

This is an English translation of the original Japanese-language “Announcement Regarding Expression of Opinion Opposing the Tender Offer for Descente Shares by BS Investment Corporation” dated February 7, 2019 and is provided for reference purposes only.

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February 7, 2019

Company: DESCENTE LTD.  
Representative President and Representative  
: Director: Masatoshi Ishimoto  
(Code No. 8114, Tokyo Stock Exchange, 1st Section)  
Contact: Director and Managing Executive  
Officer: Kenichi Tsujimoto  
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### **Announcement Regarding Expression of Opinion Opposing the Tender Offer for Descente Shares by BS Investment Corporation**

DESCENTE LTD. (the “Company”) hereby announces that, at the Board of Directors’ meeting held today, it was resolved to oppose the tender offer for the Company’s shares (the “Tender Offer”) by BS Investment Corporation (the “Tender Offeror”), a wholly-owned subsidiary of ITOCHU Corporation (“ITOCHU”), and to request that the Company’s shareholders do not tender their shares in the Tender Offer. The resolution was unanimously passed by eight directors and three corporate auditors, excluding (i) Director Motonari Shimizu, a director dispatched from ITOCHU who was absent from the meeting due to a possible conflict of interest with the Company regarding the Tender Offer, and (ii) Director Ichiro Nakamura, who originated from ITOCHU, and who attended the meeting but withheld his opinion.

#### 1. Outline of the Tender Offeror

(1) Name	BS Investment Corporation
(2) Location	5-1 Kita-Aoyama 2-chome, Minato-ku, Tokyo
(3) Title and Name of Representative	Representative Director: Ken Watanabe
(4) Business Activities	Acquisition and holding of share certificates, etc. of the Company
(5) Capital	JPY 1,000,000 (as of January 31, 2019)
(6) Date of Establishment	January 9, 2019

(7) Major Shareholders and Shareholding Percentages (as of January 31, 2019)	ITOCHU Corporation	100.00%
(8) Relationship between the Listed Company and the Tender Offeror		
Capital Relationship	The Company has no capital relationship to be stated with the Tender Offeror. ITOCHU, which is the wholly-owning parent company of the Tender Offeror, holds 22,964,300 shares of the Company's common stock (Shareholding Percentage (Note 1): 30.44%).	
Personnel Relationship	The Company has no personnel relationship to be stated with the Tender Offeror. Among the directors of the Company, one director originated from ITOCHU, which is the wholly-owning parent company of the Tender Offeror, and one director concurrently serves as an executive officer of ITOCHU.	
Business Relationship	The Company has no business relationship to be stated with the Tender Offeror. There are transactions involving the sales of merchandise, etc. between ITOCHU, which is the wholly-owning parent company of the Tender Offeror, and the Company and the Company's subsidiaries.	
Status as Related Party	The Tender Offeror is not a related party of the Company. However, ITOCHU, the wholly-owning parent company of the Tender Offeror, is the largest shareholder among the major shareholders of the Company, holding 22,964,300 shares of the Company's common stock (Shareholding Percentage (see Note 1): 30.44%), and the Company is an affiliate of ITOCHU under the equity method of accounting.	

(Note 1) Shareholding Percentage means the percentage of shares relative to 75,408,409 shares, which is equal to the total number of the issued shares of the Company as of September 30, 2018 (*i.e.*, 76,924,176 shares) less the number of treasury shares held by the Company as of the same date (*i.e.*, 1,515,767 shares) as set forth in the “62nd Business Period Second Quarterly Report,” as submitted by the Company on November 8, 2018 (rounded to two decimal places). The same applies hereinafter.

(Note 2) Information regarding the Tender Offeror and its related parties and affiliated companies is based on the information set forth in the tender offer explanatory statement submitted by the Tender Offeror on January 31, 2019 (the “Tender Offer Registration Statement”) and the Announcement Relating to Commencement of Tender Offer for shares in DESCENTE LTD. (Code No. 8114) released by

ITOCHU and the Tender Offeror on the same date (the “Press Release”; together with the Tender Offer Registration Statement, the “Tender Offer Documents”).

## 2. Purchase Price

The purchase price is JPY 2,800 per share of the Company’s common stock.

## 3. Content of and Background and Reasons for the Opinion Regarding the Tender Offer

### (1) Content of the Opinion

The Company opposes the Tender Offer by the Tender Offeror, which is a wholly-owned subsidiary of ITOCHU, based on the resolution of the Board of Directors’ meeting held on February 7, 2019.

Further, in addition to asking that the Company’s shareholders do not tender their shares in the Tender Offer, we ask that shareholders that have already tendered their shares promptly cancel any agreements relating to the Tender Offer.

