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RIKEN CORPORATION

Contact(s):

Corporate Planning Division

Phone: (+81)-3-3230-3911

## **Notice Concerning Continuation of Measures to Respond to a Large-Scale Acquisition of Our Company's Stock**

On June 28, 2007, Measures to Respond to a Large-Scale Acquisition of Our Company's Stock were adopted by our shareholders at the Company's 83rd Annual General Meeting of Shareholders and were most recently reapproved by shareholders at the 92nd Annual General Meeting of Shareholders on June 24, 2016 (hereinafter the continued measures are referred to as "the Existing Plan"). The effective term of the Plan lasts until the end of the 95th Annual General Meeting of Shareholders to be held on June 30, 2019 (hereinafter referred to as "the General Meeting of Shareholders"). In light of securing and improving the mutual benefit of all shareholders, as well as the value of the Company, we have given ongoing consideration to the ideal state of the measures to respond to a large-scale acquisition of the Company's stock including the succession and termination of the measures.

We would like to inform you that, as a result, assuming the approval of our shareholders is obtained at the General Meeting of Shareholders, the Board of Directors of the Company held today decided to continue the Existing Plan by changing part of it as "Measures to Respond to a Large-Scale Acquisition of Our Company's Stock" (hereinafter referred to as "the Plan").

With regard to the continuation of the Plan, all three of our corporate auditors have expressed their opinions stating that they are in favor of continuing with the Plan as long as the detailed aspects of the Plan are executed properly.

As of today, there are no specific proposals regarding any large-scale acquisition of the Company's stock, etc.

Furthermore, the state of the Company's shareholders as of March 31, 2019 is as shown in Attachment 1.

The major changes incorporated into the Plan compared with the Existing Plan are as follows:

- (i) On the condition that the Annual General Meeting of Shareholders approves the progress of the Midterm Strategic Plan regarding the effort to realize the basic policy for the control of the Company as well as the proposal for the partial amendment of the articles of association, we made some changes to the description of the Existing Plan. These include deleting the precondition that the Company shall be a company with an auditor along with the transition to a company with an audit and supervisory committee and adding various measures related to Corporate Governance.
- (ii) Regarding the handling of recommendations from the Independent Committee, the Existing Plan stipulates that the Board of Directors shall make a decision respecting such recommendations. However, to eliminate the possibility of arbitrary operation by the management, it was changed to mandate decision-making in accordance with the recommendations. In addition, the criteria which allow the Board of Directors to establish countermeasures as an exceptional case were made stricter than before.
- (iii) Some changes have been made to words/phrases and the wording has been edited.

## **I. Basic Policy Regarding Who Should Oversee Decisions Regarding the Financial and Business Policies of the Company**

As a publicly traded company, we believe that shareholders come to us thanks to a freedom to trade on the share market. Therefore, we believe that ultimately decisions concerning whether or not to accept proposals regarding acquisitions accompanying the transfer of control of the Company should be carried out based on the will of the shareholders.

However, among the large-scale acquisition of shares, etc., there may be some that will damage the corporate value of the Company or the mutual benefit of shareholders, including those that may practically force shareholders to sell shares judging from the purpose, etc., and those that do not provide the necessary time or information for the Board of Directors and shareholders of the Company to be able to consider the details of such an acquisition. As an exceptional case, the Company believes that a person who is engaged in such inadequate large-scale acquisition, etc., is inappropriate to have as a person to oversee decisions regarding the financial and business policies of the Company.

## **II. Efforts that Contribute to the Realization of the Basic Policy for the Control of the Company**

In order to encourage long-term continuous investment in the Company by you, our many investors, as part of efforts to increase the corporate value of the Company and the mutual benefit of shareholders, we are carrying out the following measures.

We believe that these efforts will contribute to the realization of the Basic Policy described in I. above.

### **1. Enhancement of the Corporate Value through the Mission Statement and the Promotion of the Midterm Strategic Plan**

In 1927, RIKEN, the Institute of Physical and Chemical Research, was founded to commercialize the method of producing the piston ring which is its own innovation. Since then, the Company has been operating globally by providing a wide variety of products such as a camshaft and other internal-combustion engine parts, cast iron parts for automobiles and industrial machinery, piping material, products for thermal engineering and EMC businesses having piston rings as its core.

The Company set the following Group Mission Statement and the Guiding Principles, “Be Customer Driven. Be Compliant with the Law. Be focused on the Basics. Be Open. Be Proactive. Be Prompt.” In addition, it developed the Midterm Strategic Plan and Annual Management Plan to cope with customers’ efforts to strengthen their competitiveness and to develop and sell products that satisfy the high level of the demand for quality, technology and prices.

<Mission Statement>

- We will be a leading corporate citizen that always operates with respect for the laws, environment, safety and the overall well being of the global communities where we conduct our business.
- We will provide superior long-term economic value for our shareholders through effective use of their invested capital.
- We will offer products and services that continually exceed our customers' increasing expectations through constant innovation and continued advancements in knowledge and technology.
- We will continuously renew ourselves by encouraging initiative and entrepreneurship and by being constantly committed to change.

Based on the policy of the above, to achieve the continuous growth of the Group Companies, the Company established and has been promoting the Midterm Strategic Plan, PLAN 2020, which is a five-year plan running from fiscal 2016 through fiscal 2020.

An outline of PLAN 2020 is shown below.

- (1) Main Theme

Advanced Solutions for Tomorrow's Challenges.

= Global top supplier of key components in the automotive and machinery industries

(2) Basic Policy

With three pillars of measures, achieve continuous growth

(i) Growth through Diversification

- Penetrate into non-Japanese market
- Broaden product portfolio

(ii) Advancements in Monozukuri

- Innovation in Monozukuri
- Further increase in level of TPS activities

(iii) Pioneering Technologies

- Creation of new products/businesses
- Reinforcement of R&D activities and improvement of their efficiency

(3) Business performance target (consolidated basis)

	Fiscal 2015 Actual result	Fiscal 2018 Actual result	Fiscal 2020 Target
Group Sales *	111.1 billion yen	128.9 billion yen	Over 140.0 billion yen
Consolidated Operating Profit Ratio	7.6%	7.7%	Over 10%

\* Set the group sales including those of affiliated companies

At Stage 1 (from fiscal 2016 to fiscal 2018), partially due to the success of the overseas sales expansion, the Company enhanced the customer base, and achieved a significant increase in sales.

