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Consolidated Financial Results for the 1st Quarter Ended December 31, 2019 [IFRS]

February 6, 2020

Listed company name: Sushiro Global Holdings Ltd. Listed stock exchange: TSE
 Securities code: 3563 URL <http://www.sushiroglobalholdings.com>
 Representative: President & CEO Koichi Mizutome
 Inquiries: Corporate Officer Keita Shimizu Phone: 06-6368-1001
 Scheduled filing date to file Quarterly Securities Report: February 7, 2020 Scheduled date to commence dividend payment: -
 Supplementary briefing materials on quarterly financial results prepared: No
 Quarterly financial results presentation meeting held: No

(Amounts of less than one million yen are rounded off to the million)

1. Consolidated Financial Results for the 1st Quarter Ended December 31, 2019 (October 1, 2019 to December 31, 2019)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes)

	Revenue		Operating profit		Profit before income taxes		Profit for the period		Profit for the period attributable to owners of the parent		Total comprehensive income for the period	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1st quarter ended December 31, 2019	55,738	14.8	4,837	18.3	4,693	16.5	3,031	19.9	3,031	19.9	3,348	36.4
1st quarter ended December 31, 2018	48,571	16.6	4,090	48.8	4,028	45.2	2,528	30.2	2,528	30.1	2,456	31.2

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
1st quarter ended December 31, 2019	104.47	104.26
1st quarter ended December 31, 2018	87.14	86.13

Reference: Adjusted profit for the period: 1st quarter ended December 31, 2019: 3,031 million yen (+19.9% year on year)
 1st quarter ended December 31, 2018: 2,528 million yen

Notes:

Sushiro Global Holdings Ltd. ("the Company") uses adjusted profit for the period as an important management indicator. For more information about this indicator, refer to (2) and (3) under "Explanation of Proper Use of Financial Forecasts, and Other Special Matters."

(2) Consolidated financial position

	Total assets	Total equity	Total equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
	Million yen	Million yen	Million yen	%
1st quarter ended December 31, 2019	221,959	47,562	47,562	21.4
Fiscal year ended September 30, 2019	136,349	47,367	47,367	34.7

2. Dividends

	Annual dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Fiscal year-end	Total
Fiscal year ended September 30, 2019	Yen -	Yen 0.00	Yen -	Yen 90.00	Yen 90.00
Fiscal year ending September 30, 2020	-				
Fiscal year ending September 30, 2020 (forecast)		0.00	-	90.00	90.00

Notes:

(1) Revisions to the most recently announced dividend forecasts: No

3. Consolidated Earnings Forecasts for the Fiscal Year Ending September 30, 2020 (October 1, 2019 to September 30, 2020)

(Percentages indicate year-on-year changes)

	Revenue		Operating profit		Profit before income taxes		Profit for the year		Profit for the year attributable to owners of the parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending September 30, 2020	223,730	12.4	16,290	12.0	15,630	8.8	10,210	2.5	10,210	2.5	351.92

Note: Revisions to the most recently announced earnings forecasts: No

* Notes:

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): No

New: –

Excluded: –

- (2) Changes in accounting policies, changes in accounting estimates

1) Changes in accounting policies required by IFRS: YES

2) Changes in accounting policy other than 1): None

3) Changes in accounting estimates: None

- (3) Total number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)	1st quarter ended December 31, 2019	29,012,496 shares	Fiscal year ended September 30, 2019	29,012,496 shares
b. Number of treasury shares at the end of the period	1st quarter ended December 31, 2019	62 shares	Fiscal year ended September 30, 2019	62 shares
c. Average number of shares during the period (cumulative from the start of the fiscal year)	1st quarter ended December 31, 2019	29,012,434 shares	1st quarter ended December 31, 2019	29,012,434 shares

* These financial results are outside the scope of quarterly review procedures by certified public accountants or accounting firms.