### (2) Background of the Opinion

After the Tender Offer was commenced unilaterally and without any prior notice to the Company on January 31, 2019, the Company promptly collected and analyzed the Tender Offer Registration Statement and other information regarding the Tender Offer with the advice and cooperation of our financial advisor, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., and our legal advisor, Mori Hamada & Matsumoto, from the perspective of securing the Company’s corporate value and the common interests of its shareholders, and had sincere discussions in Board of Directors’ meetings and on other occasions.

Further, the Company’s four independent directors and statutory auditors as prescribed by the Tokyo Stock Exchange, comprising two outside directors and two outside statutory auditors, had discussions separately from the Board of Directors and only among the outside directors and the outside statutory auditors, and sincerely considered the Tender Offer from a perspective that is independent from ITOCHU and the Tender Offeror (“Tender Offerors”) and the Company, including whether that would contribute to the corporate value of the Company and the common interests of its shareholders.

As a result, at the Board of Directors’ meeting held on February 7, 2019, it was resolved to oppose the Tender Offer and to request that the Company’s shareholders do not tender their shares to the Tender Offer because, as stated in “(3) Reasons for the Opinion” below, not only would that not enhance the Company’s corporate value or the common interests of its shareholders, but there is significant risk that it would damage them. In making the

resolution, the Board of Directors judged that, although the Tender Offer formally proposes a price with a certain premium, there is a limitation on the number of shares to be purchased and it enables ITOCHU to obtain substantial control of the Company for the minimum amount of capital, and causes the other shareholders to bear the risk associated with ITOCHU controlling the Company's management. The resolution was unanimously passed by eight directors and three statutory auditors, excluding (i) Director Motonari Shimizu, a director dispatched from ITOCHU who was absent from the meeting due to a possible conflict of interest with the Company regarding the Tender Offer and (ii) Director Ichiro Nakamura who originated from ITOCHU, who attended the meeting but withheld his opinion,

### (3) Reasons for the Opinion

According to the Tender Offer Documents, Tender Offerors state that the Tender Offer will be conducted for the purpose of, among other things, reforming the Company's management structure because there are issues with the Company's management structure and management policy, including its corporate governance system.

However, the Company believes that the Tender Offer will damage the Company's corporate value and infringe upon the common interests of its shareholders.

Specifically, in the Tender Offer, although the Tender Offer Price represents a certain premium over the most recent market price, there is a limitation on the number of shares to be purchased (7,210,000 shares; Shareholding Percentage: 9.56%), so this is no more than a guarantee that only a limited number of shares will be sold at the above Tender Offer Price. This means that although the Tender Offer formally sets a Tender Offer Price that represents a premium, it actually enables ITOCHU to obtain substantial control of the Company for the minimum amount of capital through coercive measures, and causes the other shareholders to bear the risk associated with ITOCHU controlling the Company's management (see (i) below).

If Tender Offerors obtain substantial control of the Company through the Tender Offer, there is a danger that the Company will be managed in a way that prioritizes the ITOCHU Group's interests over the Company's corporate value and the common interests of its shareholders (see (ii) below). Further, the checking of conflicts of interest with ITOCHU would not be in effect, and it would be difficult to maintain and construct a corporate governance structure that considers the common interests of the shareholders (see (iii) below).

In addition, the Tender Offer Documents contain many material factual errors and misleading statements, and we believe that the Tender Offer is an insincere proposal made based on inappropriate information disclosure (see (iv) below).

Upon the expression of the opinion stated in this Notice, the Company's Board of Directors obtained the opinion from its two outside directors and two outside statutory auditors who are independent from Tender Offerors and the Company that, as set forth in this Notice, expressing our opposition to the Tender Offer is appropriate from the perspective of the Company's corporate value and the common interests of its shareholders (see (v) below).

Explanations of each point are set forth below.

(i) **The Tender Offer uses Coercive Measures to Cause General Shareholders to Bear the Risk of Itochu's Management of the Company Without Offering Proper Benefit**

The Tender Offer Price for the Tender Offer is to be the most recent market price plus a certain premium.

However, there is a limitation on the number of shares to be purchased in the Tender Offer, and the number of shares to be purchased is limited to a maximum of 7,210,000 shares (Shareholding Percentage: 9.56%). Shares in excess of that number will not be purchased, and settlement will be handled on a pro rata basis. Therefore, there is no guarantee that all the shares tendered will be sold at the Tender Offer Price.