During Stage 2, which is a completion phase (from fiscal 2019 to fiscal 2020), in addition to the ongoing efforts initiated during Stage 1, the Company is working on the focused points of "Enhancement of competitiveness by reducing costs," "Optimization of new product developing system and its acceleration," "Shift from the principle of self-sufficiency to open innovation" and "Realization of technology partnership and new M&A." The Company would like to ensure PLAN 2020 produces results and improve the corporate value.

## 2. Improvement in Corporate Value through the Enhancement of Corporate Governance

The Company aims for a continuous improvement in corporate value by fulfilling its responsibilities in a variety of areas such as the economy, the environment and society. It positions the establishment of corporate governance as a top-priority management issue.

The Company has introduced an executive officer system to separate the business execution function from the management decision-making and supervision function.

Furthermore, on the condition that the Annual General Meeting of Shareholders will grant approval, the Company has a plan to shift to a company with an audit and supervisory committee. By including a member of the audit and supervisory committee who supervises directors' execution of duties in the Board of Directors, it intends to strengthen the audit and supervision functions of the Board of Directors, and enhance corporate governance further. Moreover, by commissioning directors to make a decision on important business execution issues at the Board of Directors, the Company will make swift decision-

making possible, and improve the efficiency of management.

Along with the shift, the Company has a plan to have a Board of Directors which consists of eight (8) directors (excluding a member of the audit and supervisory committee, including two (2) outside directors) and three (3) directors (including two (2) outside directors) who are the members of the audit and supervisory committee, and expects to improve the effectiveness of the objective supervision of the management.

Furthermore, in May 2019, the Company voluntarily established the Nomination and Remuneration Committee, the majority of whose members consist of independent outside officers as an advisory body. The aim was to reinforce the supervision function of the Board of Directors by assuring the transparency and objectivity of the procedure related to the nomination and the decision on remuneration of directors, etc., and further enhance corporate governance.

As for specific efforts, in addition to the ongoing proper operation of the management organs (the Board of Directors and the Management Meeting), the Company is working on ensuring the transparency, efficiency and soundness of the Company through the reinforcement of compliance and the enhancement of risk management. It is doing this based on the basic policy for arranging an internal control system (arranging a system to ensure that the directors are executing duties by observing laws, regulations and the Articles of Incorporation and other systems which are stipulated as requisites in the ordinance of the Ministry of Justice to ensure that public companies appropriately execute businesses).

In addition, the Company established the CSR Committee and the Compliance Committee to reinforce internal control and manage activities related to matters such as the environment, social contribution, accurate and adequate information disclosure and customer satisfaction at a group level to raise the level of such activities.

### **III. Description of the Plan (Measures to prevent the control of decision-making regarding the financial and business policies of the Company by someone inappropriate in light of our Basic Policy.)**

#### **1. Purpose of Continuing the Plan**

The Plan, which is the Existing Plan that is continuously implemented, was introduced to prevent decision-making regarding the financial and business policies of the Company being controlled by someone who is inappropriate in light of the Basic Policy for the Control of the Company as described in I. above.

When a large-scale acquisition of the Company's stock, etc., was conducted, for the shareholders to make a proper decision, the Board of Directors of the Company believes that the assurance of necessary information and time and a negotiation with a buyer, etc., based on reasonable rules help ensure the corporate value of the Company and mutual benefit for shareholders. Therefore, it established certain rules regarding the provision of the submission of information and the assurance of time to consider, etc., at the time of a large-scale acquisition (hereinafter, referred to as "Rules for a Large-Scale Acquisition") as stated below. In order to deal with cases in which a large-scale acquisition has occurred by an entity that is inappropriate in light of the Basic Policy, conditional on the approval of the shareholders of the Company at the Annual General Meeting of Shareholders, the Company decided to continue implementing the Plan.

Please refer to Attachment 2 for an overview (flow) of the Plan.

#### **2. Acquisition of the Shares of the Company that Are the Subject of The Plan**

The acquisition of the shares of the Company that are the subject of the Plan is deemed to be an attempt to acquire the share certificates, etc., of the Company (Note 3) for the purpose of making the voting rights ratio (Note 2) of a special shareholder group (Note 1) 20% or more, or an attempt to acquire the shares, etc., of the Company where as a result of such acquisition the voting rights ratio of such special shareholder group becomes 20% or more (irrespective of the method of acquisition, whether it be a market trade or a takeover bid, acquisitions that have the prior consent of the Board of Directors of the Company are excluded; such large-scale acquisition is hereafter referred to as "a large-scale acquisition" and the entity that is engaged in the large-scale acquisition is hereafter referred to as a "large-scale purchaser").

Note 1: Special Shareholder Group means

- (i) holders of the Company's share certificates, etc., (meaning share certificates, etc., as determined in Article 27-23 Section 1 of the Financial Instruments and Exchange Act) (including entities included in the holders in accordance with Article 27-23 Section 3 of said Act, and hereinafter the same) and their joint-holders (meaning joint-holders as determined in Article 27-23 Section 5 of said Act, including entities regarded as joint-holders in accordance with Section 6 of the same Article, and hereinafter the same) or
- (ii) entities engaged in the acquisition, etc., (meaning the acquisition, etc., determined in Article 27-2 Section 1 of said Act, including acquisition that is carried out in the financial market of a stock exchange) of the share certificates, etc., of the Company (meaning share certificates, etc., as determined in Article 27-2 Section 1 of said Act), and special parties involved in such (meaning special parties involved as determined in Article 27-2 Section 7 of said Act, and hereinafter the same).

Note 2: Voting Right Ratio means

- (i) in the case of the special shareholder group mentioned in (i) of Note 1, the total of (1) the ratio of share certificates, etc., held by said holders (meaning the ratio of share certificates held as determined in Article 27-23 Section 4 of the Financial Instruments and Exchange Act. In such cases, the number of share certificates, etc., held by said holders' joint-holders (meaning the number of share certificates, etc., held as determined in the same Section, and hereinafter the same) shall be included in the calculation); or
- (ii) in the case of the special shareholder group mentioned in (ii) of Note 1, the total of the ratio of share certificates, etc., held by said large-scale purchaser and said special parties involved (meaning the ratio of share certificates, etc., held as determined in Article 27-2 Section 8 of said Act).

