen, ordinary loss of 629 million yen, and net loss of 604 million yen for the year then ended. The results were mainly affected by a decrease in revenue in the eDiscovery businesses, the continued enhancement of the functionality of the Group’s internally developed “Lit i View,” expansion of its data center facilities, and investments in the Group’s infrastructure to acquire large-scale orders.

The following table shows net sales by each segment.

| Segment                                    |                                        | Net sales<br>(Thousand yen) | Net sales<br>(%) |
|--------------------------------------------|----------------------------------------|-----------------------------|------------------|
| eDiscovery                                 | eDiscovery service                     | 1,625,433                   | 39.0             |
|                                            | eDiscovery solution                    | 2,144,440                   | 51.4             |
| Legal and compliance professional services | Compliance support                     | 8,705                       | 0.2              |
|                                            | Forensic service                       | 240,843                     | 5.8              |
|                                            | Forensic tool distribution and support | 62,576                      | 1.5              |
|                                            | Forensic training service              | 28,934                      | 0.7              |
| Other                                      |                                        | 60,683                      | 1.4              |
| Total                                      |                                        | 4,171,617                   | 100.0            |

## Capital expenditure

Capital expenditure for the fiscal year ended March 31, 2014, mainly consists of the following:

| Name of company | Details                | Investment amount<br>(Thousand yen) | Launching month |
|-----------------|------------------------|-------------------------------------|-----------------|
| UBIC, Inc.      | Lit i View version 6.5 | 64,605                              | April 2013      |
| UBIC, Inc.      | Lit i View version 6.6 | 87,199                              | July 2013       |
| UBIC, Inc.      | Lit i View version 6.7 | 83,586                              | October 2013    |
| UBIC, Inc.      | Lit i View version 7.0 | 72,917                              | January 2014    |

## 2) Financing

UBIC, Inc. (the “Company”) financed 984,730 thousand yen by issuing 8,800 shares of common stock through third-party allotment on May 31, 2013. The Company also raised 300,000 thousand yen in long-term loans payable for the fiscal year ended March 31, 2014.

## (2) Assets and profit

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

|                                      | 8 <sup>th</sup> Term           | 9 <sup>th</sup> Term           | 10 <sup>th</sup> Term          | 11 <sup>th</sup> Term          |
|--------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                                      | (Year ended<br>March 31, 2011) | (Year ended<br>March 31, 2012) | (Year ended<br>March 31, 2013) | (Year ended March<br>31, 2014) |
| Net sales<br>(Thousand yen)          | 2,704,831                      | 5,132,849                      | 4,679,630                      | 4,171,617                      |
| Net income (loss)<br>(Thousand yen)  | 729,988                        | 1,305,073                      | 500,448                        | (604,357)                      |
| Net income (loss) per share (in yen) | 30.94                          | 49.13                          | 15.84                          | (17.74)                        |
| Total assets<br>(Thousand yen)       | 2,316,811                      | 4,883,526                      | 4,755,970                      | 4,888,680                      |
| Net assets<br>(Thousand yen)         | 1,173,145                      | 2,655,319                      | 3,195,005                      | 3,533,169                      |
| Net assets per share (in yen)        | 44.28                          | 89.07                          | 96.35                          | 96.34                          |

- (Notes) 1. The Company effected two-for-one splits of its shares of common stock as of October 1, 2011, and April 1, 2012. For the purpose of calculating net income (loss) per share and net assets per share, these stock splits are assumed to have occurred at the beginning of the 8<sup>th</sup> term.
2. The Company effected ten-for-one splits 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, these stock splits are assumed to have occurred at the beginning of the 8<sup>th</sup> term.

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

|                                      | 8 <sup>th</sup> Term           | 9 <sup>th</sup> Term           | 10 <sup>th</sup> Term          | 11 <sup>th</sup> Term          |
|--------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
|                                      | (Year ended<br>March 31, 2011) | (Year ended<br>March 31, 2012) | (Year ended<br>March 31, 2013) | (Year ended March 31,<br>2014) |
| Net sales<br>(Thousand yen)          | 2,379,481                      | 4,620,054                      | 3,642,205                      | 2,665,496                      |
| Net income (loss)<br>(Thousand yen)  | 730,130                        | 1,272,170                      | 484,001                        | (603,333)                      |
| Net income (loss) per share (in yen) | 30.94                          | 47.90                          | 15.32                          | (17.71)                        |
| Total assets<br>(Thousand yen)       | 2,284,237                      | 4,753,693                      | 4,522,453                      | 4,756,257                      |
| Net assets<br>(Thousand yen)         | 1,168,013                      | 2,607,338                      | 3,100,525                      | 3,419,213                      |
| Net assets per share<br>(in yen)     | 44.35                          | 87.84                          | 93.91                          | 93.65                          |

- (Notes) 1. The Company effected two-for-one splits of its shares of common stock as of October 1, 2011, and April 1, 2012. For the purpose of calculating net income (loss) per share and net assets per share, these stock splits are assumed to have occurred at the beginning of the 8<sup>th</sup> term.
2. The Company effected ten-for-one splits 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, these stock splits are assumed to have occurred at the beginning of the 8<sup>th</sup> term.

## (3) Significant parent company and subsidiaries

### 1) Parent company

Not applicable.

### 2) Subsidiary

| Name of company              | Capital stock<br>(Thousand yen) | Percentage of<br>ownership | Main business                      |
|------------------------------|---------------------------------|----------------------------|------------------------------------|
| UBIC North America, Inc.     | 55,070                          | 100.00%                    | eDiscovery-related services        |
| Payment Card Forensics, Inc. | 10,000                          | 60.00%                     | Card forensics research services   |
| UBIC Risk Consulting         | 10,000                          | 80.00%                     | Forensics investigation services   |
| UBIC Korea, Inc.             | 49,330                          | 100.00%                    | eDiscovery-related services        |
| UBIC Taiwan, Inc.            | 49,517                          | 100.00%                    | eDiscovery-related services        |
| UBIC Patent Partners, Inc.   | 20,000                          | 100.00%                    | Patent management-related services |

**(4) Issues to be addressed**

Over the last 10 years, the Group has made steady progress in preparing for its growth and expansion. The Group is now poised to achieve sustained growth. The Group advocates a new concept called “Behavior Informatics” based on its experience, from which cutting-edge technologies are generated, including artificial intelligence techniques. The Group is taking further steps to leverage its new and existing technologies in new fields, such as the big data analysis business, as well as in the Group’s existing services such as litigation support and fraud investigation support. At the same time, the Group will continue to review and enhance its operational and management structure as it grows.

**1) Developing the Group’s operational structure for further growth and expansion**

In pursuing and accelerating its growth in the future, the Group will enhance its distribution capability by developing business partner alliances in addition to the Group’s own distribution structure.

The Group will also work to develop additional relationships with companies that have distribution channels to the U.S. law firms, enterprises located in the United States, and U.S. government agencies in order to accelerate market development in the United States in order to find new opportunities for business development and distribution.

As the Group moves into new business fields other than the legal technology field by leveraging the Group’s unique technologies, a new distribution channel for various information analysis businesses such as big data analysis business as well as further development of new business fields may become a major challenge for the Group.

The Group will work to develop more contracts with sales agents to expand the marketing of solution packaging products, including EMAIL AUDITOR and BIG DATA CASE MANAGER.

**2) Enhancing management structure**

One year has passed since the Group achieved its listing on the U.S. NASDAQ. The Group strives to establish a management structure that directly contributes to the Group’s performance growth not only by enhancing its internal control structure but also by improving management efficiency and optimizing the Group’s resources.

**3) Enhancing technology and product development**

As described earlier, “Behavior Informatics,” the unique technology developed by the Group, is a cutting-edge technology that can be flexibly applied not only to litigation support services and fraud investigation services but also to other business fields. The Group is striving to strengthen its structure to accelerate business development utilizing such technology and is pursuing research and development activities for further enhancement of the technology.

**(5) Major businesses** (As of March 31, 2014)

Our Group is composed of the Company and six consolidated subsidiaries and engages in legal technology services.

| Business                                           | Major products or services                                                                                                                                                                                                   |
|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| eDiscovery business                                | Discovery (evidence discovery) support service<br>Special audit support service<br>UBIC Legal Cloud service<br>Evidence discovery support software “Lit i View”                                                              |
| Legal and compliance professional service business | Compliance support<br>Support on building compliance system<br>Research service<br>Hardware for electronic evidence retention<br>Analysis software<br>Maintenance of forensic tools<br>Forensic investigator training course |
| Other businesses                                   | Various types of consulting services<br>Patent management services                                                                                                                                                           |

**(6) Principal offices** (As of March 31, 2014)

1) The Company

|               |                                                                      |
|---------------|----------------------------------------------------------------------|
| Headquarters  | Meisan Takahama Building 7F, 2-12-23, Kounan, Minato-ku, Tokyo       |
| Nagoya Branch | Nagoya Nikkoshoken Building 4F, 3-2-2, Sakae, Naka-ku, Nagoya, Aichi |
| Osaka Office  | Orix Honmachi Building 4F, 1-4-1, Nishi Honmachi, Osaka              |

2) Subsidiary (UBIC North America, Inc.)

|                                 |                                                            |
|---------------------------------|------------------------------------------------------------|
| Headquarters                    | 3 Lagoon Drive, Suite 180, Redwood City, CA 94065 USA      |
| Washington, D.C., Branch Office | 12020 Sunrise Valley Drive Suite 100, Reston, VA 20191 USA |
| New York City Branch Office     | 590 Fifth Avenue, 19th Floor, New York, NY 10036 USA       |
| Hong Kong Branch Office         | 9/F, CLI Building, 313 Hennessy Road, Wanchai, Hong Kong   |
| London Branch Office            | 1 Down Place, London W6 9JH, UK                            |



3) Subsidiary (Payment Card Forensics, Inc.)

|              |                                                                |
|--------------|----------------------------------------------------------------|
| Headquarters | Meisan Takahama Building 8F, 2-12-23, Kounan, Minato-ku, Tokyo |
|--------------|----------------------------------------------------------------|

4) Subsidiary (UBIC Risk Consulting)

|              |                                                                |
|--------------|----------------------------------------------------------------|
| Headquarters | Meisan Takahama Building 7F, 2-12-23, Kounan, Minato-ku, Tokyo |
|--------------|----------------------------------------------------------------|

5) Subsidiary (UBIC Korea, Inc.)

|              |                                                                                   |
|--------------|-----------------------------------------------------------------------------------|
| Headquarters | 7F Daebong Building, 238, Teheran-ro, Gangnam-gu, SEOUL, KOREA (South)<br>135-920 |
|--------------|-----------------------------------------------------------------------------------|

6) Subsidiary (UBIC Taiwan, Inc.)

|              |                                                                       |
|--------------|-----------------------------------------------------------------------|
| Headquarters | 8f-1, No. 80, Zhouzi St., Neihu Dist., Taipei City 114, Taiwan R.O.C. |
|--------------|-----------------------------------------------------------------------|

7) Subsidiary (UBIC Patent Partners Inc.)

|              |                                                                |
|--------------|----------------------------------------------------------------|
| Headquarters | Meisan Takahama Building 7F, 2-12-23, Kounan, Minato-ku, Tokyo |
|--------------|----------------------------------------------------------------|

**(7) Employees (As of March 31, 2014)**

**1) Employees of the Corporate Group**

| Number of employees | Change from the end of the previous fiscal year |
|---------------------|-------------------------------------------------|
| 160 (4)             | Increased by 11 (Decreased by 2)                |

(Note) The number of employees includes full-time employees, and the yearly average number of part-time and nonregular staff (excluding temp staff) is shown in the parentheses.