On the other hand, if Tender Offerors come to hold 40.00% of the voting rights of all the shareholders of the Company through the Tender Offer, ITOCHU will obtain substantial control of the Company, in light of the percentage of voting rights exercised at general meetings of shareholders (87.35% at the Annual General Meeting of Shareholders held in June 2018). ITOCHU stated that it is necessary to proceed with the change to the management structure with the support of other shareholders of the Company (page 3 of the Tender Offer Registration Statement), that ITOCHU intends to have discussions with the Company (page 9 of the Tender Offer Registration Statement), and that ITOCHU does not intend to make the Company a subsidiary at this point (page 8 of the Tender Offer Registration Statement). However, as detailed below (see (ii)B(a) below), ITOCHU has demanded that the Company implement policies that prioritize the interests of the ITOCHU Group. In addition, in light of this aggressive measure of unilaterally commencing a Tender Offer without giving any prior notice and at this point in time, which is immediately before the record date for exercising voting rights (the last day of March) at the Annual General Meeting of Shareholders to be held in June of this year, the Company judges that the purpose of the Tender Offer is for Tender Offerors to obtain substantial control of the Company for the minimum amount of capital, using the Tender Offer as a coercive measures by setting a limitation on the number of shares to be purchased, and to implement changes to the management structure and the management policy that are in line with the will of Tender Offerors.

In this way, through the Tender Offer, while the shareholders will have the opportunity to sell a limited number of shares for a price that represents a certain premium, after that they will continue to hold the remaining majority of shares and will bear the risk of ITOCHU's management of the Company as it will have obtained substantial control of the Company. Therefore, after the Tender Offer, the shareholders would be exposed to the risk of the Company being operated in a way that prioritizes the interests of the ITOCHU Group, under a situation where the checking function regarding conflicts of interest with ITOCHU would have been lost, and it would be difficult to establish a corporate governance structure for the common interests of the shareholders. We judge that the Tender Offer does not offer proper benefits that are appropriate for that significant risk.

(ii) **While the Performance of the Company's Current Management is Regarded Highly, There is a High Possibility That After the Tender Offer the Company Will be Operated so That the Itochu Group's Interests are Prioritized, and the Company's Corporate Value is Damaged**

A. Expansion of the Company's Operating Results Under the Current Management Structure

As also stated in the Tender Offer Documents, ITOCHU dispatched the representative director and president to the Company for 19 years, from 1994 until 2013. However, when the representative director and president dispatched from ITOCHU stepped down in June 2013, we shifted to a management structure whereby the representative director and president was a person without an interest in ITOCHU.

Since this change in the management structure, the Company's management has steadily improved its performance, so that we are proud to be highly regarded by our shareholders and the capital markets.

(a) Steady Improvement in Performance

As Tender Offerors states in the Tender Offer Documents, the Company's consolidated net sales and ordinary income for the fiscal year ending March 31, 2019 are forecast to have increased by approximately 1.6 and 1.8 times respectively when compared to the fiscal year ending March 31, 2013.

From the perspective of regional segments, the Company's South Korea business, which is a major source of revenue, is developing steadily, and in addition, regarding the China business, the amount of the consolidated net sales to Chinese customers plus the net sales to Chinese customers of joint venture companies that are affiliates of the Company under the equity method of accounting (deducting net sales to the joint venture from the Company's consolidated group) is expected to increase by approximately 4.1 times from JPY 6.4 billion to JPY 26 billion from

the fiscal year ended March 31, 2013 to the fiscal year ending March 31, 2019, making China the third pillar, after South Korea and Japan.

From the perspective of brands, consolidated net sales for the house brand Descente are forecast to increase by approximately 3.2 times from JPY 20 billion to JPY 64.5 billion from the fiscal year ended March 31, 2013 to the fiscal year ending March 31, 2019, and the five primary brands of the Company (Descente, Le Coq Sportif, Arena, Munsingwear, and Umbro), including the brands held under regional restrictions, are expected to make up 90% of the consolidated net sales of the Company for the fiscal year ending March 31, 2019, demonstrating that the Company has built a strong business foundation that is not reliant on licensing.

(b) Increase in Corporate Value, Including Steady Rise in the Stock Price

In the period from June 19, 2013, when the above changes to the management structure occurred, to January 30, 2019, which is one business day before the Tender Offer was announced, against the backdrop of the steady management achievements described in (a) above, the Company's stock price roughly tripled in value, and the total shareholder return ("TSR") in that same period reached 205.2%. Considering that the rate of increase of the TOPIX and the TSR in that period were only 1.4 times and 57.0%, respectively, the Company believes that those figures are seen as the achievement of an extremely high shareholder return. In addition, the dividends per share of the Company have continually increased from 8 yen in the fiscal year ended March 31, 2013 to a record high of 26 yen forecast for the fiscal year ending March 31, 2019, and the Company has been managed with a strong awareness of the common interests of the shareholders.

(c) Consideration of Measures to Further Enhance the Corporate Value

Naturally, the Company is never satisfied with the current situation notwithstanding the steady business performance to date, and has continuously implemented, and considered measures to further enhance its corporate value, such as establishing R&D centers in Japan and South Korea this fiscal year for the purpose of further reinforcing the Company's ability to develop products, which are the source of the Company's competitiveness, as well as entering into a comprehensive business alliance agreement with Wacoal Holdings Corp. ("Wacoal"), announced in August 2018, and aiming to expand its business through acquisitions and alliances in the European and U.S. markets. In addition, the Company has established the Digital Marketing Strategy Office under the direct control of the president in response to the rapid progression of digitalization and is actively and powerfully furthering business reforms through digital technology.