When calculating each voting rights ratio, in terms of the number of total voting rights (meaning the number as determined in Article 27-2 Section 8 of said Act) and the total number of issued shares (meaning the total number as determined in Article 27-23 Section 4 of said Act), reference can be made to the most recently submitted document from among Annual Securities Reports, Quarterly Securities Reports and Share Buyback Reports.

Note 3: Share certificates, etc., means share certificates, etc., as determined in Article 27-23 Section 1 or Article 27-2 Section 1 of the Financial Instruments and Exchange Act.

### **3. Establishment of the Independent Committee**

Regardless of whether or not a large-scale purchaser adheres to the rules for a large-scale acquisition, or even in cases where such rules have been adhered to, the Board of Directors of the Company shall make the final decision on whether or not to take countermeasures when it is deemed that said large-scale acquisition will seriously damage the corporate value of the Company and the mutual benefit of shareholders. To properly execute the Plan, prevent the Board of Directors of the Company from making arbitrary decisions, and maintain the rationality and fairness of the decision, the Company will establish the Independent Committee based on the Plan and the Rules for the Independent Committee (please refer to Attachment 3 for an overview). The Independent Committee shall be comprised of three (3) or more people appointed from among external directors or external experts (Note) who are independent of the management that executes the business of the Company to enable them to make a fair and neutral judgement. Please refer to Attachment 4 for the profile of three candidates for members of the Independent Committee, Shuji Iwamura, Hidemi Hiroi and Koji Tanabe.

Prior to the execution of countermeasures, the Board of Directors of the Company shall consult with the Independent Committee on whether or not the Company shall take countermeasures. The Independent Committee shall carefully evaluate and consider matters regarding a large-scale acquisition from the perspective of improving the corporate value of the Company and the mutual benefit of shareholders, and make recommendations regarding whether the Board of Directors is in the state to execute countermeasures to the Board of Directors of the Company. The Board of Directors of the Company shall make a decision on the execution of countermeasures based on the recommendations by the Independent Committee (however, excluding the case where it evaluates that it would breach the duty of care if it follows the recommendations). An outline regarding the content of such recommendations of the Independent Committee shall be announced as required.

To assure that the evaluation of the Independent Committee contributes to the corporate value of the Company and the mutual benefit of shareholders, the Independent Committee may obtain the advice of independent external specialists (financial advisers, certified accountants, attorneys, consultants and other specialists) at the cost of the Company as required.

Note: External specialists means experienced corporate managers, persons familiar with investment

banking, attorneys, certified accountants, persons with academic experience mainly studying the Companies Act, etc., or similar entities.

#### **4. Overview of the Large-Scale Acquisition Rules**

##### **(1) Submission of statement of intention by purchaser making a large-scale acquisition to the Company**

When a prospective large-scale purchaser seeks to carry out a large-scale acquisition, prior to the large-scale acquisition or proposing the large-scale acquisition, we first request the submission of a letter of intent in Japanese addressed to the Board of Directors of the Company in a format the Company specifies containing a written covenant stating the intent to adhere to our rules for a large-scale acquisition and the following:

- (i) Name and address of large-scale purchaser
- (ii) Governing law for the incorporation
- (iii) Name of representative
- (iv) Contact in Japan
- (v) An outline of the proposed large-scale acquisition
- (vi) Covenant stating the intent to adhere to our rules for a large-scale acquisition

When the Board of Directors of the Company has received such a letter of intent from a prospective large-scale purchaser, the matter, and where necessary the details, shall be promptly announced.

##### **(2) Submission of the information required for evaluation by a prospective large-scale purchaser to the Company**

Within ten (10) business days of the day following the day on which the letter of intent mentioned all the information from (a) to (f) of (1) above was received, the Company shall issue to a prospective large-scale purchaser a document containing a list of the large-scale acquisition information whose submission to the Board of Directors of the Company is required. The prospective large-scale purchaser shall submit the large-scale acquisition information (hereinafter referred to as the “information required for evaluation”) in writing based on the description of the document to the Board of Directors of the Company.

General items included in the list of the information required for evaluation are shown below. Although the specific content will differ according to the attributes of the large-scale purchaser and the purpose and content of the large-scale acquisition, in either case, the scope of the list will be restricted to the necessary and adequate information required for our shareholders to make a decision and form opinions for the Board of Directors of the Company.

- (i) Outline of the large-scale purchaser and its group (including joint-holders, special parties involved, co-operative members (in the case of a fund), and other constituent members) (including names, business details, background or history, capital composition, and information regarding experience in fields similar to the business of the Company and the Group companies of the Company)
- (ii) The purpose, method and details regarding the large-scale acquisition (including price/type of remuneration for the large-scale acquisition, timing of such large-scale acquisition, transaction mechanism involved, legality of the method of such large-scale acquisition, feasibility of such large-scale acquisition and related transactions).
- (iii) The basis of determining the cost of acquiring the shares of the Company in the large-scale acquisition (including the facts on which the cost is determined, the method of calculation, information regarding figures used in the calculation, and details regarding the synergy that is expected to occur as a result of a series of transactions in relation to such large-scale acquisition).
- (iv) The substantiation of acquisition funds for the large-scale acquisition (the specific name of the provider of the funds (including the real provider), the method of acquiring the funds and details regarding related transactions).
- (v) Candidates for the management team that will be installed in the Company and the Group companies

of the Company after the large-scale purchaser joins the management of the Company (including information regarding experience, etc., in businesses similar to the Company and the Group companies of the Company), suggested management policies, business plan, financial plan, capital measures, dividend policy and asset utilization measures, etc.

- (vi) The expected stakeholders of the Company and the Group companies of the Company, such as business partners, customers and employees, after the large-scale purchaser joins the management of the Company and the Group companies of the Company, as well as whether or not there will be any changes in the relationship between the aforementioned parties and the Company and the Group companies of the Company, including details of such changes.