* Explanation of Proper Use of Financial Forecasts, and Other Special Matters

- (1) Consolidated earnings forecasts

The earnings forecasts and other forward-looking statements presented in this document are based on information currently available to the Company and on certain assumptions deemed to be reasonable. They do not constitute guarantees by the Company of future performance. Furthermore, actual results and performance may differ materially from these forecasts due to various factors. In addition, for more details on earnings forecasts, please refer to “(3) Explanation of consolidated earnings forecasts and other forward-looking statements” under “1. Qualitative Information on Financial Results for the Period Under Review” on page 3 of the attached materials.

- (2) The Company calculates adjusted profit for the period using the formula below.

Adjusted profit for the period = Profit for the period + others

- (3) Adjusted profit for the period is a financial metric that is not a measure of performance under International Financial Reporting Standards (IFRS), but the Company regards it as a useful indicator for investor valuation of the results of the Company and its subsidiaries (“the Sushiro Group”). This financial indicator excludes impact from non-recurring expense items (items deemed not to reflect ordinary operating activities, or items that do not appropriately reflect the earnings of the Sushiro Group relative to competitors). However, there is no adjustment for the 1st quarter ended December 31, 2018 and 2019.

Note that adjusted profit for the period excludes some items that affect profit for the period and therefore has substantial limitations as an analysis tool. Accordingly, it should not be regarded as a replacement for other indicators that are presented in accordance with IFRS. Adjusted profit for the period at the Sushiro Group is calculated differently from the same or similar metrics used at other sector companies. Consequently, it may not be suitable for comparison with other companies, and therefore have reduced utility.

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1. Qualitative Information on Financial Results for the Period Under Review

(1) Explanation of operating results

During the 1st quarter of the consolidated fiscal year ending September 30, 2020, the Japanese economy maintained a gradual recovery path backed by improvements in the employment and income environment. However, the economic outlook remained clouded by such factors as trade friction between the U.S. and China, problems surrounding the United Kingdom's withdrawal from the EU, and instability in the Middle East. Despite an uptick in consumer spending, the restaurant sector continued to face a challenging management environment distinguished by competition to secure human resources and rising labor costs driven by chronic labor shortages in addition to the increase in the rate of consumption tax and introduction of the reduced tax rate in October 2019.

Under such circumstances, the Sushiro Group worked to enhance product development, in-store food preparation, and health and safety initiatives and services guided by our motto "Tasty sushi for all. Tasty sushi for the heart." and the desire to surprise and move our customers with delicious sushi.

In terms of store development, the Sushiro Group opened 11 new stores (domestic: 9, overseas: 2), bringing the total store count to 577 (domestic: 550, overseas: 27) at the end of the 1st quarter of the consolidated fiscal year ending September 30, 2019.

As a result, revenue for the 1st quarter of the current consolidated fiscal year totaled 55,738 million yen (+14.8% year on year), operating profit 4,837 million yen (+18.3% year on year), profit before income taxes 4,693 million yen (+16.5% year on year), and profit for the period attributable to owners of the parent 3,031 million yen (+19.9% year on year).

In addition, adjusted profit for the period came to 3,031 million yen (+19.9% year on year).

Notes: Adjusted profit for the period = Profit for the period + others

(2) Explanation of financial position

1) Assets, liabilities and equity

(Assets)

The balance of total assets increased 85,610 million yen from the end of the previous consolidated fiscal year to 221,959 million yen.

The balance of current assets increased 1,375 million yen from the end of the previous consolidated fiscal year to 16,987 million yen. This mainly reflected a 1,668 million yen increase in trade and other receivables, an 836 million yen increase in inventories and a 1,318 million yen decrease in cash and cash equivalents.

The balance of non-current assets increased 84,235 million yen from the end of the previous consolidated fiscal year to 204,973 million yen. This mainly reflected an 83,890 million yen increase in property, plant and equipment resulting from the application of IFRS16 etc.

(Liabilities)

Total liabilities increased 85,415 million yen from the end of the previous consolidated fiscal year to 174,397 million yen.

The balance of current liabilities increased 12,296 million yen from the end of the previous consolidated fiscal year to 45,832 million yen. This mainly reflected a 8,543 million yen increase in lease liabilities resulting from the application of IFRS16 etc., a 1,795 million yen increase in trade and other payables, a 1,004 million yen increase in borrowings, a 936 million yen increase in other current liabilities and a 767 million yen decrease in provisions.