(d) Stakeholder Trust in the Current Management Team

As a result of the matters detailed in (a) through (c) above, the approval rating of the Company's current management team in the proposal to appoint directors at the Company's Annual General Meeting of Shareholders held in June 2018 was extremely high at approximately 97% for each director, and all of the Company's shareholders are thought to firmly trust the current management team.

B. High Possibility that, after the Tender Offer, ITOCHU's Interests will take Priority and the Company's Interests will be Harmed

As detailed in (ii)A(a) above, since the changes to the management structure in 2013, the Company has increased its performance through autonomous and independent management by the current management team and the employees. However, if ITOCHU obtains substantial control of the Company through the Tender Offer, there are great concerns, as detailed in (a) through (c) below, of the possibility of the Company's management structure and management policy being changed to prioritize the interests of the ITOCHU Group without considering the common interests of the shareholders.

(a) Possibility of Forced Purchases

The Company has been receiving various requests from ITOCHU, which is a business partner and a major shareholder of the Company, regarding the Company's management and business activities.

In particular, before the change to the management structure in 2013, the Company's representative director and president was dispatched from ITOCHU, and those requests were frequently made through direct pressure on the Company's management team and other means. In particular, after establishing target value at ITOCHU in 2011 of 15.0 billion yen p.a. in the amount of purchases by the Company from ITOCHU, those demands further intensified. In 2012, even demands for transactions that could only be deemed as damaging to the relationship of mutual trust with the Company's business partners and contrary to the Company's interests, including the following types of transactions, were frequently made in order to achieve the target value of 15.0 billion yen p.a.

“Middleman (*Toshi*)”: ITOCHU acts as intermediary in purchases that the Company carries out directly with business partners, and on the sales slip, the form of transaction is one where ITOCHU purchases from that business partner and sells to the Company

“Replacement (*Tsukekae*)”: In purchases carried out by the Company through



another trading company, the purchase is carried out through ITOCHU instead of the trading company

Demands for an increase in those purchases by ITOCHU deviated greatly from the framework of usual business discussions and negotiations, and were not possibly acceptable to the Company. Accordingly, after multiple consultations with ITOCHU beforehand, on February 26, 2013, the Company's Board of Directors decided that the representative director dispatched from ITOCHU should retire at that time and the Company should transition to a new management structure under a new president with no interest in ITOCHU to be approved at the Company's Annual General Meeting of Shareholders in June 2013. The shareholders at that Annual General Meeting of Shareholders approved the proposal and the transition was made to the current management structure. The requests by ITOCHU detailed above were recognized in an inspection by the Company's internal inspection committee established in June 2013, with an outside statutory auditor of the Company as the head of the committee, as causing significant compliance issues, and the cause of that was recognized as being somewhat related to the fact that the Company's directors originated from ITOCHU, which is the Company's largest shareholder and a major business partner.

(b) Possible Difficulty of Procurement from Various Routes

If the management structure and management policy is changed in accordance with ITOCHU's intention as a result of the Tender Offer, it might become difficult for the Company to procure products from various routes.

In the relentless competitive environment that surrounds the Company, it is considered essential to create a long-term relationship with suppliers and business partners depending on the product, brand, and region, rather than a business model under which transactions are conducted with specific suppliers and business partners, and to develop, manufacture, and provide highly value-added products in accordance with customer needs.

Therefore, the Company has created long-term relationships with many business partners, and secured suppliers according to the product, brand, and region. In particular, in its overseas business, the Company's performance has expanded through efforts to decentralize risk by selecting business partners for each region and brand and by encouraging competition among business partners to increase transactions and deepen relationships with the Company. The maintenance of procurement routes that consist of various suppliers and business partners supports the foundation of the Company's corporate value, namely *monozukuri* (or dedicated manufacturing), and is extremely important and indispensable to provide products

that meet the latest needs of customers, to develop advanced products that bring together cutting-edge technology and performance, and to secure constant profitability.

However, if ITOCHU obtains substantial control of the Company's management through the Tender Offer, the relationships with various suppliers and business partners according to product, brand, and region formed by the Company might be destroyed, and it might become impossible to conduct highly value-added transactions at a price with a competitive edge on costs, which are based on those relationships, which might have a material adverse impact on the Company's business. In addition, if the freedom in purchasing is restricted as a result of an increase in purchase transactions with ITOCHU, the development and manufacturing of highly value-added products that meet the customers' needs will also be restricted, and the Company's *monozukuri* abilities, which are its strength, will be lost, and its earnings will be suppressed, which might result in the Company's corporate value being damaged.

(c) Possibility of Destroying Good Relationships with Employees and Business Partners

The Company has built good relationships with its employees and its business partners, and those relationships are an important source of the Company's corporate value.