In the interest of ensuring the timely implementation of the large-scale acquisition rules, the Board of Directors of the Company may, as required, give the large-scale purchaser a time limit for the submission of information. However, when the large-scale purchaser requests an extension for the submission of the information on reasonable grounds, such time limit may be extended.

Furthermore, in cases where as a result of a close examination by the Board of Directors of the Company of the information required for evaluation that was submitted it is determined to be insufficient, after setting a reasonable time frame for receiving a reply (up to 60 days from the day on which the initial information was received) they may request the submission of additional information from the large-scale purchaser until the provision of such information required for evaluation is complete.

When it is determined by the Board of Directors of the Company that sufficient information required for the evaluation and consideration of the large-scale acquisition has been provided by the large-scale purchaser, it should issue such notice to the large-scale purchaser, and announce it publicly.

Furthermore, regardless of the fact that the submission of additional information required for evaluation has been requested by the Board of Directors of the Company, when part of such information is not provided by the large-scale purchaser, if a reasonable explanation is offered with regard to why such information has not been provided, in some cases negotiations with the large-scale purchaser regarding the submission of information may be terminated even if the information required for evaluation requested by the Board of Directors of the Company is not complete, and the evaluation and consideration process mentioned in (3) below that is carried out by the Board of Directors of the Company may be commenced.

In addition to submitting the information required for evaluation provided to the Board of Directors of the Company to the Independent Committee, when it is determined to be necessary for our shareholders in their decision-making process, at a time deemed appropriate by the Board of Directors of the Company, all or a part of such information will be announced.

### (3) Evaluation and Consideration of the information required for evaluation by the Board of Directors of the Company

Depending on the degree of difficulty in evaluating, etc., the large-scale acquisition, after the submission of information required for evaluation to the Board of Directors of the Company by the large-scale purchaser has been completed, the Board of Directors of the Company shall establish a period for evaluation, consideration, negotiation and to form opinions and alternate proposals (hereinafter referred to as the “Board of Directors’ evaluation period”), which is a maximum of 60 days in cases where all of the shares of the Company are acquired through a takeover bid using cash only (Japanese yen) for remuneration, and a maximum of 90 days in cases of any other large-scale acquisition.

During the Board of Directors’ evaluation period, the Board of Directors of the Company shall, when necessary, with the advice of independent external specialists (financial advisers, certified accountants, attorneys, consultants and other specialists), thoroughly evaluate and consider the information required for evaluation submitted, based on the recommendations by the Independent Committee, form an opinion as a collective body and announce the outcome (however, excluding the case where it evaluates that it would breach the duty of care if it follows the recommendations). In some cases as required they may also conduct negotiations with the large-scale purchaser regarding improving the condition of the large-scale acquisition, or, as the Board of Directors of the Company, they may present alternate proposals to our shareholders.

## 5. Policy for Handling Large-Scale Acquisition

### (1) Cases Where a Large-Scale Purchaser Has Not Adhered to the Large-Scale Acquisition Rules

In cases where a large-scale purchaser has not adhered to the large-scale acquisition rules, regardless of the specific acquisition method, the Board of Directors of the Company may, in some cases, as permitted by the Companies Act, other laws and the Articles of Incorporation of the Company, take countermeasures in order to protect the corporate value of the Company and the mutual benefit of shareholders, including the allotment of stock acquisition rights without contribution. When a large-scale purchaser is assessed to see if it has adhered to the large-scale acquisition rules or not, the circumstances of a large-scale purchaser shall be fully considered within a reasonable scope. At least, the Company shall not assess that a large-scale purchaser has not adhered to the large-scale acquisition rules only because part of the information required for evaluation was not submitted.

### (2) Cases Where a Large-Scale Purchaser Has Adhered to the Large-Scale Acquisition Rules

When a large-scale purchaser adheres to the rules for a large-scale acquisition, even though it is against such large-scale acquisition, the Board of Directors of the Company shall, as a rule, not take countermeasures against such large-scale acquisition, but only give explanations to our shareholders, including expressing dissenting opinions regarding said acquisition proposal and presenting alternate proposals. Whether or not to accept the offer by the large-scale purchaser will be left to the discretion of you, the shareholders of the Company, to decide after considering said acquisition proposal, the opinions of the Company regarding such acquisition proposal, and alternate proposals.

However, even in cases where the large-scale acquisition rules were adhered to, when the Board of Directors of the Company has determined that such large-scale acquisition has clearly abusive purposes, the corporate value of the Company and the mutual benefit of shareholders will be greatly harmed in cases of such large-scale acquisition as described in (a) to (e) below where it is clearly foreseeable that damage to the Company that is difficult to reverse may occur as a consequence, the Board of Directors of the Company may take exceptional countermeasures stated in (1) above within the scope of what is necessary and reasonable to protect the corporate value of the Company and mutual benefits of our shareholders.

- (a) Although it has no intention to participate in the management of the Group companies of the Company, a buyer intends to acquire the shares of the Company and demand that a concerned party of the Company purchase such shares at a much higher price (so-called “greenmailing”).
- (b) A buyer intends to acquire the shares of the Company for the purpose of so-called “scorched management”, that is to gain temporary control of the management of the Group companies of the Company to transfer intellectual property rights, know-how, confidential information, major business partners and customers required with respect to the business of the Group companies of the Company to the buyer or its group company.
- (c) A buyer intends to acquire the shares of the Company and use the assets of the Group companies of the Company as surety for the obligations of the purchaser or its group companies, or as a source of funds to make the settlement after gaining the control of the management of the Group companies of the Company.
- (d) A buyer intends to acquire the shares of the Company and take temporary control of the management of the Group companies of the Company in order to dispose of high-value assets (such as real estate and securities) of the Company that are not directly related to the business of the Group companies of the Company at the time, and use such proceeds to produce temporarily high dividends, or to sell out shares after such a temporarily high dividend has caused a steep rise in the share price.
- (e) In cases where the Company assesses that a method to acquire the shares of the Company proposed by a large-scale purchaser will in reality force shareholders to sell shares and restrict the opportunities or freedom of the shareholders’ decision, such as a so-called “high-handed, two-stage buyout” (meaning the execution of a takeover bid after soliciting a partial acquisition of shares while setting disadvantageous or unclear conditions for the second-stage acquisition).



