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(Stock Exchange Code 6461)  
June 9, 2017

**To Shareholders with Voting Rights:**

Akira Yamamoto  
President  
NIPPON PISTON RING CO., LTD.  
Head Office: 5-12-10,  
Honmachi-Higashi, Chuo-ku,  
Saitama City, Saitama

**NOTICE OF CONVOCAION OF  
THE 123RD ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

We would like to express our appreciation for your continued support and patronage.

You are cordially invited to attend the 123rd Annual General Meeting of Shareholders of NIPPON PISTON RING CO., LTD. (the "Company"). The meeting will be held for the purposes as described below.

**If you are unable to attend the meeting, you can exercise your voting rights in writing. Please review the attached Reference Documents for the General Meeting of Shareholders, indicate your vote for or against the proposal on the enclosed Voting Rights Exercise Form and return it so that it is received by 5:30 p.m. on Wednesday, June 28, 2017, Japan time.**

- 1. Date and Time:** Thursday, June 29, 2017 at 10:00 a.m. Japan time
- 2. Place:** 2F Hall, NPR Yono Building (the Company's Head Office Building) located at 5-12-10, Honmachi-Higashi, Chuo-ku, Saitama City, Saitama, Japan
- 3. Meeting Agenda:**
  - Matters to be reported:**
    1. The Business Report, Consolidated Financial Statements for the Company's 121st Fiscal Year (April 1, 2016 - March 31, 2017) and results of audits by the Accounting Auditor and the Audit & Supervisory Board of the Consolidated Financial Statements
    2. Non-consolidated Financial Statements for the Company's 121st Fiscal Year (April 1, 2016 - March 31, 2017)
  - Proposals to be resolved:**
    - Proposal 1:** Appropriation of Surplus
    - Proposal 2:** Election of 4 Directors
    - Proposal 3:** Election of 1 Audit & Supervisory Board Member
    - Proposal 4:** Continuation of Countermeasures against the Action of Large-scale Purchase of Shares in NIPPON PISTON RING CO., LTD. (Anti-takeover Measures)

- When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk. In order to save resources, please bring this Notice and the Business Report for the Company's 121st Fiscal Year with you to the meeting.
- Notes to Consolidated Financial Statements and Notes to Non-consolidated Financial Statements are posted on the Company's website (<http://www.npr.co.jp/>) in accordance with provisions of laws and regulations as well as Article 15 of the Company's Articles of Incorporation and therefore are not provided in the Business Report for the Company's 121st Fiscal Year. The Notes to Consolidated Financial Statements and Notes to Non-consolidated Financial Statements, as well as the Appendix to the Reported Matters, are subject to audit by the Accounting Auditor and the Audit & Supervisory Board.
- Should the Reference Documents for the General Meeting of Shareholders, the Business Report, the Non-consolidated Financial Statements and Consolidated Financial Statements require revisions, the revised versions will be posted on the Company's website (<http://www.npr.co.jp/>).

## Reference Documents for the General Meeting of Shareholders

### Proposal 1: Appropriation of Surplus

It is proposed that the surplus be appropriated as indicated below.

#### 1. Matters Concerning Year-End Dividend

It is proposed that the year-end dividend for the 121st fiscal year be as follows, taking into consideration matters such as business results for the fiscal year under review and future business development.

##### (1) Type of dividend

Cash

##### (2) Matters concerning allotment of property to be distributed and total amount

65 yen per share of the Company's common stock

In this case, the total amount of dividend shall be 534,630,395 yen.

##### (3) Effective date of dividend of surplus

June 30, 2017

#### 2. Matters Concerning Other Appropriation of Surplus

Not applicable.

**Proposal 2: Election of 4 Directors**

The terms of office of Messrs. Teruo Takahashi, Masaaki Fujita, Masaaki Kawahashi, and Ryosuke Nagumo will expire at the conclusion of this General Meeting of Shareholders. Accordingly, the election of 4 Directors is proposed.

The candidates are as follows.