**2) Employees of the Company**

| Number of employees | Change from the end of the previous fiscal year | Average age | Average years of service |
|---------------------|-------------------------------------------------|-------------|--------------------------|
| 96 (1)              | Increased by 4<br>(Increased by 1)              | 35.0        | 1.8                      |

(Note) The number of employees includes full-time employees, and the yearly average number of part-time and nonregular staff (excluding temp staff) is shown in the parentheses.

**(8) Major borrowings (As of March 31, 2014)**

(Thousands of yen)

| Financial institutions                 | Balance of borrowings |
|----------------------------------------|-----------------------|
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 370,899               |
| The Bank of Yokohama, Ltd.             | 125,000               |
| Nippon Life Insurance Company          | 91,700                |
| Sumitomo Mitsui Banking Corp.          | 62,500                |
| Risona Bank, Ltd.                      | 62,500                |

**(9) Other significant matters concerning the Corporate Group**

Not applicable.

## 2. Company information

### (1) Stock information (As of March 31, 2014)

- 1) Total number of authorized shares: 7,200,000
- 2) Number of issued shares: 3,441,136
- 3) Number of shareholders: 8,093
- 4) Major shareholders (Top 10)

| Names of shareholders                                                                            | Number of shares | Percentage of shares (%) |
|--------------------------------------------------------------------------------------------------|------------------|--------------------------|
| Masahiro Morimoto                                                                                | 692,040          | 20.11                    |
| Focus Systems Corporation                                                                        | 298,472          | 8.67                     |
| Naritomo Ikeue                                                                                   | 272,240          | 7.91                     |
| Japan Trustee Services Bank, Ltd.<br>(Trust Account)                                             | 230,250          | 6.69                     |
| The Master Trust Bank of Japan, Ltd.<br>(Trust Account)                                          | 170,120          | 4.94                     |
| The Bank of New York Mellon Corporation as the depositary bank for<br>depositary receipt holders | 64,398           | 1.87                     |
| Junichi Hayashi                                                                                  | 60,000           | 1.74                     |
| The Chase Manhattan Bank, N.A. London SL Omnibus Account                                         | 60,000           | 1.74                     |
| Tadahiro Kanbayashi                                                                              | 42,980           | 1.24                     |
| Japan Securities Finance Co., Ltd.                                                               | 29,360           | 0.85                     |

(Note) Percentage of shares is calculated excluding treasury stock (63 shares).

## (2) Subscription rights to shares

- 1) Issuance of subscription rights to shares to the Company's executives as remuneration for performance of their duties (As of March 31, 2014)

|                                                                              |          |                                                                                       |        |
|------------------------------------------------------------------------------|----------|---------------------------------------------------------------------------------------|--------|
| Name of subscription rights                                                  |          | The fourth subscription rights to shares                                              |        |
| Resolution date for issuance                                                 |          | June 17, 2010                                                                         |        |
| Number of subscription rights                                                |          | 500                                                                                   |        |
| Class and number of shares for subscription rights                           |          | Common stock of the Company 20,000 shares<br>(40 shares for every subscription right) |        |
| 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 15,640 yen<br>(Value per share 391 yen)        |        |
| Exercise period                                                              |          | From June 18, 2013 to June 17, 2016                                                   |        |
| Conditions for exercise                                                      |          | (Note 1)                                                                              |        |
| Subscription rights held by executives (Note 2)                              | Director | Number of subscription rights                                                         | 500    |
|                                                                              |          | Number of shares for subscription rights                                              | 20,000 |
|                                                                              |          | Number of holders                                                                     | 1      |

|                                                                              |                    |                                                                                         |       |
|------------------------------------------------------------------------------|--------------------|-----------------------------------------------------------------------------------------|-------|
| Name of subscription rights                                                  |                    | The sixth subscription rights to shares                                                 |       |
| Resolution date for issuance                                                 |                    | June 1, 2012                                                                            |       |
| Number of subscription rights                                                |                    | 450                                                                                     |       |
| Class and number of shares for subscription rights                           |                    | Common stock of the Company 4,500<br>(10 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 8,096 yen)        |       |
| Exercise period                                                              |                    | From June 22, 2015 to June 21, 2018                                                     |       |
| Conditions for exercise                                                      |                    | (Note 1)                                                                                |       |
| Subscription rights held by executives (Note 3)                              | Outside Directors  | Number of subscription rights                                                           | 200   |
|                                                                              |                    | Number of shares for subscription rights                                                | 2,000 |
|                                                                              |                    | Number of holders                                                                       | 2     |
|                                                                              | Statutory Auditors | Number of subscription rights                                                           | 250   |
|                                                                              |                    | Number of shares for subscription rights                                                | 2,500 |
|                                                                              |                    | Number of holders                                                                       | 3     |

(Notes) 1) A person to whom the subscription rights to shares have been allotted (hereinafter referred to as "holder") must be a Director, Statutory Auditor, 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 outside Directors and outside Statutory Auditors.
- 3 There is no applicable information for Directors, excluding outside Directors.

- 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, 2014 (As of March 31, 2014)

|                                                                              |                                              |                                                                                   |                          |
|------------------------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------------------------------|--------------------------|
| Name of subscription rights                                                  |                                              | The seventh subscription rights to shares                                         |                          |
| Resolution date for issuance                                                 |                                              | May 31, 2013                                                                      |                          |
| Number of subscription rights                                                |                                              | 2,690                                                                             |                          |
| Class and number of shares for subscription rights                           |                                              | Common stock of the Company<br>(10 shares for every subscription right to shares) | 26,900                   |
| 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<br>(Value per share                        | 46,840 yen<br>4,684 yen) |
| Exercise period                                                              |                                              | From June 1, 2016 to May 31, 2019                                                 |                          |
| Conditions for exercise                                                      |                                              | (Note 1)                                                                          |                          |
| Subscription rights held by executives and employees                         | Employees of the Company                     | Number of subscription rights                                                     | 1,420                    |
|                                                                              |                                              | Number of shares for subscription rights                                          | 14,200                   |
|                                                                              |                                              | Number of holders                                                                 | 18                       |
|                                                                              | Executives and employees of the subsidiaries | Number of subscription rights                                                     | 1,270                    |
|                                                                              |                                              | Number of shares for subscription rights                                          | 12,700                   |
|                                                                              |                                              | Number of holders                                                                 | 20                       |

- (Notes) 1) 1) A person to whom the subscription rights to shares have been allotted (hereinafter referred to as "holder") must be a Director, Statutory Auditor, 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) 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.

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

No applicable information.

### (3) Company executives

#### 1) Directors and Statutory Auditors of the Company (As of March 31, 2014)

| Position                                                      | Name              | Concurrent positions                                                                                                                                                            |
|---------------------------------------------------------------|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Chief Executive Officer and Chairman of the Board             | Masahiro Morimoto | Chairman and Chief Executive Officer of UBIC North America, Inc.                                                                                                                |
| Executive Vice-President Chief Operating Officer and Director | Naritomo Ikeue    |                                                                                                                                                                                 |
| Director                                                      | Makoto Funahashi  | Chief Executive Officer of The Institute of Security Technology<br>Director of Japan Image Analysis Association                                                                 |
| Director                                                      | Hirooki Kirisawa  | Chairman of KIRISAWA Tax Accountants Corporation<br>Statutory Auditor of Articell Systems Corporation<br>Chief Executive Officer of Management Farm K.K.                        |
| Statutory Auditor (Full-time)                                 | Kunihiro Sudo     |                                                                                                                                                                                 |
| Statutory Auditor                                             | Takaharu Yasumoto | President of Yasumoto CPA Office<br>Statutory Auditor of FAST RETAILING CO., LTD.<br>Statutory Auditor of LINK THEORY JAPAN CO., LTD.<br>Statutory Auditor of ASKUL Corporation |
| Statutory Auditor                                             | Kenzo Takai       | Representative of Takai Law Offices                                                                                                                                             |

- (Notes) 1. The following are registered with the Tokyo Stock Exchange as independent directors: Mr. Hirooki Kirisawa, Mr. Kunihiro Sudo, Mr. Takaharu Yasumoto, and Mr. Kenzo Takai.
2. Mr. Makoto Funahashi and Mr. Hirooki Kirisawa are outside Directors.
  3. Mr. Kunihiro Sudo, Mr. Takaharu Yasumoto, and Mr. Kenzo Takai are outside Statutory Auditors.
  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. Kenzo Takai is a registered attorney, and the Company believes that he has comprehensive knowledge in the area of law.

## 2) Compensation to Directors and Statutory Auditors

| Position          | Number of people | Total compensation<br>(thousands of yen) |
|-------------------|------------------|------------------------------------------|
| Director          | 4                | 96,372                                   |
| Statutory Auditor | 3                | 22,994                                   |
| Total             | 7                | 119,367                                  |

- (Notes) 1. Total compensation includes expenses for the subscription rights granted as stock options (2,122 thousand yen for Directors and 2,369 thousand yen for Statutory Auditors) for the fiscal year ended March 31, 2014.
2. 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).
3. Total compensation to Directors includes 12,895 thousand yen paid to two outside Directors.
4. The compensation for Statutory Auditors was authorized, by resolution of the special general meeting of shareholders on February 2, 2007, as within the annual amount of 80,000 thousand yen.
5. Total compensation to Statutory Auditors includes 22,994 thousand yen paid to the outside Statutory Auditors.