Specifically, it is believed the Company's good relationships with its employees and its business partners allow the Company to develop and manufacture highly value-added products that meet the needs of customers, and to demonstrate the Company's abilities with *monozukuri*, which is its strength. Further, the free and easy disposition without being under the control of a specific trading company, including ITOCHU, is considered essential for many employees to demonstrate their creativity in *monozukuri*. In addition, it is considered indispensable for the Company to cooperate and build long-term relationships with its business partners, as detailed in (b) above, and to develop, manufacture, and provide highly value-added products that meet customer needs.

In this way, if ITOCHU obtains substantial control of the Company through the Tender Offer, the source of the Company's corporate value—namely, the relationships with its employees, business partners, and other stakeholders—is likely to be materially and adversely affected, and the Company's corporate value might be extensively damaged. In fact, after the announcement of the Tender Offer, many employees and business partners expressed concern over the possibility of ITOCHU exercising improper influence on the Company's management.

**(iii) Difficulty of Establishing Corporate Governance System for the Common Interests of the Shareholders after the Tender Offer**

**A. Maintenance and Reinforcement by the Company of a Corporate Governance System that Considers the Common Interests of the Shareholders**

After the representative director and president dispatched from ITOCHU retired and the transition was made to the current management team in 2013, the Company pursued a system of management with the intention of enhancing the Company's corporate value and the common interests of the shareholders, and adopted a Board of Directors structure that includes two independent outside directors, and established a nominating committee and a compensation committee that are not statutorily mandatory, with the aim of improving corporate governance including the management's supervisory function.

As a result, when the Company received proposals from ITOCHU regarding management policies, which the Company considered to be improper demands that put an emphasis on the interests of ITOCHU Group rather than the Company, the Company refused those demands and continued to manage in the interest of the Company and the common interests of the shareholders. In the Tender Offer Documents, Tender Offerors shared the criticism that the Company has yet to demonstrate that it has an intention to sincerely consider ITOCHU's requests, but the Company has concluded that its current management structure has enabled the Company to respond appropriately to ITOCHU's improper demands from a free and unbiased stance and from the perspective of the common interests of the shareholders.

**B. Difficulty of Achieving Checks and Balances Function Against Conflicts of Interest with ITOCHU after the Tender Offer**

In the Tender Offer Documents, Tender Offerors state that if the Tender Offer is successfully completed, it plans to change the Company's management structure and to propose at the Company's shareholders meeting to appoint two new directors from the Company and two directors from ITOCHU, and two outside directors who are independent from Tender Offerors and the Company. Further, Tender Offerors stated that it is necessary to proceed with the change to the management structure with the support of other shareholders of the Company (page 3 of the Tender Offer Registration Statement), and intends to have discussions with the Company (page 9 of the Tender Offer Registration Statement), but does not intend to make the Company a subsidiary at this point (page 8 of the Tender Offer Registration Statement).

However, as detailed above, the purpose of the Tender Offer is for ITOCHU to obtain substantial control of the Company through the coercive measure of a tender offer with a limitation on the number of shares to be purchased, and to change the management

structure and the management policy to align with ITOCHU's own intentions. As stated in (ii)B(a) above, taking into consideration the fact that ITOCHU has made demands to the Company to implement policies that prioritize the interests of ITOCHU Group, if ITOCHU obtains substantial control of the Company through the Tender Offer, it has been concluded that it is highly likely that the Board of Directors and other supervisory bodies that should carry out the checks and balances function in response to ITOCHU's conflicts of interest will fall into dysfunction.

C. Possibility of Inhibiting Further Reforms of the Company's Corporate Governance System

As detailed in (iii)A above, the Company has improved its corporate governance system including the management supervisory functions by adopting, among other things, a Board of Directors structure that includes two independent outside directors. In addition, the Company has been considering a more effective management structure to further reinforce its corporate governance. As a result, the Company intends to substantially reinforce the supervisory function of the Board of Directors by reforming the Company's management structure and making the majority of its directors independent outside directors from the perspective of making the corporate governance system including management supervisory functions more advanced and transparent. Specifically, the Company intends to appoint one executive director and four independent outside directors, and it will make a proposal at a meeting of shareholders of the Company on the appointment of those directors.

The Company believes that such reform of the corporate governance system will make it possible to further improve the checks and balances function regarding conflicts of interest with ITOCHU and to create a corporate governance system that contributes to the common interests of the shareholders. The details of that reform are scheduled to be announced once they have been determined.

(iv) **The Tender Offer is an Insincere Proposal Conducted through Inappropriate Information Disclosure**

A. The Indications by Tender Offerors with respect to the Company's Management Issues Constitute Factual Errors or Misleading Statements That Distort the Facts

Tender Offerors indicated in the Tender Offer Documents that the Company has the following management issues: (a) excessive dependence on the South Korean business, (b) weakness of its corporate governance system, and (c) the possibility of the current management disregarding employees.