No.	Name (Date of birth)	Past experience, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
1	Teruo Takahashi (February 10, 1959)  [Reappointment]	<p>April 1981      Joined the Company</p> <p>April 2005      General Manager, Product Engineering Department II</p> <p>June 2006      Executive Officer with Development Division, General Manager, Product Engineering Department II, Development Division</p> <p>April 2009      Executive Officer and General Manager, Product Engineering Department II, in charge of Technical Planning Department, Product Engineering Department I, Product Engineering Department II, and Research and Development Department</p> <p>June 2009      Director and General Manager, Product Engineering Department II, in charge of Technical Planning Department, Product Engineering Department I, Product Engineering Department II, and Research and Development Department</p> <p>February 2014    Director, in charge of Technical Planning Department, Product Engineering Department I, Product Engineering Department II, and New Product Business Promotion Department</p> <p>April 2015      Director, in charge of Tochigi Plant, Technical Planning Department, Product Engineering Department I, Product Engineering Department II, Research and Development Department, and New Product Business Promotion Department</p> <p>June 2016      Managing Director, in charge of Technical Planning Department, Product Engineering Department I, Product Engineering Department II, Research and Development Department, and New Product Business Promotion Department (to present)</p> <p>[Significant concurrent positions]  <ul style="list-style-type: none"> <li>• President, NPR FUKUSHIMA WORKS CO., LTD.</li> <li>• Director, NPR of America, Inc.</li> <li>• Director, NPR AUTO PARTS MANUFACTURING INDIA PRIVATE LIMITED</li> </ul> </p>	4,200
2	Masaaki Fujita (May 30, 1961)  [Reappointment]	<p>April 1984      Joined the Company</p> <p>April 2005      General Manager, Corporate Planning Department</p> <p>June 2006      President, NPR of America, Inc.</p> <p>July 2012      Operating Officer, the Company President, NPR of America, Inc.</p> <p>June 2013      Director, General Manager, Corporate Planning Department, in charge of Corporate Planning Department and Overseas Operation Control Department</p> <p>April 2015      Director, General Manager, Corporate Planning Department, in charge of Corporate Planning Department, Accounting and Finance Department and Overseas Operation Control Department (to present)</p> <p>[Significant concurrent positions]  <ul style="list-style-type: none"> <li>• Director, NPR IWATE CO., Ltd.</li> </ul> </p>	3,784

No.	Name (Date of birth)	Past experience, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
3	Ryosuke Nagumo (November 13, 1953)  [Reappointment]	<p>April 1975      Joined RHYTHM WATCH CO., LTD.</p> <p>April 1997      General Manager, FV Sales, Domestic Sales Division, RHYTHM WATCH CO., LTD.</p> <p>January 2003    General Manager, Tokyo Branch, Domestic Sales Division, RHYTHM WATCH CO., LTD.</p> <p>June 2005      Director, General Manager, Tokyo Branch, Domestic Sales Division, RHYTHM WATCH CO., LTD.</p> <p>January 2006    Director, General Manager, Sales Headquarters, Domestic Sales Division, RHYTHM WATCH CO., LTD.</p> <p>June 2007      President and Representative Director, RHYTHM KAIHATSU CO., LTD.</p> <p>June 2014      Part-time Advisor, RHYTHM WATCH CO., LTD.</p> <p>June 2015      Director, the Company (to present)</p>	200
4	Kan Ishii (February 11, 1954)  [New appointment]	<p>April 1977      Joined Japan Development Bank (present Development Bank of Japan, Inc.)</p> <p>March 2001     Head of Treasury Department, Development Bank of Japan, Inc.</p> <p>June 2003      Head of Project Finance Department, Development Bank of Japan, Inc.</p> <p>June 2005      Head of Credit Analysis Department, Development Bank of Japan, Inc.</p> <p>June 2006      Branch Manager, Kyushu Branch, Development Bank of Japan, Inc.</p> <p>June 2008      Executive Director, Development Bank of Japan, Inc.</p> <p>October 2008    Managing Executive Officer, Development Bank of Japan, Inc.</p> <p>January 2010    Deputy Trustee, Japan Airlines Co., Ltd.</p> <p>August 2011    President and C.E.O., Fukuoka Jisho Co., Ltd.</p> <p>August 2015    Vice Chairman/Director, Fukuoka Jisho Co., Ltd. (to present)</p> <p>[Significant concurrent positions] • Vice Chairman/Director, Fukuoka Jisho Co., Ltd.</p>	0