The balance of non-current liabilities increased 73,118 million yen from the end of the previous consolidated fiscal year to 128,565 million yen. This was mainly attributable to a 74,145 million yen increase in lease liabilities resulting from the application of IFRS16 etc. and a 1,021 decrease in borrowings.

(Equity)

Total equity increased 196 million yen from the end of the previous consolidated fiscal year to 47,562 million yen. This mainly reflected a 2,611 million yen decrease in retained earnings resulting from cash dividends paid, a 554 million yen decrease in retained earnings resulting from the application of IFRS16 and the booking of 3,031 million yen in profit for the period.

2) Cash flows

During the 1st quarter of the consolidated fiscal year ending September 30, 2020, cash and cash equivalents (hereinafter "Cash") decreased 1,318 million yen from the end of the previous consolidated fiscal year to 9,023 million yen.

The breakdown of cash flows by activities and underlying factors for the 1st quarter of the current consolidated fiscal year is shown below.

(Cash flows from operating activities)

Cash provided by operating activities totaled 7,155 million yen (+96.7% year on year).

This mainly reflected the booking of 4,693 million yen in profit before income taxes, the booking of 3,567 million yen in depreciation and amortization resulting from the application of IFRS16, a 2,245 million yen increase in trade and other payables, alongside an increase of 1,658 million yen in trade and other receivables, an 827 million yen increase in inventories, 142 million yen in interest paid and 1,474 million yen in income tax paid.

(Cash flows from investing activities)

Cash used in investing activities came to 3,547 million yen (+99.3% year on year).

This was mainly attributable to 3,210 million yen in purchase of property, plant and equipment accompanying store openings and 287 million yen in payments for lease and guarantee deposits.

(Cash flows from financing activities)

Cash used in financing activities amounted to 4,972 million yen (+33.8% year on year). This mainly reflected 1,042 million yen in repayments of long-term borrowings, 2,361 million yen in repayments of lease obligations resulting from the application of IFRS16, and 2,572 million yen in cash dividends paid.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

There are no changes to the consolidated earnings forecasts announced on November 8, 2019. Furthermore, the consolidated earnings forecasts presented in this document are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Actual earnings and performance may differ materially from these forecasts due to various factors such as economic trends.

2. Condensed Quarterly Consolidated Financial Statements and Important Notes

(1) Condensed consolidated statement of financial position

(in millions, JPY)

	Fiscal year ended September 30, 2019	1st quarter ended December 31, 2019 (From October 1, 2019 to December 31, 2019)
Assets		
Current assets		
Cash and cash equivalents	10,341	9,023
Trade and other receivables	2,678	4,346
Inventories	1,313	2,148
Other financial assets	316	400
Other current assets	963	1,069
Total current assets	15,612	16,987
Non-current assets		
Property, plant and equipment	25,579	109,468
Goodwill	30,371	30,371
Intangible assets	54,560	54,533
Equity method investment	1,816	1,978
Lease and guarantee deposits	7,959	8,176
Other financial assets	6	10
Other non-current assets	446	437
Total non-current assets	120,737	204,973
Total assets	136,349	221,959
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	21,256	23,051
Borrowings	4,149	5,153
Income taxes payable	1,459	1,651
Lease liabilities	809	9,352
Other financial liabilities	508	1,101
Provisions	2,449	1,682
Other current liabilities	2,906	3,842
Total current liabilities	33,536	45,832
Non-current liabilities		
Trade and other payables	36	31
Borrowings	36,622	35,602
Lease liabilities	575	74,720
Other financial liabilities	75	62
Provisions	1,982	1,998
Deferred tax liabilities	16,107	16,107
Other non-current liabilities	49	47
Total non-current liabilities	55,447	128,565
Total liabilities	88,982	174,397
Equity		
Capital stock	100	100
Capital surplus	15,747	15,747
Retained earnings	31,859	31,730
Treasury stock	(0)	(0)
Other components of equity	(339)	(14)
Total equity attributable to owners of the parent	47,367	47,562
Total equity	47,367	47,562
Total liabilities and equity	136,349	221,959