However, as explained below, those indications by Tender Offerors are based on factual

errors or constitute misleading statements that distort the facts.

(1) The Indication of Excessive Dependence on the South Korean Business

ITOCHU indicated in the Tender Offer Documents that the Company excessively depends on the South Korean business and it presumes the Japan business is actually in a state that is close to an operational deficit.

However, since the Company spun off DESCENTE JAPAN LTD., which specializes in the Japan business, a system to provide the right items at the right time has been established and business efficiency is improving, and by creating hits with highly value-added products such as Mizusawa Down, the Japan business has seen significantly improved profitability over the past few years, and DESCENTE JAPAN LTD. recorded for the fiscal year ended March 2018, which was the first fiscal year after the spin-off, net sales of JPY 50,693 million, ordinary income of JPY 932 million, and net profit of JPY 962 million (after payment of royalties to the Company). Further, in other areas, operating results in China in particular have been rapidly expanding, as shown in (ii)A(a) above, and the China business is growing to become the third pillar after South Korea and Japan. Hence, this indication by ITOCHU is contrary to the facts.

Tender Offerors also indicated in the Tender Offer Documents that even though ITOCHU and a director of the Company dispatched from ITOCHU raised issues regarding the Company's business strategy and demanded that the Company reconsider its business policy, the Company has not sincerely considered that demand. However, the Company has given explanations of various operating results and had discussions with ITOCHU as a major shareholder, while giving due consideration to the equal and fair treatment of its shareholders, so that indication is also contrary to the facts. The Company intends to sincerely consider the specific issues raised by ITOCHU and other shareholders, but at the same time, it is our understanding that the decision of whether to accept a proposal from a specific shareholder must be made from the perspective of the corporate value of the Company and the common interests of its shareholders.

(2) Weakness of the Corporate Governance System

Tender Offerors indicated in the Tender Offer Documents that there is a material problem in the Company's corporate governance system because (i) there was not sufficient deliberation at the meeting of the Board of Directors at the time of the execution of a comprehensive business alliance agreement between Wacoal and the Company, (ii) the directors in charge and the statutory auditors of the Company insincerely dealt with the request for the inspection and copying of the shareholder

register made by ITOCHU to the Company, and (iii) there is a possibility that the contents of dialogue between the Company and its shareholders were leaked, and that even though ITOCHU and a director dispatched from ITOCHU raised specific issues with respect to those points with the current management and statutory auditors of the Company, they did not show an attitude to sincerely consider those raised issues and points.

However, the Company sufficiently deliberated on the business alliance with Wacoal mentioned in (i) above after providing lawful and appropriate information to all of the directors at a meeting of the Board of Directors. In this regard, the assumed facts in that indication by Tender Offerors are erroneous in the first place. Further, with respect to the request to inspect and copy the shareholder register mentioned in (ii) above, the Company has lawfully and appropriately dealt with and responded to that request in accordance with laws and regulations and the Company's internal rules, and there is no violation of laws or regulations or the internal rules of the Company or any other impropriety in the Company's responses. Further, with respect to (iii) above, not only is the relevance with the corporate governance system unclear, but in the first place, that indication by Tender Offerors is nothing more than a unilateral assertion based on speculation without any objective grounds. Hence, those indications by Tender Offerors in the Tender Offer Documents are either contrary to the facts or mislead the shareholders, and providing that information to the shareholders is in itself extremely insincere.

Further, the Company deliberated on each of the above indications by ITOCHU on each occasion at a meeting of the Board of Directors that was attended by outside directors and outside statutory auditors who are independent from Tender Offerors and the Company and it was confirmed that there is no problem with the Company's response. In fact, the Board of Directors of the Company, including the outside directors and outside statutory auditors, expressed an opinion opposing the unreasonable requests to the Company by ITOCHU and the director of the Company dispatched from ITOCHU.

(3) Regarding the Possibility of the Current Management Disregarding Employees

Tender Offerors state that it was informed by the Company that the Company was discussing the privatization of the Company (the "Privatization") with a certain investment fund, and asserts that the Company would bear a large amount of debts as a result of the Privatization and the financial status of the Company would become extremely unstable if the Privatization is carried out, so the current management is disregarding the employees of the Company.

However, the Company is only conducting a preliminary consideration of the

Privatization as part of its consideration of multiple strategic measures aimed at maximizing the Company's corporate value, and it has not reached a stage where it would consider the amount of debt or other specific terms of the transaction. Even if the Company were to conduct a transaction such as the Privatization, it would be based on an assumption that the Company would incur debt only to a reasonable extent that could be sufficiently repaid out of the Company's cash flow in light of the Company's financial status.

In the first place, as explained in (ii)B(c) above, the Company's management places great importance on having a good relationship with its employees, so they can maximize their capabilities, which are the source of the Company's corporate value, to develop, manufacture, and create highly value-added products that meet the needs of customers, and the Company's management has actually built a good relationship with its employees.