## 3) 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                                                                  |
| Outside Director          | Hirooki Kirisawa  | Chairman of KIRISAWA Tax Accountants Corporation<br>Statutory Auditor of Articell Systems Corporation<br>Chief Executive Officer of Management Farm KK                           |
| Outside Statutory Auditor | Takaharu Yasumoto | President of Yasumoto CPA Office<br>Statutory Auditor of FAST RETAILING CO., LTD.<br>Statutory Auditor of, LINK THEORY JAPAN CO., LTD.<br>Statutory Auditor of ASKUL Corporation |
| Outside Statutory Auditor | Kenzo Takai       | Representative of Takai Law Offices                                                                                                                                              |

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

## II. Activities during the fiscal year ended March 31, 2014

### • Meeting attendance

|                                       | Board of Directors' meeting<br>(held 22 times) |                 | Board of Statutory Auditors' meeting (held 16 times) |                  |
|---------------------------------------|------------------------------------------------|-----------------|------------------------------------------------------|------------------|
|                                       | Number of meetings attended                    | Attendance rate | Total number of meetings attended                    | Attendance rates |
| Makoto Funahashi (Director)           | 22                                             | 100%            | —                                                    | —                |
| Hirooki Kirisawa (Director)           | 22                                             | 100%            | —                                                    | —                |
| Kunihiro Sudo (Statutory Auditor)     | 22                                             | 100%            | 16                                                   | 100%             |
| Takaharu Yasumoto (Statutory Auditor) | 21                                             | 96%             | 16                                                   | 100%             |
| Kenzo Takai (Statutory Auditor)       | 21                                             | 96%             | 16                                                   | 100%             |

(Note) The following are registered with the Tokyo Stock Exchange as independent executives: Mr. Hirooki Kirisawa; Mr. Kunihiro Sudo, Mr. Takaharu Yasumoto, and Mr. Kenzo Takai.

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

## III. Outline of a limited liability contract

Pursuant to the provisions of the first paragraph of Article 427 of the Companies Act, the Company has executed a contract with each of the outside Directors and outside Statutory Auditors limiting their liabilities under the first paragraph of Article 423 of the Companies Act. The limit of indemnity liability pursuant to the contract shall be the minimum liability amount stipulated by the relevant laws and regulations.



**(4) Independent auditors**

1) Name: Ernst & Young ShinNihon LLC

2) Fees for professional services rendered during the fiscal year ended March 31, 2014:

|                                                                                                   | Fees paid<br>(thousands of yen) |
|---------------------------------------------------------------------------------------------------|---------------------------------|
| Audit fees                                                                                        | 66,000                          |
| Non-audit service fees                                                                            | 11,991                          |
| Total amount of money and other financial benefits to be paid by the Company and the subsidiaries | 77,991                          |

(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. Therefore, the total amount shows the aggregate audit fees for the fiscal year.

3) Non-audit services

The Company entrusts the independent auditors with auditing services under the Securities Exchange Act of 1934 in addition to those under the Companies Act and the Financial Instruments and Exchange Act. Further, services outside the scope of Article 2, Paragraph 1 of the Certified Public Accountants Act (i.e., non-audit services), including assistance work on IT General Controls, are provided by the independent auditors. Remuneration is paid to the independent auditors for the services.

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

The Board of Directors shall submit a proposal to the shareholders' meeting for dismissal or non-reappointment of the independent auditors when necessary (for example, when it is deemed difficult to conduct an audit appropriately), with the approval, or at the request, of the Board of Statutory Auditors.

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 Board of Statutory Auditors shall dismiss the independent auditors, subject to the consent of all Statutory Auditors. In such case, the Statutory Auditor elected by the Board of Statutory Auditors shall report such fact and the reason for the dismissal at the first shareholders' meeting convened after the dismissal.

5) 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 first paragraph of Article 426 of the Companies Act stipulates that independent auditors' liability claims to the Company may be exempted within the statutory limitations upon resolution by the Board of Directors

**(5) Systems for ensuring the propriety of operations**

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:

- 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 of their duties to the Board of Directors, and mutually monitor and supervise the execution of the duties of other Directors.
  - III. The Statutory Auditors audit the execution of duties by the Directors based on the "Board of Statutory Auditors 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 on electromagnetic media, and archived and managed in conformity with the "Document Management Rules."
  - II. The Directors and the Statutory Auditors may, at any time, inspect the record or electromagnetic medium 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.
- 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 deliberate matters to be discussed at the Board of Directors in advance.
  - 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. All the transactions among the group companies, as well as those between the Company and the group companies, are conducted to maximize the profit of each group company.
  - III. The directors instruct group companies regarding appropriate and efficient management according to their job specifications.
  - IV. The internal audit group also conducts internal audit on general operations within the group companies.
  - V. The Statutory Auditors also monitor and audit the operations within the group companies.
- 6) Systems for ensuring the effectiveness of the audit by the Statutory Auditors
- When the Statutory Auditors request employees to assist their duties, such request is accommodated for their appropriate operations.
- 7) Matters relating to the independence of the employees in the preceding paragraph from the directors
- When the employees concerned are put in place, their appointment, transfer, evaluation, and castigation are decided in accordance with the opinion of the Statutory Auditors, and the independence of the employees from the directors is secured.
- 8) Systems for directors and employees to report to Statutory Auditors
- In addition to the matters prescribed in applicable laws and regulations, Directors and employees must report the following to Statutory Auditors 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; and
  - IV. The status of reports under the whistleblower system.
- 9) Other systems for ensuring the effectiveness of audit activities conducted by Statutory Auditors
- I. More than half of the Board of Statutory Auditors consists of outside Statutory Auditors to ensure transparency of management.
  - II. Statutory Auditors hold a regular meeting with Directors to exchange information and opinions on significant audit issues.
  - III. Statutory Auditors hold a regular meeting with the internal audit group and independent auditors, and ensure effectiveness of the audit activities through close coordination.
  - IV. Statutory Auditors 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 never has 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 the compliance manual and ensures full compliance with the basic principle.

## **Consolidated Balance Sheet**

(as of March 31, 2014)

(Thousands of yen)

| Assets                                |                  | Liabilities                                           |                  |
|---------------------------------------|------------------|-------------------------------------------------------|------------------|
| <b>Current Assets</b>                 | <b>2,759,620</b> | <b>Current liabilities</b>                            | <b>787,969</b>   |
| Cash and deposits                     | 1,486,474        | Accounts payable - trade                              | 61,720           |
| Notes and accounts receivable - trade | 872,751          | Current portion of long-term loans payable            | 274,599          |
| Merchandise                           | 291              | Accounts payable - other                              | 262,859          |
| Supplies                              | 6,777            | Income taxes payable                                  | 8,970            |
| Deferred tax assets                   | 148,945          | Provision for bonuses                                 | 91,704           |
| Other                                 | 244,380          | Other                                                 | 88,114           |
| <b>Noncurrent assets</b>              | <b>2,129,059</b> | <b>Noncurrent liabilities</b>                         | <b>567,541</b>   |
| <b>Property, plant, and equipment</b> | <b>671,326</b>   | Long-term loans payable                               | 438,000          |
| Buildings                             | 158,960          | Deferred tax liabilities                              | 65,712           |
| Accumulated depreciation              | (47,288)         | Liabilities for retirement benefits                   | 19,286           |
| Buildings, net                        | 111,672          | Asset retirement obligations                          | 29,641           |
| Tools, furniture, and fixtures        | 1,012,479        | Other                                                 | 14,901           |
| Accumulated depreciation              | (462,105)        | <b>Total liabilities</b>                              | <b>1,355,510</b> |
| Tools, furniture, and fixtures, net   | 550,374          | <b>Equity</b>                                         |                  |
| Leased assets                         | 14,323           | <b>Shareholders' equity</b>                           | <b>3,138,651</b> |
| Accumulated depreciation              | (5,044)          | <b>Capital stock</b>                                  | <b>1,095,358</b> |
| Leased assets, net                    | 9,279            | <b>Capital surplus</b>                                | <b>882,818</b>   |
| <b>Intangible assets</b>              | <b>942,191</b>   | <b>Retained earnings</b>                              | <b>1,160,500</b> |
| Software                              | 868,675          | <b>Treasury stock</b>                                 | <b>(26)</b>      |
| Other                                 | 73,516           | <b>Accumulated other comprehensive income</b>         | <b>176,536</b>   |
| <b>Investments and other assets</b>   | <b>515,541</b>   | Valuation difference on available-for-sale securities | 143,529          |
| Investment securities                 | 372,910          | Foreign currency translation adjustment               | 33,007           |
| Guarantee deposits                    | 126,047          | <b>Subscription rights to shares</b>                  | <b>196,675</b>   |
| Other                                 | 16,584           | <b>Minority interests</b>                             | <b>21,306</b>    |
|                                       |                  | <b>Total equity</b>                                   | <b>3,533,169</b> |
| <b>Total assets</b>                   | <b>4,888,680</b> | <b>Total liabilities and equity</b>                   | <b>4,888,680</b> |

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

# Consolidated Statement of Operations

(from April 1, 2013 to March 31, 2014)

(Thousands of yen)

| Accounts                                               | Amounts  |                  |
|--------------------------------------------------------|----------|------------------|
| <b>Net sales</b>                                       |          | <b>4,171,617</b> |
| <b>Cost of sales</b>                                   |          | <b>2,309,982</b> |
| <b>Gross profit</b>                                    |          | <b>1,861,634</b> |
| <b>Selling, general, and administrative expenses</b>   |          | <b>2,460,252</b> |
| <b>Operating loss</b>                                  |          | <b>(598,618)</b> |
| <b>Non-operating income</b>                            |          |                  |
| Interest income                                        | 681      |                  |
| Dividend income                                        | 6,750    |                  |
| Foreign exchange gains                                 | 120,727  |                  |
| Other                                                  | 5,026    | 133,186          |
| <b>Non-operating expenses</b>                          |          |                  |
| Interest expenses                                      | 8,898    |                  |
| Initial public offering expenses                       | 120,872  |                  |
| Syndicated loan fees                                   | 20,416   |                  |
| Other                                                  | 14,253   | 164,441          |
| <b>Ordinary loss</b>                                   |          | <b>(629,873)</b> |
| <b>Extraordinary losses</b>                            |          |                  |
| Impairment loss                                        | 34,884   | 34,884           |
| <b>Loss before income taxes and minority interests</b> |          | <b>(664,757)</b> |
| Income taxes - current                                 | 23,299   |                  |
| Income taxes - deferred                                | (88,497) | (65,197)         |
| <b>Loss before minority interests</b>                  |          | <b>(599,560)</b> |
| <b>Minority interests in income</b>                    |          | <b>4,797</b>     |
| <b>Net loss</b>                                        |          | <b>(604,357)</b> |