### (3) Resolutions of the Board of Directors and the Convocation of a General Meeting of Shareholders

In the cases described in (1) and (2) above, when a decision has to be made regarding whether or not to take countermeasures following the recommendations of the Independent Committee (however, excluding the case where it evaluates that it would breach the duty of care if it follows the recommendations), after giving adequate consideration to the necessity and appropriateness of the countermeasures, as an organization that is in charge of making decisions regarding whether or not to take countermeasures as determined under the Companies Act, the Board of Directors of the Company shall pass a resolution.

With regard to what kind of specific measures will be taken, the Board of Directors of the Company shall select the method that they deem to be the most appropriate at the time. In terms of specific countermeasures that can be taken by the Board of Directors of the Company, for example, although an outline of an allotment of stock acquisition rights without contribution is shown in Attachment 5 as a general rule, in reality, in cases where such action is taken, in some cases, other conditions such as a period will be added in light of their effectiveness as a countermeasure, including placing the restriction that one should not belong to a special shareholder group with over a certain ratio of voting rights to be able to execute the stock acquisition rights. However, there is no suggestion that money should be offered for the value of stock acquisition rights that are held by a large-scale purchaser.

Furthermore, in cases where the Independent Committee has recommended that countermeasures should be taken, and a request has been made to hold a General Meeting of Shareholders to obtain the resolution, the Board of Directors of the Company shall set a period with a maximum of 60 days as a period during which shareholders can give adequate consideration to whether or not to take countermeasures under the Plan (hereinafter, referred to as the “consideration period for shareholders”), and during the consideration period for shareholders, in some cases a General Meeting of Shareholders may be held.

When the Board of Directors of the Company has passed a resolution regarding the convocation of a General Meeting of Shareholders and the relevant date, the Board of Directors’ evaluation period will end on such date and the consideration period for shareholders will commence.

Prior to holding said General Meeting of Shareholders, the Board of Directors of the Company will prepare a document containing the necessary information provided by the large-scale purchaser, the opinions of the Board of Directors of the Company concerning such necessary information, alternate proposals presented by the Board of Directors of the Company, and other matters deemed appropriate by the Board of Directors of the Company, and send it to our shareholders together with the convocation notice for the General Meeting of Shareholders, while disclosing such matters in a timely and appropriate manner.

When a resolution is passed at a General Meeting of Shareholders regarding whether or not to execute countermeasures, the Board of Directors of the Company shall comply with such resolution. Therefore, if the execution of countermeasures is voted down in the General Meeting of Shareholders, the Board of Directors of the Company will not take countermeasures. Moreover, the consideration period for shareholders will be terminated on the conclusion of such General Meeting of Shareholders and the results of such General Meeting of Shareholders shall be disclosed as required in a timely and appropriate manner after the passing of the resolution.

### (4) Standby Period for a Large-Scale Acquisition

The standby period prior to the execution of a large-scale acquisition shall be, in cases where the consideration period for shareholders is not given, the period up until the end of the Board of Directors’ evaluation period,

while it shall be the combined period of the Board of Directors’ evaluation period and the consideration period for shareholders in cases where such period for shareholders is given.

Therefore, a large-scale acquisition can only be commenced after the standby period for the large-scale acquisition has passed.

## **(5) Suspension, etc., of Countermeasures**

After it has been decided in the meeting of the Board of Directors of the Company, or the General Meeting of Shareholders, that specific countermeasures should be executed in accordance with (3) above, in cases such as when the large-scale purchaser in question has cancelled or changed the acquisition, or the Board of Directors of the Company has decided that it is inappropriate to take countermeasures, in some cases, following the comments or recommendations of the Independent Committee (however, excluding the case where it evaluates that it would breach the duty of care if it follows the recommendations), the execution of countermeasures may be suspended.

For example, in cases where an allotment of stock acquisition rights without contribution has been scheduled, or even after it has been executed after a resolution regarding such allotment was passed at a meeting of the Board of Directors of the Company, when the Board of Directors of the Company has determined that it is not appropriate to execute the countermeasures due to cancellation or changes in the large-scale acquisition, following the recommendations of the Independent Committee (however, excluding the case where it evaluates that it would breach the duty of care if it follows the recommendations), the Board of Directors may cancel said allotment up to the day one day prior to the effective date of such allotted acquisition rights, and after the allotment of such rights, the Board of Directors may suspend the countermeasure by way of stock acquisition by the Company without contribution prior to the execution of the rights.

When such suspension is carried out, the decision regarding such will be disclosed as required in a timely and appropriate manner in accordance with the matters that are considered as necessary by the Independent Committee, laws, ordinances and the regulations of the stock exchange where the stock of the Company is listed.

## **6. Impact on Our Shareholders and Investors**

### **(1) Impact of the Large-Scale Acquisition Rules on Our Shareholders and Investors**

The purpose of the large-scale acquisition rules is to provide the necessary information to enable shareholders to make decisions regarding whether or not to accept a large-scale acquisition and to present the opinions of the Board of Directors of the Company, which is actually in charge of managing the Company, and to secure an opportunity for our shareholders to be able to be presented with alternate proposals. We believe that this will enable our shareholders, on the basis of adequate information, to make the right decisions regarding whether or not to accept such offers, which will lead to the protection of the corporate value of the Company and the mutual benefit of shareholders. Therefore, the setting of the large-scale acquisition rules is a prerequisite for making appropriate decisions for shareholders, and we believe it will also contribute to your benefit.

However, as stated in 5. above, since there is a difference in terms of the way in which the Company handles a large-scale acquisition, depending on whether or not the large-scale purchaser adheres to the large-scale acquisition rules, etc., we would like to advise our shareholders to please pay close attention to the movements of large-scale purchasers.