(2) Condensed consolidated statement of profit and loss

(in millions, JPY)

	1st quarter ended December 31, 2018 (From October 1, 2018 to December 31, 2018)	1st quarter ended December 31, 2019 (From October 1, 2019 to December 31, 2019)
Revenue	48,571	55,738
Cost of sales	(23,639)	(26,890)
Gross profit	24,932	28,849
Selling, general and administrative expenses	(20,853)	(24,043)
Other income	57	75
Other expenses	(47)	(43)
Operating profit	4,090	4,837
Finance income	24	44
Finance expenses	(86)	(188)
Profit before income taxes	4,028	4,693
Income taxes	(1,500)	(1,663)
Profit for the period	2,528	3,031
Profit attributable to:		
Owners of the parent	2,528	3,031
Profit for the period	2,528	3,031
Earnings per share		
Basic earnings per share (yen)	87.14	104.47
Diluted earnings per share (yen)	86.13	104.26

(3) Condensed consolidated statement of comprehensive income

(in millions, JPY)

	1st quarter ended December 31, 2018 (From October 1, 2018 to December 31, 2018)	1st quarter ended December 31, 2019 (From October 1, 2019 to December 31, 2019)
Profit for the period	2,528	3,031
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(47)	307
Effective portion of changes in fair value of cash flow hedges	(26)	11
Total of items that may be reclassified subsequently to profit or loss	(72)	318
Other comprehensive income after taxes	(72)	318
Total comprehensive income for the period	<u>2,456</u>	<u>3,348</u>
Attributable to:		
Owners of the parent	<u>2,456</u>	<u>3,348</u>
Total comprehensive income for the period	<u>2,456</u>	<u>3,348</u>

(4) Condensed consolidated statement of changes in equity

1st quarter ended December 31, 2018 (From October 1, 2018 to December 31, 2018)

(in millions, JPY)

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total equity attributable to owners of the parent	Total equity
Balance as of October 1, 2018	100	15,863	25,663	(0)	(790)	40,835	40,835
Profit for the period			2,528			2,528	2,528
Other comprehensive income					(72)	(72)	(72)
Total comprehensive income	-	-	2,528	-	(72)	2,456	2,456
Share-based payment transactions			8		(1)	6	6
Dividends		(116)	(2,350)			(2,466)	(2,466)
Total transactions with the owners	-	(116)	(2,342)	-	(1)	(2,460)	(2,460)
Balance as of December 31, 2018	100	15,747	25,848	(0)	(864)	40,831	40,831

1st quarter ended December 31, 2019 (From October 1, 2019 to December 31, 2019)

(in millions, JPY)

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total equity attributable to owners of the parent	Total equity
Balance as of October 1, 2019	100	15,747	31,859	(0)	(339)	47,367	47,367
Cumulative impact resulting from the change in accounting policy			(554)			(554)	(554)
Balance as of October 1, 2019, reflecting the change in accounting policy	100	15,747	31,304	(0)	(339)	46,812	46,812
Profit for the period			3,031			3,031	3,031
Other comprehensive income					318	318	318
Total comprehensive income	-	-	3,031	-	318	3,348	3,348
Lapse of subscription rights to shares			6		(6)	-	-
Share-based payment transactions					13	13	13
Dividends			(2,611)			(2,611)	(2,611)
Total transactions with the owners	-	-	(2,605)	-	7	(2,598)	(2,598)
Balance as of December 31, 2019	100	15,747	31,730	(0)	(14)	47,562	47,562

(5) Condensed consolidated statement of cash flows

(in millions, JPY)