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

### Consolidated Statement of Changes in Equity

(from April 1, 2013 to March 31, 2014)

(Thousands of yen)

|                                                      | Shareholders' equity |                 |                   |                |                            |
|------------------------------------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|
|                                                      | Capital stock        | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the current period       | 602,993              | 390,453         | 1,924,512         | (26)           | 2,917,932                  |
| Changes of items during the period                   |                      |                 |                   |                |                            |
| Issuance of new shares                               | 492,365              | 492,365         |                   |                | 984,730                    |
| Dividends from surplus                               |                      |                 | (159,654)         |                | (159,654)                  |
| Net loss                                             |                      |                 | (604,357)         |                | (604,357)                  |
| Net changes of items other than shareholders' equity |                      |                 |                   |                | —                          |
| Total changes of items during the period             | 492,365              | 492,365         | (764,011)         | —              | 220,718                    |
| Balance at the end of the current period             | 1,095,358            | 882,818         | 1,160,500         | (26)           | 3,138,651                  |

(Thousands of yen)

|                                                      | Accumulated other comprehensive income                |                                         |                                              | Subscription rights to shares | Minority interests | Total equity |
|------------------------------------------------------|-------------------------------------------------------|-----------------------------------------|----------------------------------------------|-------------------------------|--------------------|--------------|
|                                                      | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Total accumulated other comprehensive income |                               |                    |              |
| Balance at the beginning of the current period       | 141,209                                               | 17,303                                  | 158,512                                      | 102,051                       | 16,508             | 3,195,005    |
| Changes of items during the period                   |                                                       |                                         |                                              |                               |                    |              |
| Issuance of new shares                               |                                                       |                                         |                                              |                               |                    | 984,730      |
| Dividends from surplus                               |                                                       |                                         |                                              |                               |                    | (159,654)    |
| Net loss                                             |                                                       |                                         |                                              |                               |                    | (604,357)    |
| Net changes of items other than shareholders' equity | 2,320                                                 | 15,703                                  | 18,023                                       | 94,624                        | 4,797              | 117,445      |
| Total changes of items during the period             | 2,320                                                 | 15,703                                  | 18,023                                       | 94,624                        | 4,797              | 338,164      |
| Balance at the end of the current period             | 143,529                                               | 33,007                                  | 176,536                                      | 196,675                       | 21,306             | 3,533,169    |

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

## Notes to the Consolidated Financial Statements

### 1. Significant matters for the preparation of consolidated financial statements

(1) Scope of consolidation

Consolidated subsidiaries

1) Number of consolidated subsidiaries: Six companies

Refer to section 1. (3) 2) Subsidiary of the Business Report for details.

2) Name of non-consolidated subsidiaries and the reason for excluding them from the scope of consolidation: Not applicable.

(2) Application of the equity method of accounting

• Non-consolidated subsidiaries and affiliates accounted for under the equity method: None.

(3) Account closing date of consolidated subsidiaries

The book-closing date of consolidated subsidiaries is the same as the consolidated book-closing date.

(4) Matters concerning accounting standards

1) Valuation standard and methods for significant assets

I. Securities

Available-for-sale securities

• Securities for which quoted market prices are available: Stated at fair value at the end of the year. (Unrealized gains or losses are included in equity. Cost of securities sold is determined by the moving average method.)

• Securities for which quoted market prices are not available: Stated at cost determined by the moving average method.

II. Derivatives

Stated at fair value.

III. Inventories

• Merchandise

Stated at cost determined by the specific identification method. (In the event the net selling value at the end of the period declines below the acquisition cost, the carrying value is written down to the net selling value to reflect the decreased profitability.)

• Supplies

Stated at cost determined by the first-in, first-out method. (In the event the net selling value at the end of the period declines below the acquisition cost, the carrying value is written down to the net selling value to reflect the decreased profitability.)

2) Depreciation and amortization of significant depreciable or amortizable assets

I. Property, plant, and equipment

Property, plant, and equipment are depreciated by the straight-line method. Useful lives of principal property, plant, and equipment are as follows:

(excluding leased assets)

Buildings: 6-15 years

Tools, furniture and fixtures: 4-20 years

II. Intangible assets

Intangible assets are amortized by the straight-line method. Software for internal use is amortized over an expected useful life of five years by the straight-line method.

(excluding leased assets)

III. Leased assets

Leased assets are depreciated or amortized over the lease term by the straight-line method with no residual value.

3) Accounting for significant deferred assets

Stock issuance cost

Stock issuance cost is expensed when incurred.



4) Recognition of significant allowances

- |                                    |                                                                                                                                                                                                                                                                                                               |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| I. Allowance for doubtful accounts | To provide for a loss on doubtful accounts, general allowances are provided using the rate determined by past experience with bad debts. Specific allowances are provided for the estimated amount considered to be uncollectible after reviewing the individual collectability of certain doubtful accounts. |
| II. Provision for bonuses          | To provide for employees' bonuses, the Group provides accrued bonuses based on the projected amount for the consolidated year.                                                                                                                                                                                |

5) Accounting for retirement benefits

- |                                     |                                                                                                                                                                                                                                           |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Liabilities for retirement benefits | To prepare for payments of employees' retirement benefits, the Group provides accrued retirement benefits in the amount which would be payable assuming that all employees retired at the end of the current year as a compendium method. |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

6) Significant methods of hedge accounting

- |                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| I. Method of hedge accounting                         | Deferred hedge accounting is applied. However, simplified hedge accounting is applied to the interest rate swap transactions that qualify for hedge accounting.                                                                                                                                                                                                                                                                                                                                 |
| II. Hedging instruments and hedged items              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Hedging instruments:                                  | Derivatives transactions (forward exchange contracts, interest rate swap contracts, and currency rate swap contracts).                                                                                                                                                                                                                                                                                                                                                                          |
| Hedged items:                                         | Import transactions with the risk of loss due to fluctuating foreign exchange rates and interest-bearing transactions associated with financing arrangements.                                                                                                                                                                                                                                                                                                                                   |
| III. Hedging policy                                   | Derivatives transactions are generally used for fixing payments in yen and reducing the risk of loss from fluctuations in interest rates within the scope of actual demand.                                                                                                                                                                                                                                                                                                                     |
| IV. Method of evaluating the effectiveness of hedging | The effectiveness of a hedge is assessed by comparing the change in the fair value or cash flow of a hedged item and a hedging instrument and verifying that the change is generally within a range of 80-125%. However, when the critical terms of the hedging instruments and hedged items are identical, the effectiveness of hedging is not assessed as the changes in fair value or cash flows of the hedged items are considered completely offset with those of the hedging instruments. |

7) Other significant accounting policies for preparation of the consolidated financial statements

- |                                  |                                                                                              |
|----------------------------------|----------------------------------------------------------------------------------------------|
| Accounting for consumption taxes | All accounting transactions are booked exclusive of any national or local consumption taxes. |
|----------------------------------|----------------------------------------------------------------------------------------------|

(5) Changes in presentation

(Consolidated balance sheet)

"Provision for retirement benefits" is presented as "liabilities for retirement benefits" from the year ended March 31, 2014, in accordance with the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May 17, 2012) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012).

(Consolidated statement of operations)

Syndicated loan fees of 11,666 thousand yen, which was included in "Other" under non-operating expenses for the year ended March 31, 2013, increased and is separately presented for the fiscal year ended March 31, 2014.

## 2. Notes to the consolidated balance sheet

### (1) Accumulated impairment losses on property, plant, and equipment

The amount of accumulated depreciation includes accumulated impairment losses of 35,200 thousand yen.

## 3. Notes to the consolidated statement of changes in equity

### (1) Number of issued shares of common stock

| Class of shares | Number of shares as of the beginning of the year | Increase during the year | Decrease during the year | Number of shares as of the end of the year |
|-----------------|--------------------------------------------------|--------------------------|--------------------------|--------------------------------------------|
| Common stock    | 3,193,136                                        | 248,000                  | —                        | 3,441,136                                  |

### (2) Number of treasury stock

| Class of shares | Number of shares as of the beginning of the year | Increase during the year | Decrease during the year | Number of shares as of the end of the year |
|-----------------|--------------------------------------------------|--------------------------|--------------------------|--------------------------------------------|
| Common stock    | 56                                               | 7                        | —                        | 63                                         |

### (3) Dividends

#### 1) Dividend payments

I. Total dividends 159,654 thousand yen

II. Dividend per share 50.00 yen

III. Record date March 31, 2013

IV. Effective date June 26, 2013

#### 2) Dividends with a record date in this year but an effective date in the following year

Not applicable.

### (4) Items related to subscription rights to shares as of the end of the year

Class and number of shares to which subscription rights are related (excluding those for which the first day of the exercise period has not yet arrived) as of the end of year.

Common stock 20,000 shares

(Note) The Company effected a ten-for-one split of its shares of common stock as of April 1, 2014, but the above number of common stock is presented on a pre-split basis.

## 4. Notes to financial instruments

### (1) Financial instruments

The policy of the Group is to manage temporary cash surplus through investments in low-risk financial assets and to raise its funding through borrowings from financial institutions, including banks.

The Group mitigates credit risk from customers related to accounts receivable-trade in accordance with its receivable management rules. Investment securities consist mainly of equity securities, and fair values for listed shares are monitored on a quarterly basis. The Group mitigates the liquidity risk that it cannot meet obligations arising from accounts payables-trade and accounts payable-other by preparing cash-flow schedules on a timely basis.

Borrowings are used for the purpose of working capital (mainly short-term borrowings) and capital investments

(long-term debt). Derivatives transactions are not conducted.