Hence, this assertion by Tender Offerors is contrary to the facts and is extremely misleading, and the Company believes its contents could even be considered extremely arbitrary and malicious.

**B. Each of the Management Measures Raised by ITOCHU has Already Been Implemented by the Company or Would Have an Uncertain Effect**

Tender Offerors raise measures it is considering taking after completion of the Tender Offer by Tender Offerors in the Tender Offer Documents (pages 8–9 of the Tender Offer Registration Statement).

However, as explained below, each of those measures constitute either measures that have already been taken by the Company or measures that have an uncertain effect.

**(a) “Improvement of Marketing Operations Through Organizational Reform” of the Japan Business**

The Company established DESCENTE JAPAN LTD. in September 2016, and a new system in which the Company is the Global Headquarters was launched in April 2017, and we have already seen improved efficiency as a result of splitting the group management in the Global Headquarters and the Japan business. DESCENTE JAPAN LTD., which is in charge of the Japan business, recorded for the fiscal year ended March 2018, which was the first fiscal year after the spin-off, net sales of JPY 50,693 million, ordinary income of JPY 932 million, and net profit of JPY 962 million (after payment of royalties to the Company). Even following that, the Company has constantly reviewed matters such as work sharing between the Company and DESCENTE JAPAN LTD., and efficiency is continuing to improve.

- (b) “Conversion from the Current Business Model Mainly Consisting of Wholesaling Centering on Sports Chain Stores and Department Stores” of the Japan Business

The Company incorporated the promotion of opening self-managed stores including directly managed stores as a measure in the Three-Year Medium Term Management Plan (Compass 2018) where the first fiscal year is the fiscal year ended March 2017 and the last fiscal year is the fiscal year ending March 2019 and that was published on May 10, 2016 (the “Company Medium-Term Management Plan”). The Company has already achieved considerable results by, for example, proceeding with the opening of directly managed stores such as opening seven “DESCENTE BLANC” stores, which are directly managed lifestyle proposal stores, and expanding the number of self-managed shop-in-shop type stores in existing retail distribution stores, so the Company is already proceeding with a “conversion from the current business model mainly consisting of wholesaling centering on sports chain stores and department stores.” The Company has also already implemented measures related to strengthening EC (electronic commerce) by, for example, establishing a Digital Marketing Strategy Office that is under the direct control of the President and creating an organization that specializes in EC, and also making EC an important area of cooperation in the comprehensive business alliance with Wacoal that was announced by the Company on August 30, 2018.

- (c) “Strengthening the China Business by Accelerating the Development of the China Market”

With respect to the Company’s China business, as explained in (ii)A(a) above, China is growing to become the third pillar after South Korea and Japan. With respect to the DESCENTE brand in particular, the number of directly managed stores in China has surpassed 100 stores in around two years since development started, and the Company has managed to acquire a position in China as a high-value-added sports brand.

Even though the Company’s China business is centered on equity-method affiliates that are mainly joint ventures and in terms of accounting their sales are not consolidated with the Company, the Company has been able to incorporate sufficient profits through equity in gains of affiliates, and it is planned that the China business will grow in the future.

- (d) “Sustainable Growth of the South Korean Business”

The Company is continuing to expand its business in South Korea by, for example, opening new types of stores with an aim to expand its customer base in South Korea and strengthening the Company’s shoe business by establishing an R&D center.



The Company is also already implementing measures to globally develop an environmentally friendly business model and to actively adopt environmentally friendly technologies and materials. The contributions of ITOCHU to the Company's South Korea business including those measures are limited, and the specific effect of utilizing ITOCHU's value chain is also questionable. The Company plans to continue to further increase its market share by expanding its product categories and targets in South Korea, and the Company is starting to implement measures aimed at the next stage by, for example, deploying the knowhow of the South Korea business in other countries through Descente Global Retail Ltd., which is a subsidiary established in South Korea.

(v) **The Outside Directors and Outside Statutory Auditors who are Independent from Tender Offerors and the Company Support the Opposing Opinion**

As explained in (2) (Background of the Opinion) above, a total of four Independent Directors and Statutory Auditors as prescribed by the Tokyo Stock Exchange, comprising two outside directors and two outside statutory auditors of the Company (collectively, in this Item (v), the "Independent Directors and Statutory Auditors") had discussions separately from the Board of Directors and only among the outside directors and the outside statutory auditors, and sincerely considered the Tender Offer, including whether that would contribute to the corporate value of the Company and the common interests of its shareholders, from a perspective that is independent from Tender Offerors and the management of the Company.

As a result, the Independent Directors and Statutory Auditors reached a consensus and came to have the following opinion.

In the management of a listed company, the so-called "logic of capital" is an important factor. However, for the "logic of capital" to properly operate, it is essential that the interests of general shareholders including minority shareholders is preserved through the equal and fair treatment of shareholders and there must be constructive dialogue and a relationship of trust between capital and management.

