

[Translation]

To: Our Shareholders

Prospect Co., Ltd.

Information about Taxation Treatment of the 117th Year-end Dividends

Thank you very much for your continued support.

Following the resolution on approval at the 117th annual general meeting of shareholders held on June 28, 2018, the Company will pay the 117th year-end dividends of ¥4 per share.

As dividends are paid from “capital surplus” and as taxation treatment will differ from the previous dividends paid from “retained earnings,” we will inform you about the treatment, etc.

As stated in paragraph 1 below, all dividend amounts will be paid from “other capital surplus,” which falls under “return of capital” under taxation. Therefore, “deemed transfer income” will accrue, but as it does not fall under dividend income under taxation, it shall not be subject to withholding tax or dividend deduction. Please keep this in mind when filing your tax returns.

In this regard, for specific calculation of “acquisition price” of the shares of the Company held by you and “deemed transfer income” and calculation of transfer income tax by sale in the future, as it will differ depending on the circumstances of each shareholder, we apologize in advance for any inconvenience. Please consult your account-managed securities company, local tax office or tax attorney, etc., with reference to the “Taxation Treatment of Dividends” below.

Sincerely,

Taxation Treatment of Dividends

1. Income category of dividends (Income Tax Act, Article 24 and Article 25, etc.)

- All dividend amounts will be paid from “other capital surplus.” Under the tax law, for dividends from capital surplus, portion consisting of capital, etc., is treated as “return of capital” and portion consisting of other than capital, etc., is treated as “deemed dividends,” but there is no applicable portion in the dividends.
 - Under the tax law, as “return of capital” is deemed as transfer of part of shares of the Company held by shareholders to the Company, it is called “deemed transfer” under taxation. For “deemed transfer,” it is necessary to file a final return of transfer income as well as adjustment (reduction) of acquisition price.
 - As all dividend amounts will be deemed as revenue from “deemed transfer,” shares held in specific accounts, which are subject to “withholdings” shall be treated as transfer of shares in a general account and withholding of tax on transfer income shall not be made.
- In addition, it shall not be subject to dividend deduction in the final return.

2. Deemed Transfer Income (Act on Special Measures concerning Taxation, Article 37-10)

- As shareholders are deemed to have transferred part of shares of the Company under the tax law, “deemed transfer income” shall accrue.
 - The amount deducting “[2] acquisition price” from the “[1] amount deemed to be revenue” falls under transfer income, etc.
- In the dividends, deemed dividend amount is “¥0” and the decreasing rate in net assets is “0.069.”

[1] Amount deemed to be revenue	=	Total amount of cash, etc., acquired by return, etc.	-	Deemed dividends (“¥0”)
[2] Acquisition price	=	Total amount of previous acquisition price	×	Decreasing rate in net assets (0.069)
[3] Deemed transfer income ([1]-[2])	=	[1] Amount deemed to be revenue	-	[2] Acquisition price

[Ex.] In case where a shareholder purchased 1,000 shares of the Company at ¥52 per share

[1] Amount deemed to be revenue = ¥4 (dividends per share) × 1,000 shares - ¥0 = ¥4,000

[2] Acquisition price = (¥52 × 1,000 shares) × 0.069 (decreasing rate in net assets) = ¥3,588

[3] Deemed transfer income = ¥4,000 - ¥3,588 = ¥412 (If the calculation result was minus, it is deemed transfer loss.)

※ Please consult your local tax office or tax attorney, etc., for specific calculation of deemed transfer income.

3. Treatment of Acquisition Price (Ordinance for Enforcement of the Income Tax Act, Article 114, paragraph 1)

- Acquisition price of the shares of the Company held by shareholders is adjusted under the tax law.
- Adjustment formula is as follows. (Decreasing rate in net assets is “0.069.”)

$$\boxed{\text{New acquisition price per share}} = \boxed{\text{Previous acquisition price per share}} - \left(\boxed{\text{Previous acquisition price per share}} \times \boxed{\text{Decreasing rate in net assets (0.069)}} \right)$$

[Ex.] In case where a shareholder purchased 1,000 shares of the Company at ¥52 per share

[1] Adjustment amount per share = ¥52 × 0.069 (decreasing rate in net assets) = ¥3.588

[2] New acquisition price per share = ¥52 – ¥3.588 = ¥48.412

[3] New acquisition price = ¥48.412 × 1,000 shares = ¥48,412

- ※1. For the adjustment method of shareholders using “specific account” at securities companies, as treatment method differs by the type of account, please consult your account-managed securities company.
- ※2. If you do not use “specific account,” it will be necessary to adjust the acquisition price by the above formula.

4. Matters of Notice to Individual Shareholders

Matters provided for in Ordinance for Enforcement of the Income Tax Act, Article 114, paragraph 5	Matters of Notice
Decreasing rate in net assets (Rate provided for in Ordinance for Enforcement of the Income Tax Act, Article 61, paragraph 2, item 3 concerning return of capital)	0.069 (Rounded up to the nearest second decimal point)

5. Matters of Notice to Corporation Shareholders

Matters provided for in Ordinance for Enforcement of the Corporation Tax Act, Article 23, paragraph 4	Matter of Notice
Matters set forth in each item of the Corporation Tax Act, Article 24, paragraph 1 which were the causes for issuing cash and other assets	Return of capital
Date of occurrence of the causes	June 29, 2018
Per share amount equivalent to the deemed dividend amount	¥0 per share

Matters provided for in Ordinance for Enforcement of the Corporation Tax Act, Article 119-9, paragraph 2	Matters of Notice
Decreasing rate in net assets	0.069 (Rounded up to the nearest second decimal point)
Amount of capital surplus that decreased by return of capital	¥1,732,852,576

6. Other Reference Information

Matters requiring treatment different from ordinary dividends (dividends paid from “retained earnings”) by shareholders in connection with the dividends (paid from “capital surplus” but not from “retained earnings”)

- (1) Calculation of “deemed transfer income” is required.
As taxable amount on “deemed transfer profit” related to “return of capital” under taxation is not included in calculation at specific account, final tax return will be required.
- (2) Adjustment of “acquisition price” is required.
 - [1] In case where you use a specific account
Your account-managed institution (securities company, etc.) will make adjustment of the acquisition price, but as treatment might differ depending on the account-managed institution, please consult your account-managed institution for details.
 - [2] In case where you use a general account
Please consult your account-managed institution (securities company, etc.).
- (3) Matters to be noted
This information explains the tax treatment of dividends and the matters to be notified to shareholders under the tax law, but this shall not cover all the matters because treatment will differ depending on the circumstances of each shareholder.
If there are any unclear points, please consult the referral institution below.
Please keep this information available as it will serve as explanation materials for “Acquisition price” in a case where shareholders sell shares of the Company in the future.
This information will also be posted on the Company’s website (<http://www.prospectjapan.co.jp/>).

7. Referral Institution concerning the Matter

- (1) Specific referral concerning adjustment of acquisition price
Please consult your account-managed institution (securities company, etc.) or local tax office.
- (2) Referral and consultation on tax return, etc.
Please consult your local tax office or tax attorney, etc.
- (3) Other referral concerning the procedures for the shares
Shareholder Registry Administrator of the Company: Mizuho Trust & Banking Co., Ltd.
Contact: Mizuho Trust & Banking Co., Ltd., Stock Transfer Agency Department
Tel: 0120-288-324 (Toll-free)
Hours: 9:00 a.m. - 5:00 p.m. (except for Saturdays, Sundays and holidays)