(2) Fair value of financial instruments

Carrying amount, fair value, and the difference between these amounts as of March 31, 2014, are presented in the following table.

(Unit: thousands of yen)

|                                         | Carrying amount on the consolidated balance sheet (*) | Fair value (*) | Difference |
|-----------------------------------------|-------------------------------------------------------|----------------|------------|
| (1) Cash and deposits                   | 1,486,474                                             | 1,486,474      | —          |
| (2) Notes and accounts receivable-trade | 872,751                                               | 872,751        | —          |
| (3) Investment securities               | 372,910                                               | 372,910        | —          |
| (4) Accounts payable-trade              | (61,720)                                              | (61,720)       | —          |
| (5) Accounts payable-other              | (262,859)                                             | (262,859)      | —          |
| (6) Long-term loans payable             | (712,600)                                             | (713,612)      | (1,012)    |

(Notes) 1. (\*) Items recorded as liabilities are presented in parentheses.

2. Method of determining fair values of financial instruments and other matters related to securities and derivatives transactions

(1) Cash and deposits and (2) Notes and accounts receivable-trade

The carrying amounts of these instruments approximate fair value because of their short maturities.

(3) Investment securities

The fair value of equity securities is determined using quoted prices on the stock exchange, and that of debt securities is determined using prices provided by financial trading institutions

(4) Accounts payable-trade and (5) Account payable-other

The carrying amounts of these instruments approximate fair value because of their short maturities.

(6) Long-term loans payable

The fair value of these instruments is stated at present value which is determined by discounting the aggregate value of principal and interest using an interest rate on similar new loans. The fair value of long-term loans payable is presented inclusive of the current portion of long-term loans payable.

3. Unlisted shares (with a carrying amount of 14 thousand yen on the consolidated balance sheet) and guarantee deposits (with a carrying amount of 126,047 thousand yen) are not included since it is extremely difficult to measure their fair values because there is no quoted market price for the instruments and future cash flows are not estimable.

## 5. Notes to per share information

(1) Net assets per share 96.34 yen

(2) Net loss per share (17.74) yen

The Company effected ten-for-one splits of its shares of common stock as of April 1, 2014. For the purpose of calculating net loss per share and net assets per share, the stock split is assumed to have occurred at the beginning of the year ended March 31, 2014.

## 6. Significant subsequent events

No applicable information.

# Non-consolidated Balance Sheet

(as of March 31, 2014)

(Thousands of yen)

| Assets                                                    |                  | Liabilities                                           |                  |
|-----------------------------------------------------------|------------------|-------------------------------------------------------|------------------|
| <b>Current Assets</b>                                     | <b>2,801,755</b> | <b>Current liabilities</b>                            | <b>811,632</b>   |
| Cash and deposits                                         | 1,036,102        | Accounts payable - trade                              | 89,027           |
| Notes and accounts receivable - trade                     | 759,378          | Current portion of long-term loans payable            | 274,599          |
| Merchandise                                               | 291              | Accounts payable - other                              | 326,831          |
| Supplies                                                  | 5,037            | Accrued expenses                                      | 38,479           |
| Prepaid expenses                                          | 74,859           | Income taxes payable                                  | 5,346            |
| Short-term loans to subsidiaries and associated companies | 657,224          | Advances received                                     | 10,235           |
| Consumption taxes receivable                              | 10,087           | Deposits received                                     | 14,018           |
| Advances paid to subsidiaries and associated companies    | 240,770          | Provision for bonuses                                 | 50,545           |
| Deferred tax assets                                       | 100,943          | Other                                                 | 2,547            |
| Other                                                     | 58,739           | <b>Noncurrent liabilities</b>                         | <b>525,411</b>   |
| Allowance for doubtful accounts                           | (141,679)        | Long-term loans payable                               | 438,000          |
| <b>Noncurrent assets</b>                                  | <b>1,954,502</b> | Provision for retirement benefits                     | 18,309           |
| <b>Property, plant, and equipment</b>                     | <b>394,127</b>   | Asset retirement obligations                          | 29,641           |
| Buildings                                                 | 152,379          | Deferred tax liabilities                              | 24,558           |
| Accumulated depreciation                                  | (42,024)         | Other                                                 | 14,901           |
| Buildings, net                                            | 110,355          | <b>Total liabilities</b>                              | <b>1,337,043</b> |
| Tools, furniture, and fixtures                            | 556,121          | <b>Equity</b>                                         |                  |
| Accumulated depreciation                                  | (280,149)        | <b>Shareholders' equity</b>                           | <b>3,079,008</b> |
| Tools, furniture, and fixtures, net                       | 275,971          | <b>Capital stock</b>                                  | <b>1,095,358</b> |
| Leased assets                                             | 11,977           | <b>Capital surplus</b>                                | <b>882,818</b>   |
| Accumulated depreciation                                  | (4,176)          | Legal capital surplus                                 | 827,108          |
| Leased assets, net                                        | 7,800            | Other capital surplus                                 | 55,709           |
| <b>Intangible assets</b>                                  | <b>934,509</b>   | <b>Retained earnings</b>                              | <b>1,100,857</b> |
| Software                                                  | 860,993          | Other retained earnings                               | 1,100,857        |
| Software in progress                                      | 60,353           | Retained earnings brought forward                     | 1,100,857        |
| Other                                                     | 13,163           | <b>Treasury stock</b>                                 | <b>(26)</b>      |
| <b>Investments and other assets</b>                       | <b>625,864</b>   | <b>Valuation and translation adjustments</b>          | <b>143,529</b>   |
| Investment securities                                     | 372,910          | Valuation difference on available-for-sale securities | 143,529          |
| Shares of subsidiaries and associated companies           | 97,225           | <b>Subscription rights to shares</b>                  | <b>196,675</b>   |
| Investments in capital                                    | 10               |                                                       |                  |
| Long-term prepaid expenses                                | 16,390           |                                                       |                  |
| Long-term loans to subsidiaries and associated companies  | 56,266           |                                                       |                  |
| Guarantee deposits                                        | 83,062           | <b>Total equity</b>                                   | <b>3,419,213</b> |
| <b>Total assets</b>                                       | <b>4,756,257</b> | <b>Total liabilities and equity</b>                   | <b>4,756,257</b> |

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

# Non-consolidated Statement of Operations

(from April 1, 2013 to March 31, 2014)

(Thousands of yen)

| Accounts                                                             | Amounts  |                  |
|----------------------------------------------------------------------|----------|------------------|
| <b>Net sales</b>                                                     |          | <b>2,665,496</b> |
| <b>Cost of sales</b>                                                 |          | <b>1,611,879</b> |
| <b>Gross profit</b>                                                  |          | <b>1,053,617</b> |
| <b>Selling, general, and administrative expenses</b>                 |          | <b>1,458,712</b> |
| <b>Operating loss</b>                                                |          | <b>(405,095)</b> |
| <b>Non-operating income</b>                                          |          |                  |
| Interest income                                                      | 12,437   |                  |
| Dividend income                                                      | 6,750    |                  |
| Foreign exchange gains                                               | 84,918   |                  |
| Other                                                                | 8,422    | 112,528          |
| <b>Non-operating expenses</b>                                        |          |                  |
| Interest expenses                                                    | 8,895    |                  |
| Initial public offering expenses                                     | 120,872  |                  |
| Provision of allowance for doubtful accounts                         | 141,679  |                  |
| Syndicated loan fees                                                 | 20,416   |                  |
| Other                                                                | 13,483   | 305,347          |
| <b>Ordinary loss</b>                                                 |          | <b>(597,914)</b> |
| <b>Extraordinary losses</b>                                          |          |                  |
| Loss on valuation of shares of subsidiaries and associated companies | 49,517   | 49,517           |
| <b>Loss before income taxes and minority interests</b>               |          | <b>(647,432)</b> |
| Income taxes - current                                               | 13,491   |                  |
| Income taxes - deferred                                              | (57,590) | (44,099)         |
| <b>Net loss</b>                                                      |          | <b>(603,333)</b> |

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

## Non-consolidated Statement of Changes in Equity

(from April 1, 2013 to March 31, 2014)

(Thousands of yen)

|                                                      | Shareholders' equity |                       |                       |                                   |                |                            |
|------------------------------------------------------|----------------------|-----------------------|-----------------------|-----------------------------------|----------------|----------------------------|
|                                                      | Capital stock        | Capital surplus       |                       | Retained earnings                 | Treasury stock | Total shareholders' equity |
|                                                      |                      | Legal capital surplus | Other capital surplus | Other retained earnings           |                |                            |
|                                                      |                      |                       |                       | Retained earnings brought forward |                |                            |
| Balance at the beginning of the current period       | 602,993              | 334,743               | 55,709                | 1,863,844                         | (26)           | 2,857,265                  |
| Changes of items during the period                   |                      |                       |                       |                                   |                |                            |
| Issuance of new shares                               | 492,365              | 492,365               |                       |                                   |                | 984,730                    |
| Dividends from surplus                               |                      |                       |                       | (159,654)                         |                | (159,654)                  |
| Net loss                                             |                      |                       |                       | (603,333)                         |                | (603,333)                  |
| Net changes of items other than shareholders' equity |                      |                       |                       |                                   |                | —                          |
| Total changes of items during the period             | 492,365              | 492,365               | —                     | (762,987)                         | —              | 221,743                    |
| Balance at the end of the current period             | 1,095,358            | 827,108               | 55,709                | 1,100,857                         | (26)           | 3,079,008                  |

(Thousands of yen)

|                                                      | Valuation and translation adjustments                 | Subscription rights to shares | Total equity |
|------------------------------------------------------|-------------------------------------------------------|-------------------------------|--------------|
|                                                      | Valuation difference on available-for-sale securities |                               |              |
| Balance at the beginning of the current period       | 141,209                                               | 102,051                       | 3,100,525    |
| Changes of items during the period                   |                                                       |                               |              |
| Issuance of new shares                               |                                                       |                               | 984,730      |
| Dividends from surplus                               |                                                       |                               | (159,654)    |
| Net loss                                             |                                                       |                               | (603,333)    |
| Net changes of items other than shareholders' equity | 2,320                                                 | 94,624                        | 96,944       |
| Total changes of items during the period             | 2,320                                                 | 94,624                        | 318,687      |
| Balance at the end of the current period             | 143,529                                               | 196,675                       | 3,419,213    |

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

## Notes to the Non-consolidated Financial Statements

### 1. Significant accounting policies

#### (1) Valuation standard and methods for assets

##### 1) Securities

I. Equity investments in subsidiaries      Stated at cost determined by the moving average method.

##### II. Available-for-sale securities

• Securities for which quoted market prices are available:      Stated at fair value at the end of the year. (Unrealized gains or losses are included in equity. Cost of securities sold is determined by the moving average method.)