When evaluating the Tender Offer from that perspective, the Independent Directors and Statutory Auditors judged that the Tender Offer has the following issues.

First, it is possible that a problem will arise from the perspective of the equal and fair treatment of shareholders. If Tender Offerors acquire a number of shares of the Company equivalent to the maximum number of shares to be purchased through the Tender Offer, ITOCHU will come to be in a position where it is both a business partner of the Company and a substantial controlling shareholder of the Company at the same time. The Independent Directors and Statutory Auditors are aware that not only the ITOCHU Group

has a business relationship with the Company, also owns multiple apparel brand companies and conducts businesses that compete with the Company. That structure of a potential conflict of interest exists even now, but if Tender Offerors acquire substantial control over the Company as a result of the Tender Offer, the risk of a conflict of interest might be realized. At the very least, Tender Offerors have not sufficiently shown measures in the Tender Offer to address the concerns regarding the fair and equal treatment of shareholders and conflicts of interests described above, and the Independent Directors and Statutory Auditors are concerned that if Tender Offerors change the management structure of the Company based on its own intentions, the effectiveness of governance of conflicts of interest with ITOCHU will be lost.

The Independent Directors and Statutory Auditors also carefully examined the contents of the proposal by Tender Offerors, but even from the viewpoint of outside directors and statutory auditors, it is noted that there is nothing particularly new in the proposed measures that Tender Offerors would implement after the Tender Offer and there is no significant difference from measures that are already being implemented by the Company. As explained in (ii)A(a) above, under the current management, the Company's operating results have continued to grow over the past few years and the financial soundness of the Company is extremely high. Further, looking at the share price of the Company, even based on the share price before the commencement of the Tender Offer, indicators such as price-earnings ratio and the price book-value ratio of the Company are higher than those of the companies comprising the Tokyo Stock Price Index (TOPIX). Therefore, even though there are major issues that need to be addressed by the Company, it can be said that the measures to improve the Company's corporate value are being evaluated to a certain extent. At the very least, it is not possible to find any business or economic reasonableness or necessity to demand a change to the management structure using overbearing and coercive means beyond disciplining the current management, which has achieved the above results, through dialogue.

There is also an indication in the Tender Offer about the corporate governance of the Company including the background to the business alliance with Wacoal, but it should be noted that appropriate measures have been taken with the involvement of the Independent Directors and Statutory Auditors in light of the impact on both the corporate value of the Company and the common interests of its shareholders.

Based on the above reasons, the Independent Directors and Statutory Auditors judge that it is appropriate from the perspective of the corporate value of the Company and the common interests of its shareholders for the Board of Directors of the Company to express an opinion opposing the Tender Offer as described in this Notice.

(4) Possibility of Delisting and Reasons Therefor

As of today, the shares of the Company are listed on the First Section of the Tokyo Stock Exchange.

According to the Tender Offer Documents, Tender Offerors do not plan on delisting the Company's shares and the maximum number of shares to be purchased is set at 7,210,000 shares (Shareholding Percentage: 9.56%), so the total number of shares that will be held by Tender Offerors after the Tender Offer will remain a maximum of 30,164,300 shares (Shareholding Percentage: 40.00%), and therefore the shares of the Company will continue to be listed on the First Section of the Tokyo Stock Exchange.

(5) Matters Concerning So-Called Two-Step Acquisition

According to the Tender Offer Documents, if the number of tendered shares is equal to the maximum number of shares to be purchased in the Tender Offer and the Shareholding Percentage of the ITOCHU Group reaches 40.00%, Tender Offerors do not plan, at this point in time, to additionally acquire shares of the Company after the Tender Offer. On the other hand, if the number of tendered shares is less than the maximum number of shares to be purchased in the Tender Offer and as a result, the Shareholding Percentage of the ITOCHU Group does not reach 40.00%, Tender Offerors plan to additionally acquire the Company's shares through market transactions or other means in light of market trends, etc. to the extent that the number of purchased shares falls below the maximum number of shares to be purchased (until the Shareholding Percentage of the ITOCHU Group reaches 40.00%) although it is possible that the policy will be changed based on the results of the Tender Offer and the content of the opinion of the Company's shareholders regarding the policy of Tender Offerors and at this point in time, a specific policy to handle this issue has not been determined.

4. Matters Concerning Material Agreements Related to Tendering Shares in the Tender Offer Between the Tender Offeror and the Shareholders of the Tender Offeror

There are no applicable matters.

5. Details of the Giving of Benefits by the Tender Offeror or a Special Related Party of the Tender Offeror

There are no applicable matters.

6. Measures on the Basic Policy on Control over the Company

There are no applicable matters.

7. Questions to the Tender Offeror

There are no applicable matters.

8. Request for Extension of the Tender Offer Period

There are no applicable matters.

-End-