	1st quarter ended December 31, 2018 (From October 1, 2018 to December 31, 2018)	1st quarter Ended December 31, 2019 (From October 1, 2019 to December 31, 2019)
Cash flows from operating activities		
Profit before income taxes	4,028	4,693
Depreciation and amortization	1,147	3,567
Impairment losses	42	40
Finance income	(24)	(24)
Finance expenses	83	188
Amount of rent offset by lease and guarantee deposits	75	71
Increase/decrease in trade and other receivables, (increase)	(622)	(1,658)
Increase/decrease in inventories, (increase)	(635)	(827)
Increase/decrease in trade and other payables, (decrease)	1,889	2,245
Others	(546)	474
Subtotal	5,438	8,771
Interest and dividend income received	0	1
Interest paid	(40)	(142)
Income taxes paid	(1,760)	(1,474)
Net cash from operating activities	3,638	7,155
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,487)	(3,210)
Purchase of intangible assets	(174)	(78)
Payments for lease and guarantee deposits	(133)	(287)
Others	14	27
Cash flows from investing activities	(1,780)	(3,547)
Cash flows from financing activities		
Proceeds from short-term borrowings		1,000
Repayments of long-term borrowings	(1,042)	(1,042)
Repayments of lease liabilities	(275)	(2,361)
Payments for commission fees	(1)	(3)
Cash dividends paid	(2,403)	(2,572)
Others	6	7
Cash flows from financing activities	(3,715)	(4,972)
Net increase/decrease in cash and cash equivalents, (decrease)	(1,857)	(1,364)
Cash and cash equivalents at beginning of year	12,386	10,341
Effect of exchange rate changes on cash and cash equivalents	(24)	46
Cash and cash equivalents at end of year	10,505	9,023

(6) Notes on condensed consolidated financial statements

(Notes regarding assumption of a going concern)

Not applicable.

(Changes in accounting policies)

Important accounting policies applied to these condensed quarterly consolidated financial statements are the same as the accounting policies applied to the consolidated financial statements for the previous consolidated fiscal year, except for the standards shown below.

In addition, income tax expenses for the 1st quarter of the consolidated fiscal year ending September 30, 2020 were calculated based on the estimated annual effective tax rate.

The Sushiro Group has applied the following standards from the 1st quarter of the consolidated fiscal year ending September 30, 2020.

Standard	Standard name	Summary of new standards and amendments
IFRS16	Leases	Amendments with regard to accounting treatment of leases

Application of IFRS16 “Leases”

The Company determines whether an arrangement is a lease or whether an arrangement contains a lease based on the substance of the arrangement even when it does not take the legal form of a lease.

The Company selected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets.

When an arrangement is a lease or contains a lease, the Company recorded right-of-use assets and lease liabilities on the quarterly condensed consolidated statement of financial position at the commencement date, except for short-term leases and leases of low value assets.

The Company adopted the cost model for the measurement of right-of-use assets, which are stated at acquisition cost less accumulated depreciation.

Right-of-use assets are depreciated regularly over the term of the lease. Lease liabilities are measured at the discounted present value of unpaid lease payments. Lease payments are allocated to finance expenses and repayment of lease liabilities based on the effective interest rate. Finance expenses are recognized on the quarterly condensed consolidated statement of profit and loss.

On applying IFRS16, the Company adopted the method which recognizes the cumulative impact due to the application of the standard at the initial application date, which is allowed as a transitional measure. The weighted average of the incremental borrowing rate applied to lease liabilities recognized on the quarterly condensed consolidated statement of financial position as of the initial application date is 0.59%.

When applying IFRS16, the Company selected a practical expedient to determine whether an arrangement contains a lease and carried over judgements under IAS17 “Leases” (“IAS17”) and IFRIC4 “Determining whether an Arrangement Contains a Lease.” Since the initial application date, judgements have been made based on the rules of IFRS16.

The Sushiro Group used the following practical expedients when applying IFRS16.

- Leases with a lease term of 12 months or less from the initial application date are accounted for in the same way as short-term leases.

- A single discount rate is applied to portfolios of leases with reasonably similar characteristics.

- Ex post judgements are used in the calculation of lease terms when an arrangement contains an option to extend or cancel a lease.

- Initial direct costs are excluded from the measurement of right-of-use assets as of the initial application date.