• Securities for which quoted market prices are not available:      Stated at cost determined by the moving average method.

##### 2) Derivatives

Stated at fair value.

##### 3) Inventories

##### • Merchandise

Stated at cost determined by the specific identification method. (In the event the net selling value at the end of the period declines below the acquisition cost, the carrying value is written down to the net selling value to reflect the decreased profitability.)

##### • Supplies

Stated at cost determined by the first-in, first-out method. (In the event the net selling value at the end of the period declines below the acquisition cost, the carrying value is written down to the net selling value to reflect the decreased profitability.)

#### (2) Depreciation and amortization of noncurrent assets

##### 1) Property, plant, and equipment

(excluding leased assets)

Property, plant, and equipment are depreciated by the straight-line method. Useful lives of principal property, plant, and equipment are as follows:

Buildings: 6-15 years

Tools, furniture, and fixtures: 4-20 years

##### 2) Intangible assets

(excluding leased assets)

Intangible assets are amortized by the straight-line method. Software for internal use is amortized over an expected useful life of five years by the straight-line method.

##### 3) Leased assets

Leased assets are depreciated or amortized over the lease term by the straight-line method with no residual value.

#### (3) Accounting for significant deferred assets

##### Stock issuance cost

Stock issuance cost is expensed when incurred.

#### (4) Recognition of allowances

##### 1) Allowance for doubtful accounts

To provide for a loss on doubtful accounts, general allowances are provided using the rate determined by past experience with bad debts. Specific allowances are provided for the estimated amount considered to be uncollectible after reviewing the individual collectability of certain doubtful accounts.

- 2) Provision for bonuses To provide for employees' bonuses, the Company provides accrued bonuses based on the projected amount for the year.
- 3) Provision for retirement benefits To prepare for payments of employees' retirement benefits, the Company provides accrued retirement benefits in the amount which would be payable assuming that all employees retired at the end of the current year as a compendium method.
- (5) Methods of hedge accounting
- 1) Method of hedge accounting Deferred hedge accounting is applied. However, simplified hedge accounting is applied to the interest rate swap transactions that qualify for hedge accounting.
- 2) Hedging instruments and hedged items
- Hedging instruments: Derivatives transactions (forward exchange contracts, interest rate swap contracts, and currency rate swap contracts).
- Hedged items: Import transactions with the risk of loss due to fluctuating foreign exchange rates and interest-bearing transactions associated with financing arrangements.
- 3) Hedging policy Derivatives transactions are generally used for fixing payments in yen and reducing the risk of loss from fluctuations in interest rates within the scope of actual demand.
- 4) Method of evaluating the effectiveness of hedging The effectiveness of a hedge is assessed by comparing the change in the fair value or cash flow of a hedged item and a hedging instrument and verifying that the change is generally within a range of 80-125%. However, when the critical terms of the hedging instruments and hedged items are identical, the effectiveness of hedging is not assessed as the changes in fair value or cash flows of the hedged items are considered completely offset with those of the hedging instruments.
- (6) Other matters for the preparation of financial statements
- Accounting for consumption taxes All accounting transactions are booked exclusive of any national or local consumption taxes.

(7) Changes in presentation

(Consolidated statement of operations)

Syndicated loan fees of 11,666 thousand yen, which was included in "Other" under non-operating expenses for the year ended March 31, 2013, increased and is separately presented for the fiscal year ended March 31, 2014.

## 2. Notes to the non-consolidated balance sheet

- (1) Accumulated impairment losses on property, plant, and equipment
- The amount of accumulated depreciation includes accumulated impairment losses of 91 thousand yen.
- (2) Short-term receivables from and payables to subsidiaries and associated companies
- Short-term receivables from and payables to subsidiaries and associated companies, other than those separately presented, that are included in other accounts are as follows:
- |                        |                      |
|------------------------|----------------------|
| Short-term receivables | 482,743 thousand yen |
| Short-term payables    | 184,962 thousand yen |

## 3. Notes to the non-consolidated statement of income

Transactions with subsidiaries and associated companies

|                                               |                      |
|-----------------------------------------------|----------------------|
| Net sales                                     | 667,714 thousand yen |
| Purchase                                      | 61,729 thousand yen  |
| Selling, general, and administrative expenses | 16,435 thousand yen  |
| Non-operating transactions                    | 17,270 thousand yen  |



#### 4. Notes to the non-consolidated statement of changes in net assets

##### Number of treasury stock

| Class of shares | Number of shares as of the beginning of the year | Increase during the year | Decrease during the year | Number of shares as of the end of the year |
|-----------------|--------------------------------------------------|--------------------------|--------------------------|--------------------------------------------|
| Common stock    | 56                                               | 7                        | —                        | 63                                         |

#### 5. Notes to deferred income taxes

- (1) The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities

##### (Deferred tax assets)

(In thousands of yen)

##### 1) Current assets

|                                        |          |
|----------------------------------------|----------|
| Provision for bonuses                  | 18,014   |
| Provision for bonuses-social insurance | 2,931    |
| Allowance for doubtful accounts        | 50,494   |
| Research and development expenses      | 16,262   |
| Tax loss carryforwards                 | 77,524   |
| Other                                  | 2,618    |
| Subtotal                               | 167,845  |
| Valuation allowance                    | (66,902) |
| Total deferred tax assets              | 100,943  |

##### 2) Noncurrent assets

|                                                                                     |           |
|-------------------------------------------------------------------------------------|-----------|
| Provision for retirement benefits                                                   | 6,525     |
| Valuation difference on equity investments in subsidiaries and associated companies | 34,461    |
| Asset retirement obligations                                                        | 10,564    |
| Lump-sum depreciable assets                                                         | 3,999     |
| Subscription rights to shares                                                       | 15,030    |
| Tax loss carryforwards                                                              | 67,273    |
| Other                                                                               | 1,357     |
| Subtotal                                                                            | 139,212   |
| Valuation allowance                                                                 | (135,358) |
| Total deferred tax assets                                                           | 3,853     |
| Offset against deferred tax liabilities (noncurrent)                                | 3,853     |
| Net deferred tax assets                                                             | —         |

##### (Deferred tax liabilities)

|                                                       |          |
|-------------------------------------------------------|----------|
| Valuation difference on available-for-sale securities | (19,375) |
| Other                                                 | (9,036)  |
| Total deferred tax liabilities                        | (28,412) |
| Offset against deferred tax assets (noncurrent)       | 3,853    |
| Net deferred tax liabilities                          | 24,558   |

- (2) Reconciliations between the effective statutory tax rate and the actual effective tax rate after application of the tax effect accounting

Not applicable since the Company's operation resulted in loss before income taxes and minority interests for the fiscal year ended March 31, 2014.

## 6. Notes to related-party transactions

### (1) Subsidiaries

| Type       | Company name             | Share of voting rights holding (or held) | Relationship |                                                                   | Type of transaction                                                                    | Transaction amount (thousands of yen) | Account                                                   | Year-end balance (thousands of yen) |
|------------|--------------------------|------------------------------------------|--------------|-------------------------------------------------------------------|----------------------------------------------------------------------------------------|---------------------------------------|-----------------------------------------------------------|-------------------------------------|
|            |                          |                                          | Executives   | Business relationship                                             |                                                                                        |                                       |                                                           |                                     |
| Subsidiary | UBIC North America, Inc. | Holding 100%                             | 1 Executive  | Provision of services<br>Concurrent position<br>Financial support | Acceptance of services (Note 1)                                                        | 558,411                               | Accounts receivable-trade                                 | 305,296                             |
|            |                          |                                          |              |                                                                   | Acceptance of services (Note 1)                                                        | 53,439                                | Accounts payable-trade                                    | 24,154                              |
|            |                          |                                          |              |                                                                   | Advancing funds                                                                        | 46,494                                | Advances paid to subsidiaries and associated companies    | 113,698                             |
|            |                          |                                          |              |                                                                   | Loan of funds (Note 2)                                                                 | 110,000                               | Short-term loans to subsidiaries and associated companies | 471,542                             |
|            |                          |                                          |              |                                                                   |                                                                                        |                                       | Long-term loans to subsidiaries and associated companies  | 27,500                              |
| Subsidiary | UBIC Korea, Inc.         | Holding 100%                             | 1 Executive  | Provision of services<br>Concurrent position<br>Financial support | Acceptance of services (Note 1)                                                        | 50,697                                | Accounts receivable-trade                                 | 150,586                             |
|            |                          |                                          |              |                                                                   | Advancing funds                                                                        | 29,844                                | Advances paid to subsidiaries and associated companies    | 60,311                              |
|            |                          |                                          |              |                                                                   | Advancing payments of accounts payable for other subsidiaries and associated companies | 116,190                               | Accounts payable to subsidiaries and associated companies | 116,951                             |
|            |                          |                                          |              |                                                                   | Loan of funds (Note 2)                                                                 | 40,000                                | Short-term loans to subsidiaries and associated companies | 72,125                              |
|            |                          |                                          |              |                                                                   |                                                                                        |                                       | Long-term loans to subsidiaries and associated companies  | 21,843                              |

|            |                           |              |              |                       |                        |        |                                                                    |        |
|------------|---------------------------|--------------|--------------|-----------------------|------------------------|--------|--------------------------------------------------------------------|--------|
| Subsidiary | UBIC Taiwan, Inc.         | Holding 100% | 2 Executives | Provision of services | Advancing funds        | 30,992 | Advances paid to subsidiaries and associated companies (Note 3)    | 66,706 |
|            |                           |              |              | Concurrent position   | Loan of funds (Note 2) | 30,000 | Short-term loans to subsidiaries and associated companies (Note 3) | 90,479 |
|            |                           |              |              | Financial support     |                        |        |                                                                    |        |
| Subsidiary | UBIC Patent Partners Inc. | Holding 100% | 2 Executives | Provision of services | Loan of funds (Note 2) | 30,000 | Short-term loans to subsidiaries and associated companies          | 23,076 |
|            |                           |              |              | Concurrent position   |                        |        |                                                                    |        |
|            |                           |              |              | Financial support     |                        |        |                                                                    |        |

(Notes) Conditions of transactions and policies for determining the conditions of transactions

1. Transaction prices and other conditions are determined based on market prices and total costs of transactions.
2. Interest rates on loans are determined reasonably based on market rates as well as interest rates on borrowings of the Company.
3. Allowance for doubtful accounts of 141,679 thousand yen is recorded for loans to subsidiaries. The Company recorded 141,679 thousand yen of allowance for doubtful accounts for the fiscal year ended March 31, 2014.
4. The amounts presented above exclude consumption taxes.