### **(2) Impact of the Execution of Countermeasures on Our Shareholders and Investors**

In cases where a large-scale purchaser did not adhere to the large-scale acquisition rules, or even in cases where the large-scale acquisition rules were adhered to, when the Board of Directors of the Company has determined that the corporate value of the Company and the mutual benefit of shareholders will be greatly harmed by such large-scale acquisition, and it is foreseeable that damage that is difficult to reverse may occur, the Board of Directors of the Company may take exceptional countermeasures, as permitted by the Companies Act, other laws and the Articles of Incorporation of the Company, within the scope of what is necessary and reasonable to protect the corporate value of the Company and mutual benefits of our shareholders. Due to the mechanism of these countermeasures, we do not envisage a situation where our shareholders (excluding the large-scale purchaser who does not adhere to the large-scale acquisition rules or the purchaser who will harm the benefit of all shareholders of the Company causing the damage that is difficult to reverse) will incur substantial losses in terms of legal rights or financial aspects. In cases where the Board of Directors of the Company has decided to take specific countermeasures, such decisions will be

disclosed as required in a timely and appropriate manner in accordance with the regulations of the stock exchange where the stock of the Company is listed.

For example, in cases where the allotment of stock acquisition rights without contribution is to be executed as part of countermeasures, our shareholders who are listed on the Shareholder Register as of the date of such allotment will receive stock acquisition rights. Our shareholders will be allotted stock acquisition rights without them needing to make a request, and when the Company carries out the allotment procedure, the shares of the Company will be issued in exchange for the stock acquisition rights without payment of an amount equivalent to the exercise price, meaning that our shareholders will not need to carry out procedures, such as application requests or payment in association with said stock acquisition rights. However, in such cases, the Company may request the shareholders who will be allotted stock acquisition rights to submit a covenant to state that they are not a large-scale buyer in the form that is designated by the Company.

Even on the date of the allotment of stock acquisition rights or after the effective date of such allotment, due to a situation such as the cancellation of the large-scale purchase by a large-scale purchaser, the Company may cancel the allotment of stock acquisition rights up to the day one day prior to the effective date of such allotted acquisition right, or obtain stock acquisition rights without contribution without issuing the shares of the Company in exchange for the stock acquisition rights. In this case, for shareholders who have carried out sales, etc., with expectation for diluting the value per share of the shares of the Company, due to fluctuations in the share price, there is a possibility that losses which are commensurate with the degree of the fluctuations may be incurred by those shareholders.

## **7. Commencement, Duration and Cancellation of the Plan**

On condition that it is approved by our shareholders in the General Meeting of Shareholders, the Plan shall come into effect on the same day and the effective term shall be until the end of the Annual General Meeting of Shareholders which is scheduled to be held in June 2022. However, even after the continuation of the Plan was approved in the General Meeting of Shareholders and it has come into effect, (1) if a resolution is passed in a General Meeting of Shareholders of the Company regarding the cancellation of the Plan, or (2) such resolution is passed by the Board of Directors of the Company, when such resolutions are passed, the Plan shall be cancelled.

Even during the effective term of the Plan, the Board of Directors of the Company may review the Plan from the prospect of the improvement in the corporate value and the mutual interest of shareholders at any time and make a revision to the Plan upon the approval at the General Meeting of Shareholders of the Company. In cases where the Board of Directors makes a decision on the Plan including its continuation, revision and cancellation, it shall immediately disclose the content.

Furthermore, even during the effective term of the Plan, when the need arises to make adjustments to the clauses determined in the Plan, including making corrections to the wording for reasons such as typographical errors and omissions, due to the establishment of new rules or the revision or repeal of related laws and ordinances, or the regulations of the stock exchange, the Board of Directors may correct or change the Plan after obtaining the approval of the Independent Committee as required as long as such modification does not cause a disadvantage to our shareholders.

## **IV. Rationality of the Plan (the Fact that the Plan Complies with our Basic Policies and Supports the Corporate Value of the Company and the Mutual Benefit of Shareholders, but is not Intended to Maintain the Position of the Board Members of the Company)**

### **1. Satisfy the Requirements of Policies regarding Takeover Defense Measures**

The Plan satisfies the three rules determined in Guidelines regarding Takeover Defense Measures for Securing and Improving the Corporate Value and Mutual Benefit of Shareholders, which were announced by the Ministry of Economy, Trade and Industry and Ministry of Justice on May 27, 2005 (the principle of protecting and enhancing corporate value and the mutual interests of shareholders; the principle of prior disclosure and respect for the intent of shareholders; and the principle of confirming necessity and legitimacy).

It also takes into consideration the content of a report presented by the Corporate Value Study Group of the Ministry of Economy, Trade and Industry on June 30, 2008, titled, “Ideal Takeover Defense Measures in Light of Various Recent Environmental Changes” and “Principle 1-5. So-called Takeover Defense Measures” in the “Corporate Governance Code,” which was announced by the Tokyo Stock Exchange on June 1, 2015 and revised on June 1, 2018.

## **2. Continue with the Aim of Securing and Improving the Mutual Benefit of Shareholders**

As stated in III. 1. Purpose of Continuing the Plan above, the Plan intends to provide the time and necessary information for our shareholders to consider whether or not to accept a large-scale acquisition of the shares of the Company when such an attempt is made, or for the Board of Directors to present alternate proposals or negotiate with buyers on behalf of our shareholders in order to secure and improve the corporate value of the Company and the mutual benefit of shareholders.

## **3. Reflect the Intent of Shareholders**

The Plan shall come into effect on the condition that it is approved at the General Meeting of Shareholders. The intent of our shareholder regarding the Plan is confirmed at the General Meeting of Shareholders. Therefore, the succession of the Plan reflects the intent of our shareholders.

Even after the continuation of the Plan before the maturity of the effective period, if a resolution is passed in a General Meeting of Shareholders regarding the cancellation of the Plan, the Plan will be cancelled when such resolution is passed, reflecting the intent of our shareholders.

## **4. Respect for the Evaluation of Highly Independent External Entities**

As stated in III. 5. Policy for Handling Large-Scale Acquisition above, under the Plan, the decision to execute countermeasures should be made after consulting with the Independent Committee that consists of members who are independent of the management that executes the business of the Company and following the recommendations of the Committee (however, except the case where it evaluates that it would breach the duty of care if it follows the recommendations). The procedure is ensured for the transparent operation of the Plan to support the corporate value of the Company and thus the mutual benefit of shareholders.