A reconciliation of the disclosed operating lease agreements which applied IAS17 at the end of the previous fiscal year and the lease liabilities recognized on the quarterly condensed consolidated statement of financial position on the initial application date is as follows.

(in millions, JPY)

Operating lease agreements disclosed at September 30, 2019	4,752
Discounted operating lease agreements disclosed at September 30, 2019	3,890
Finance lease obligations (September 30, 2019)	1,384
Minority leased assets	(7)
Cancellable operating lease agreements	76,831
Lease liabilities (October 1, 2019)	82,098

As a result, right-of-use assets increased 80,159 million yen and lease liabilities increased 80,714 million yen and retained earnings decreased 554 million yen at the start of the 1st quarter ended December 31, 2019 compared with the application of the previous accounting standard.

In addition, lease obligations which included in "Other financial liabilities" presented on the consolidated statement of financial position in past fiscal years has been presented as "Lease liabilities" from the 1st quarter ended December 31, 2019 and "Repayments of lease obligations" presented in "Cash flows from financing activities" on the consolidated statement of cash flows in past fiscal years has been presented as "Repayments of lease liabilities" from the 1st quarter ended December 31, 2019.

There are no other material impacts on the quarterly condensed consolidated financial statements due to the application of IFRS16.

(Segment information)

Segment-specific revenue, income/loss and other items are omitted as the Sushiro Group operates in a single segment.

(Selling, general and administrative expenses)

The breakdown of selling, general and administrative expenses is as shown below.

	1st quarter ended December 31, 2018 (From October 1, 2018 to December 31, 2018)	1st quarter ended December 31, 2019 (From October 1, 2019 to December 31, 2019)
Employee benefits	13,163	15,230
Depreciation and amortization	1,126	3,545
Utilities expenses	1,039	1,117
Other	5,524	4,151
Total	20,853	24,043

Note: The financial materiality of "Rents" listed in the breakdown by type of selling, general and administrative expenses in the 1st quarter ended December 31, 2018 decreased significantly due to the application of IFRS16 "Leases" and has therefore been included in "Other" from the 1st quarter ended December 31, 2019. "Rents" amounted to 2,125 million yen in the 1st quarter ended December 31, 2018. Additionally, a 2,235 million yen increase in "Depreciation and amortization" compared with the 1st quarter ended December 31, 2018 is likewise due to the application of IFRS16 "Leases."

(Earnings per share)

	1st quarter ended December 31, 2018 (From October 1, 2018 to December 31, 2018)	1st quarter ended December 31, 2019 (From October 1, 2019 to December 31, 2019)
Profit for the period attributable to common shareholders of the parent (million yen)	2,528	3,031
Profit for the period attributable to common shareholders used in calculations for basic earnings per share (million yen)	2,528	3,031

Profit for the period attributable to common shareholders used in calculations for diluted earnings per share (million yen)	2,528	3,031
Average number of shares during the period	29,012,434	29,012,434
Increase in number of common shares used in calculation for diluted earnings per share	339,980	57,881
Average number of common shares during the period after dilution	29,352,414	29,070,315
Basic earnings per share (yen)	87.14	104.47
Diluted earnings per share (yen)	86.13	104.26
Outline of potentially dilutive shares excluded from the calculation of diluted earnings per share due to the absence of dilutive effects	-	-

(Important subsequent events)

(Issuance of Corporate Bonds)

In accordance with the comprehensive resolution of the meeting of the Board of Directors held on October 24, 2019 regarding the issuance of unsecured straight corporate bonds, the Company issued bonds as outlined below with the payment date of January 23, 2020.

Name of securities	The 1st Unsecured Corporate Bonds (with limited inter-bond pari passu clause)	The 2nd Unsecured Corporate Bonds (with limited inter-bond pari passu clause)
Total amount of issue	5.0 billion yen	5.0 billion yen
Issue price	100% of the denomination per bond	
Coupon rate	0.17%	0.35%
Security	No	No
Maturity	January 23, 2025	January 23, 2030
Use of proceeds	Allocated to funds for repayment of loans and funds for capital expenditure	