## 7. Notes to per share information

- (1) Net assets per share 93.65 yen
- (2) Net loss per share (17.71) yen

The Company effected ten-for-one splits of its shares of common stock as of April 1, 2014. For the purpose of calculating net loss per share and net assets per share, the stock split is assumed to have occurred at the beginning of the year ended March 31, 2014.

## 8. Significant subsequent events

No applicable information.

## Audit Report on the Consolidated Financial Statements

(TRANSLATION)

### INDEPENDENT AUDITOR'S REPORT

May 21, 2014

To the Board of Directors of UBIC, Inc.:

Ernst & Young ShinNihon LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Norimitsu Yanai

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, 2014 of UBIC, Inc. (the "Company"), and its consolidated subsidiaries, and the related consolidated statements of income and changes in net assets for the fiscal year from April 1, 2013, to March 31, 2014, 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, the financial position of UBIC, Inc. and its consolidated subsidiaries as of March 31, 2014, 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.

## Audit Report on the Non-consolidated Financial Statements

(TRANSLATION)

### INDEPENDENT AUDITOR'S REPORT

May 21, 2014

To the Board of Directors of UBIC, Inc.:

Ernst & Young ShinNihon LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Norimitsu Yanai

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 financial statements, namely the balance sheet as of March 31, 2014, of UBIC, Inc. (the "Company"), and the related statements of income and changes in net assets for the 11<sup>th</sup> fiscal year from April 1, 2013, to March 31, 2014, 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 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 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 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 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 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 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 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 financial statements and the accompanying supplemental schedules.

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 financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of UBIC, Inc., as of March 31, 2014, 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 Statutory Auditors

(TRANSLATION)

### AUDIT REPORT

With respect to the directors' performance of their duties during the 11th business year from April 1, 2013, to March 31, 2014, the Board of Statutory Auditors has prepared this audit report after deliberations, as unanimous opinion of all Statutory Auditors, based on the audit reports prepared by each Statutory Auditor, and hereby report as follows:

#### 1. Method and Contents of Audit by the Statutory Auditors and the Board of Statutory Auditors

The Audit & Supervisory Board has established the audit policies in this fiscal year, audit plan, etc., and received a report from each Statutory Auditor regarding the status of implementation of their audits and results thereof. In addition, the Board of Statutory Auditors has received reports from the directors, etc., and the accounting auditor regarding the status of performance of their duties, and requested explanations as necessary.

In conformity with the auditing standards of Statutory Auditors established by the Board of Statutory Auditors, and in accordance with the audit policies in this fiscal year and audit plan, etc., each Statutory Auditor 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; 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. Also, each Statutory Auditor monitored and inspected the status of (i) the contents of the board of directors' resolutions regarding the development and maintenance of the system to ensure that the directors' performance of their duties 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 (ii) the systems (internal control systems) based on such resolutions.

With respect to the subsidiaries, each Statutory Auditor endeavored to facilitate a mutual understanding and exchanged information with the directors and statutory auditors, etc., of each subsidiary, and demanded a report on the business for the subsidiary and investigated the status of the operations and the financial status of the subsidiary. Based on the above-described methods, each Statutory Auditor examined the business report and annexed specifications for the business year under consideration.

In addition, each Statutory Auditor 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 Statutory Auditor 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 159 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 Statutory Auditor examined the accounting documents (balance sheet, profit and loss statement, shareholders' equity variation statement, and schedule of individual notes) and the annexed specifications thereto, as well as the consolidated accounting documents (consolidated balance sheet, consolidated profit and loss statement, consolidated shareholders' equity variation statement, 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 acknowledged that the methods and results of audit performed by the accounting auditor, Ernst & Young ShinNihon LLC, are appropriate.

May 22, 2014

Board of Statutory Auditors of UBIC, Inc.

Standing Statutory Auditor

(Outside Statutory Auditor): Kunihiro Sudo (seal)

Statutory Auditor

(Outside Statutory Auditor): Takaharu Yasumoto (seal)

Statutory Auditor

(Outside Statutory Auditor): Kenzo Takai (seal)

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

## Reference Documents for the Ordinary General Meeting of Shareholders

Agenda of the meeting and reference matters:

### **Item 1 Partial Amendments to the Articles of Incorporation**

#### 1. Reasons for amendments

This is a proposal to organize and amend the business object of UBIC, Inc. (the “Company”) provided in Article 2 (Purposes) of its current Articles of Incorporation in order to clarify the contents of its business in conformity with the actual status of the Company’s group and respond to the future development of its business.

#### 2. Details of amendments

The proposed amendments are as follows:

(Underlining denotes change)

| <b>Current Articles of Incorporation</b>                                               | <b>Proposed amendments</b>                                                                                                                                                   |
|----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Article 1 (Omitted)                                                                    | Article 1 (Unchanged)                                                                                                                                                        |
| Article 2 Purposes                                                                     | Article 2 Purposes                                                                                                                                                           |
| The purposes of the Company are to engage in the following business activities:        | (Unchanged)                                                                                                                                                                  |
| 1. to sell, export and import forensic products;                                       | 1. to sell, <u>maintain</u> , export and import forensic products;                                                                                                           |
| 2. to develop, manufacture, sell, export and import products with forensic technology; | 2. to develop, manufacture, sell, <u>maintain</u> , export and import products with forensic technology;                                                                     |
| 3. (Omitted)                                                                           | 3. (Unchanged)                                                                                                                                                               |
| 4. (Omitted)                                                                           | 4. (Unchanged)                                                                                                                                                               |
| (Newly provided)                                                                       | <u>5. to develop, manufacture, sell, maintain, export and import products related to discovery and other international litigation support;</u>                               |
| (Newly provided)                                                                       | <u>6. to provide discovery and other international litigation support services;</u>                                                                                          |
| <u>5.</u> (Omitted)                                                                    | <u>7.</u> (Unchanged)                                                                                                                                                        |
| <u>6.</u> (Omitted)                                                                    | <u>8.</u> (Unchanged)                                                                                                                                                        |
| (Newly provided)                                                                       | <u>9. to develop, manufacture, sell, maintain, export and import, and provide services as to, products with information analysis technology;</u>                             |
| (Newly provided)                                                                       | <u>10. to plan, plot, develop, support and provide technology through computer system and software, and manufacture, sell, maintain, export and import related products;</u> |
| <u>7.</u> (Omitted)                                                                    | <u>11.</u> (Unchanged)                                                                                                                                                       |

**Item 2 Election of Four (4) Directors**

The terms of office for all (four (4)) Directors will expire at the conclusion of this meeting of shareholders, and accordingly, this proposal recommends election of four (4) Directors.

The candidates for the position of Director are as follows:

| Candidate Number | Name<br>(Date of Birth)              | Career summary, position, responsibilities and important concurrent positions at other organizations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Number of Company's shares held by candidate<br>(As of March, 31, 2014) |
|------------------|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| 1                | Masahiro Morimoto<br>(April 6, 1966) | <p>March 1989      Appointed to the Japan Maritime Self-Defense Official</p> <p>April 1995      Joined Applied Materials Japan, Inc.</p> <p>August 2003    Established the Company Representative Director and Chief Executive Officer, the Company (current)</p> <p>December 2007   Representative Director and Chief Executive Officer UBIC North America, Inc.</p> <p>February 2008   Representative Director and Chairman, UBIC North America, Inc.</p> <p>March 2011      Representative Director, Chairman, and Chief Executive Officer, UBIC North America, Inc. (current)</p> | Ordinary Shares<br>692,040                                              |
| 2                | Naritomo Ikeue<br>(June 4, 1972)     | <p>April 1996      Joined Applied Materials Japan, Inc.</p> <p>December 2003   Director, the Company</p> <p>November 2007   Director and Executive Vice President, the Company (current)</p> <p>February 2008   Representative Director and Chief Operating Officer, UBIC North America, Inc.</p> <p>November 2011   Representative Director and Chief Executive Officer, UBIC Taiwan, Inc.</p>                                                                                                                                                                                       | Ordinary Shares<br>272,240                                              |

|   |                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                          |
|---|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| 3 | Makoto Funahashi<br>(December 28, 1945) | <p>April 1968      Joined the National Police Agency of Japan</p> <p>March 1999      Deputy Minister for police technology, the National Police Agency of Japan</p> <p>March 2001      Special Advisor, USE, Inc.</p> <p>April 2003      Joined NTT Data Creation Corporation (currently NTT Data i Corporation) (“NTT Data i”)</p> <p>June 2003      Director, NTT Data i</p> <p>June 2007      Director and Corporate Officer (<i>Shikko Yakuin</i>), NTT Data i</p> <p>June 2008      Senior Advisor, NTT Data i</p> <p>June 2008      Director, the Company (current)</p> <p>June 2011      Director, The Institute of Security Technology (current)</p> <p>October 2013    Director, Japan Image Analysis Association (current)</p> | Ordinary Shares<br>0     |
| 4 | Hirooki Kirisawa<br>(July 31, 1966)     | <p>April 1991      Joined Kabushiki Kaisha Fukui Jisho</p> <p>August 1996      Joined Jozo Toda Tax Accountant Office</p> <p>April 2000      Joined Animo Limited</p> <p>February 2004    Established Hirooki Kirisawa Tax Accountant Office (currently KIRISAWA Tax Accountants Corporation) Chief</p> <p>August 2005      Statutory Auditor, the Company</p> <p>May 2006      Statutory Auditor, Articell Systems Corporation (current)</p> <p>October 2008      Representative Director, Kabushiki Kaisha Management Firm (current)</p> <p>June 2010      Director, the Company (current)</p> <p>August 2012      Representative Partner, KIRISAWA Tax Accountants Corporation (current)</p>                                          | Ordinary Shares<br>8,160 |

(Notes) 1. There is no special interest between each candidate for Director and the Company.