## **5. No Dead-Hand or Slow-Hand Takeover Defense Measures**

The Plan can be cancelled by the Board of Directors, which consists of directors who were appointed solely at the General Meeting of Shareholders of the Company. Therefore, this Plan is not a “dead-hand” measure (in which the execution of takeover defense measures cannot be cancelled even when the majority of board members are replaced).

And since the Company does not adopt staggered terms, neither is the Plan a “slow-hand” measure (in which it is impossible to change board members all at once and it takes a long time to stop the execution of countermeasures).

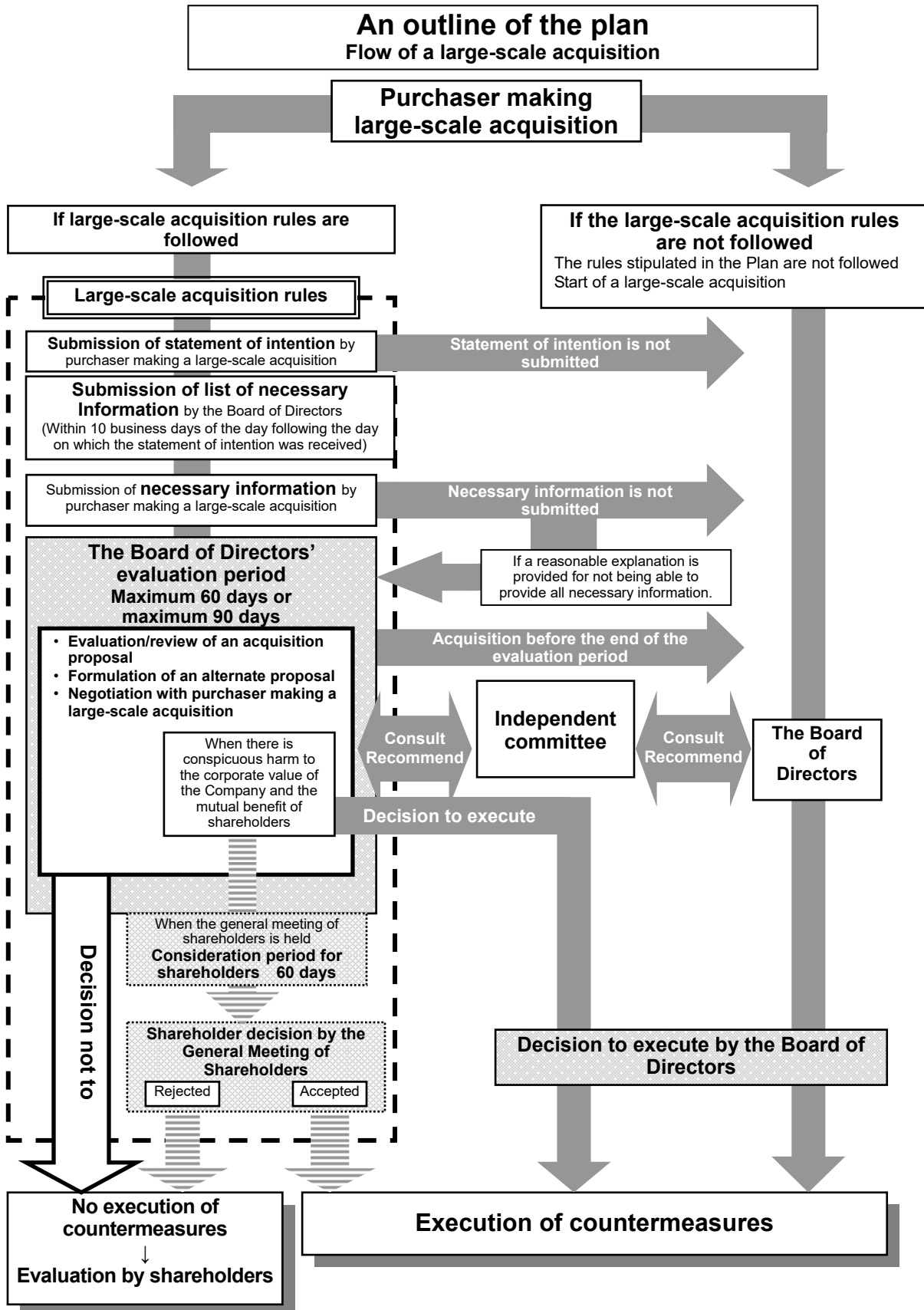
**Status of the Stocks of the Company (as of March 31, 2019)**

1. Total number of authorized shares      20,000,000
2. Total number of outstanding shares      10,648,466 (including 782,151 treasury shares)
3. Number of shareholders                      7,714 (number of share units 5,144)
4. Major shareholders (Top 10)

Name of shareholder	Number of shares held 1,000 stocks	Ratio of capital contribution %
Mizuho Bank, Ltd.	486	4.93
Nippon Life Insurance Company	428	4.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	422	4.28
Hitachi Metals Trading, Ltd.	356	3.61
NORTHERN TRUST CO. (AVFC) RE NVI01	323	3.28
The Daishi Bank, Ltd.	320	3.25
Japan Trustee Services Bank, Ltd. (Trust Account)	306	3.11
STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS- UNITED KINGDOM	300	3.04
STATE STREET BANK AND TRUST COMPANY 505019	270	2.74
Sumitomo Mitsui Trust Bank, Limited	261	2.65

(Note)1. The ratio of capital contribution is calculated based on the number of shares outstanding not including treasury shares.

2. The number of shares held is rounded down to the nearest 1,000 shares.



(Note) The aim of this diagram is to help you to understand the Plan. As such, although it depicts an outline of typical procedures, it should by no means be considered as showing all procedures that can be taken. For further details, please refer to the main text of this document.

## **Outline of the Rules for the Independent Committee**

- The Independent Committee shall be established by means of a resolution of the Board of Directors.
- The Independent Committee shall be comprised of three (3) or more people appointed by the Board of Directors of the Company from among external directors or external experts who are independent of the management that executes the business of the Company to enable them to make a fair and neutral judgement. External specialists shall be experienced corporate managers, persons familiar with investment banking, attorneys, certified accountants, persons with academic experience mainly studying the Companies Act, etc., or similar entities.
- As a general rule, the Independent Committee shall give recommendations to the Board of Directors of the Company together with an attached explanation regarding the reasons and basis for such decision in response to an inquiry from the Board of Directors of the Company. Each member of the Independent Committee shall make recommendations from the perspective of whether or not the decision in question will contribute to the corporate value of the Company and the mutual benefit of shareholders.
- The Independent Committee may obtain the advice of independent external specialists (financial advisers, certified accountants, attorneys, consultants and other specialists) at the cost of the Company as required.
- A resolution of the Independent Committee shall be passed by means of a majority vote of the committee members.

## The profile of candidates for members of the Independent Committee

### Shuji Iwamura

Profile	April 1976	Appointed as public prosecutor
	June 2010	Superintending Prosecutor, Sendai High Public Prosecutors Office
	August 2011	Superintending Prosecutor, Nagoya High Public Prosecutors Office
	July 2012	Resigned from office
	October 2012	Registered as Attorney-at-Law
		Advisor of Nagashima Ohno & Tsunematsu (present position)
	June 2013	Outside Audit and Supervisory Board Member of the Company (present position)
	March 2015	Outside Auditor of CANON ELECTRONICS INC. (present position)
	June 2015	Outside Corporate Auditor of Hokkaido Bank, Ltd. (present position)
	October 2017	Governor and Auditor of the Board of Governors of Government Pension Investment Fund (present position)
	June 2018	Outside Director of Hayashikane Sangyo Co., Ltd. (present position)

### Hidemi Hiroi

Profile	April 1979	Joined the Industrial Bank of Japan, Limited
	April 2007	Executive Officer, General Manager of Group Strategy of Mizuho Financial Group, Inc.
	April 2009	Corporate Auditor of Mizuho Corporate Bank, Ltd.
	June 2012	Director, President of Mizuho Human Service Co., Ltd.
	June 2013	Corporate Auditor of IBJ Leasing Company, Limited
	June 2015	Director, President of IBJL-TOSHIBA Leasing Company, Limited
	April 2017	Advisor of IBJL-TOSHIBA Leasing Company, Limited
	June 2017	Audit and Supervisory Board Member of the Company (present position)

### Koji Tanabe

Profile	April 1975	Joined the Ministry of International Trade and Industry (currently the Ministry of Economy, Trade and Industry)
	July 2002	Director-General of Research and Statistics Department of the Ministry of Economy, Trade and Industry
	April 2005	Professor of Graduate School of Innovation Management of Tokyo Institute of Technology
	February 2012	Director of the Japan Asia Group Limited (present position)
	April 2017	Professor Emeritus of Tokyo Institute of Technology
		Specially-Appointed Professor of School of Environment and Society of Tokyo Institute of Technology (present position) Corporate Auditor of Shimazaki Denki Corporation (present position)

1. There is no special interest between any of candidates and the company.
2. The Company appointed Shuji Iwamura as an independent officer, and registered him as such with the Tokyo Stock Exchange per the regulations of the Exchange. If Mr. Iwamura is re-elected at the General Meeting of Shareholders, the Company will again register him as an independent officer. If Hidemi Hiroi and Koji Tanabe are elected at the General Meeting of Shareholders, the Company will register them as new independent officers.



## **Outline of Allotment of Stock Acquisition Rights Without Contribution**

1. **Shareholders Eligible for an Allotment of Stock Acquisition Rights without Contribution and Allotment Method**

Shareholders that are recorded in the final Shareholder Register on the allotment date determined by the Board of Directors of the Company shall be allotted stock acquisition rights without new contribution at a ratio of one (1) stock acquisition right for one (1) share of common stock of the Company held (excluding common stock held by the Company).
2. **Type and Number of Shares to Be Acquired upon Execution of Stock Acquisition Rights**

The type of shares to be acquired upon the execution of stock acquisition rights shall be common stock of the Company, and the number of shares to be acquired upon exercise of each of the stock acquisition rights shall be determined elsewhere by the Board of Directors of the Company. However, in cases where a stock split or a reverse stock split is carried out by the Company, the required adjustment shall be carried out.
3. **Total Number of Stock Acquisition Rights Allotted to the Shareholders**

The upper limit for the total number of shares that can be acquired through the exercise of such stock acquisition rights shall be the difference between the total number of authorized shares of the Company as of the allotment date set by the Board of Directors of the Company and the total number of issued shares of common stock of the Company (excluding the shares of common stock the Company that are held by the Company). The Board of Directors of the Company may allot stock acquisition rights multiple times.
4. **Value of Property to be Invested upon Exercise of Stock Acquisition Rights and the Price**

The property to be invested upon exercise of each stock acquisition right shall be money, and an amount of one (1) yen or more as determined by the Board of Directors of the Company. When the Board of Directors of the Company determines to obtain stock acquisition rights, the Company may grant new shares to shareholders for the value of stock acquisition rights of the Company without paying the amount equivalent to the exercise price.
5. **Restrictions on the Transfer of Stock Acquisition Rights**

Acquisition of stock acquisition rights by means of transfer of such rights requires the approval of the Board of Directors of the Company.
6. **Conditions for the Execution of Stock Acquisition Rights**

Conditions applying to the execution of stock acquisition rights include that the eligible person should not belong to a special shareholder group that has 20% or more of voting rights (however, this shall exclude persons that have already obtained the prior approval of the Board of Directors of the Company).
7. **Stock Acquisition Rights Execution Period**

The first day on which stock acquisition rights can be executed, execution period, conditions for an acquisition and other necessary matters shall be determined by the Board of Directors of the Company elsewhere. With regard to conditions for acquisition, the Company may set rules, such that the Company may acquire stock acquisition rights held by persons other than those whose exercise of the stock acquisition rights is not approved based on the conditions described in 6. above, and issue shares of common stock of the Company at a ratio of a number determined by the Board of Directors of the Company elsewhere for one (1) unit of stock acquisition rights. However, there is no suggestion that cash will be issued for the value of stock acquisition rights held by persons whose exercise of stock acquisition rights is not approved.