2. Mr. Makoto Funahashi and Mr. Hirooki Kirisawa, candidates for Directors, are candidates for Outside Directors, and reasons for nomination are as follows:

- (1) Mr. Makoto Funahashi is being nominated so that the Company’s management can benefit from his abundant experience and deep insight gained through his career as Deputy Minister for police technology of the National Police Agency of Japan.
- (2) Mr. Hirooki Kirisawa, who is qualified as a tax accountant in Japan, is being nominated so that he can reflect his experience and insight in the Company’s management mainly from accounting and finance perspective.

3. The numbers of elapsed years from the date when each candidate for Outside Director was appointed as Outside Director are as follows:

- (1) Six (6) years will have passed at the conclusion of this meeting of shareholders since Mr. Makoto Funahashi, Outside Director of the Company at present, was appointed as such position.
- (2) Four (4) years will have passed at the conclusion of this meeting of shareholders since Mr. Hirooki Kirisawa, Outside Director of the Company at present, was appointed as such position.

4. The agreements with candidates for Outside Directors to limit liabilities are as follows:

In accordance with Article 427, Paragraph 1 of the Companies Act of Japan, the Company entered into an agreement with Mr. Makoto Funahashi and Mr. Hirooki Kirisawa which limits the liability of each Outside Director, if a case falls under requirements specified by laws and ordinances, regarding the liability under Article 423, Paragraph 1 of such Act. The limit amount of such liability is the amount equal to the minimum liability limit regulated by laws and ordinances.

In case that this proposal regarding the election of Outside Directors is approved, the Company plans to continue the above agreement.

The Company has submitted filings with the Tokyo Stock Exchange designating Mr. Makoto Funahashi and Mr. Hirooki Kirisawa, candidates for Outside Directors, as independent Directors.

### Item 3 Election of Two (2) Statutory Auditors

The terms of office for Mr. Kunihiro Sudo and Mr. Takaharu Yasumoto, Statutory Auditors, will expire at the conclusion of this meeting of shareholders, and accordingly, this proposal recommends election of two (2) Statutory Auditors.

The consent of Board of Statutory Auditors has been given to this proposal.

The candidates for the position of Statutory Auditor are as follows:

| Candidate Number | Name<br>(Date of Birth)               | Career summary and position in the Company<br>(important concurrent positions at other organizations)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Number of the<br>Company's shares held<br>by candidate<br>(As of March, 31, 2014) |
|------------------|---------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| 1                | Kunihiro Sudo<br>(August 14, 1945)    | <p>December 1969      Joined Victor Company of Japan, Limited (currently JVC KENWOOD Corporation)</p> <p>July 2002            Director and Administration Manager, Victor Leisure System Co., Ltd.</p> <p>August 2005        Retired from Victor Company of Japan, Limited</p> <p>October 2005       Advisor, Victor Leisure System Co., Ltd.</p> <p>March 2007         Advisor, XING Inc.</p> <p>July 2007            Joined Kabushiki Kaisha Aqua Cast ("Aqua Cast")</p> <p>October 2007       Director and General Manager of Administration, Aqua Cast</p> <p>January 2009       Retired from Aqua Cast</p> <p>April 2011           Statutory Auditor, the Company (current)</p>                    | Ordinary Shares<br>0                                                              |
| 2                | Takaharu Yasumoto<br>(March 10, 1954) | <p>November 1978     Joined Auditing Corporation Asahi Kaikeisha (currently KPMG AZSA LLC)</p> <p>August 1982        Registered as Certified Public Accountant in Japan</p> <p>April 1992           President, Yasumoto CPA Office (current)</p> <p>November 1993     Statutory Auditor, Fast Retailing Co., Ltd. (current)</p> <p>August 2001        Statutory Auditor, ASKUL Corporation (current)</p> <p>June 2003           Statutory Auditor, Link International Co., Ltd. (currently Link Theory Japan Co., Ltd.) (current)</p> <p>April 2007           Guest Professor, Chuo Graduate School of International Accounting</p> <p>June 2010           Statutory Auditor, the Company (current)</p> | Ordinary Shares<br>400                                                            |

(Notes) 1. There is no special interest between each candidate and the Company.

2. Mr. Kunihiro Sudo and Mr. Takaharu Yasumoto, candidates for Statutory Auditors, are candidates for Outside Statutory Auditors, and reasons for nomination are as follows:

- (1) Mr. Kunihiro Sudo, who is knowledgeable about accounting and business management, is being nominated so that the Company can expect his long years of experience and wide knowledge to be reflected in the Company's auditing work.
- (2) Mr. Takaharu Yasumoto, who is qualified as a certified public accountant in Japan, is being nominated so that he can exercise his talent in auditing the Company's business to a standard of high professionalism.

3. The numbers of elapsed years from the date when each candidate for Statutory Auditor was appointed as Outside Statutory Auditor are as follows:

- (1) Three (3) years and two (2) months will have passed at the conclusion of this meeting of shareholders since Mr. Kunihiro Sudo, Outside Statutory Auditor of the Company at present, was appointed to such position.
- (2) Four (4) years will have passed at the conclusion of this meeting of shareholders since Mr. Takaharu Yasumoto, Outside Statutory Auditor of the Company at present, was appointed to such position.

4. The agreements with candidates for Outside Statutory Auditors to limit liabilities are as follows:

In accordance with Article 427, Paragraph 1 of the Companies Act of Japan, the Company entered into an agreement with Mr. Kunihiro Sudo and Mr. Takaharu Yasumoto which limits the liability of each Outside Statutory Auditor, if a case falls under requirements specified by laws and ordinances, regarding the liability under Article 423, Paragraph 1 of such Act. The limit amount of such liability is limited to the amount equal to the minimum liability limit regulated by laws and ordinances.

In case that this proposal regarding the election of Outside Statutory Auditors is approved, the Company plans to continue the above agreement.

#### Item 4 Election of One (1) Substitute Statutory Auditor

The appointment of Mr. Masaji Tomura as a substitute Statutory Auditor, which was resolved at the 10th Ordinary General Meeting of Shareholders held on June 25, 2013, will become invalid at the commencement of this meeting of shareholders, and accordingly, this proposal recommends election of one (1) substitute Statutory Auditor in preparation for the shortage of the number of Statutory Auditors stipulated in laws and ordinances.

The consent of the Board of Statutory Auditors has been given to this proposal.

The candidate for the position of substitute Statutory Auditor 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<br>Company's shares held<br>by candidate<br>(As of March, 31, 2014) |
|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Masaji Tomura<br>(June 27, 1948) | <p>April 1972      Joined Kato Works Co., Ltd.</p> <p>December 1977      Joined Honda R&amp;D Co., Ltd.</p> <p>June 1998      Chief of Procurement Quality Center, Honda Motor Co., Ltd. ("Honda")</p> <p>April 2000      Chief of Audit Office, Honda</p> <p>June 2005      Full-time Statutory Auditor, Yachiyo Industry Co., Ltd.</p> <p>August 2011      Chief of Internal Audit Office, the Company</p> | Ordinary Shares<br>0                                                              |

(Notes) There is no special interest between the candidate for substitute Statutory Auditor and the Company.

### Item 5 Issuance of Subscription Rights to Shares as Stock Options

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

In addition, since the gratis issuance of subscription rights to shares to Directors or Statutory Auditors of the Company falls under their remunerations, etc. that are not monetary, and the amount of which 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 Statutory Auditors 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 Statutory Auditors' 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 Statutory Auditors.

#### Notes

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

The purpose is to further motivate the right 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 contribution to improvement of the Company's performance, and raise Statutory Auditors' awareness of appropriate audit.

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

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

Directors, Statutory Auditors, 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 Statutory Auditors 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 10 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 Statutory Auditors 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

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.

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

- (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.

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

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

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) Person to whom the Share Options are allotted (the “Share Option Holder”) must be either a Director, Statutory Auditor, Corporate Officer (*Shikko Yakuin*) or employee of the Company or its subsidiaries at the time of exercising the option, except if such person resigns due to expiry of term of office, retires by age limit or terminates employment due to a company’s reason or if otherwise justified by the board of directors.
- (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 meeting.

(8) Reason 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 shareholders’ meeting of the Company or that a proposal to approve a stock swap agreement where the Company is to be wholly owned or a proposal to approve a stock transfer plan is approved at the shareholders’ meeting of the Company (or, if a resolution of the shareholders’ meeting is not required, is resolved by the board meeting 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.

(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), absorption-type company split or incorporation-type company split (limited to the cases where the Company is to be split), or stock swap or stock transfer (limited to the cases where the Company is to be a wholly-owned subsidiary) (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”) 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 a merger, the day when the merger comes into effect; for a consolidation, the day when a stock company is incorporated through consolidation; for an absorption-type company split, the day when the absorption-type company split comes into effect; for an incorporation-type company split, a stock company is incorporated from 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 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 merger agreement, consolidation 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 following provisions.

- (i) Number of Share Options of the Reorganized Company to be delivered  
The same number as the Remaining Share Options in the possession of the Share Option Holder shall be delivered.
- (ii) Type of stock 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  
To be determined in accordance with the above “(2) Class and number of shares covered by the Share Options” taking into account the conditions for Corporate Reorganization.
- (iv) Manner of calculation of the value of assets contributed to exercise 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 as 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  
To 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) Reason and conditions for acquisition of the share options  
To be determined in accordance with the above “(8) Reason and conditions for acquisition of the Share Options.”

(12) Fractional shares delivered upon exercise of the Share Options

Fractional 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 Statutory Auditors

The amount for remunerations, etc. for Directors and Statutory Auditors 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 Statutory Auditors incumbent on the Date of Allotment (up to 1,000 for Directors (including 300 for Outside Directors), and up to 300 for Statutory Auditors). The fair value of one (1) Share Option shall be calculated using the Black-Scholes model based on all conditions on the Date of Allotment including stock price of the Company and the Exercise Price, etc. At present, the Company has four (4) Directors (including two (2) Outside Directors) and three (3) Statutory Auditors, and it will have four (4) Directors (including two (2) Outside Directors) and three (3) Statutory Auditors, same as at present, in case where Item 2 “Election of Four (4) Directors” and Item 3 “Election of Two (2) Statutory Auditors” above have been approved in their original forms.

End