(Notes)

1. There are no special interests between the candidates for Directors and the Company.
2. Messrs. Ryosuke Nagumo and Kan Ishii are candidates for Outside Directors. The Company reported Mr. Nagumo as an independent director as stipulated by Tokyo Stock Exchange, Inc. If the reappointment of Mr. Nagumo is approved as proposed, he will continue to be reported as an independent director. If the election of Mr. Ishii is approved as proposed, he is scheduled to be reported to Tokyo Stock Exchange, Inc. as an independent director.
3. Number of years since appointment in the case where a candidate for Director is an incumbent Outside Director  
Mr. Ryosuke Nagumo is currently a part-time Director of the Company and his term of office as an Outside Director will be two years at the conclusion of this Annual General Meeting of Shareholders.
4. Limited liability agreement with the candidates for Directors  
The Company has entered into an agreement with Mr. Ryosuke Nagumo in accordance with Article 427, Paragraph 1 of the Companies Act to limit his liability pursuant to Article 423, Paragraph 1 of the Companies Act. If Mr. Nagumo is elected, the Company intends to continue the limited liability agreement with him. The maximum amount of liability pursuant to the agreement is the amount stipulated by laws and regulations.  
If Mr. Kan Ishii is elected, the Company intends to enter into a similar agreement with him.

**Proposal 3: Election of 1 Audit & Supervisory Board Member**

The term of office of Audit & Supervisory Board Member Mr. Yasuo Suzuki will expire at the conclusion of this Annual General Meeting of Shareholders. Accordingly, the election of 1 Audit & Supervisory Board Member is proposed.

The Audit & Supervisory Board has previously given its approval to this proposal.

The candidate is as follows.

Name (Date of birth)	Past experience, positions and significant concurrent positions	Number of shares of the Company held
Iwao Hiraishi (December 26, 1958)  [New appointment]	April 1982 April 2003 June 2006 January 2010 April 2013  July 2013  July 2015 Joined the Company General Manager, International Business Promotion Department General Manager, Product Engineering Department I General Manager, Technical Planning Department General Manager, Technical Planning Department, General Manager, Modular Design Promotion Office, Technical Planning Department Operating Officer, General Manager, Technical Planning Department, General Manager, Modular Design Promotion Office, Technical Planning Department Operating Officer, the Company (to present) President, NPR of Europe GmbH. (to present)	1,877

(Note)

1. There are no special interests between Mr. Iwao Hiraishi and the Company.

**Proposal 4: Continuation of Countermeasures against the Action of Large-scale Purchase of Shares in NIPPON PISTON RING CO., LTD. (Anti-takeover Measures)**

NIPPON PISTON RING CO., LTD. (the “Company”) first introduced “the Countermeasures against the Action of Large-scale Purchase of the Company’s Shares (Anti-takeover Measures)” with the approval of the stockholders at the 114th Annual General Meeting of Stockholders held on June 27, 2008, and received approval for the continuation following a partial revision pursuant to a resolution of the 120th Annual General Meeting of Stockholders held on June 27, 2014, (hereinafter the updated countermeasures shall be referred to as the “Current Plan”). However, the effective term of the Current Plan will expire at the close of this Annual General Meeting of Stockholders.

Since the update in 2011, we have continued to investigate matters including whether to continue the Current Plan based on changes in social and economic circumstances and the various trends and discussions about the Anti-takeover Measures as one of our initiatives to ensure and enhance the corporate value of the Company and the common interests of our stockholders. As a result of such investigations, a resolution was passed at the Board of Director’s meeting held on May 29, 2017, to continue the Current Plan following a partial revision (hereinafter the revised countermeasures shall be referred to as “the Plan”) provided that it receive the approval of stockholders at this Annual General Meeting of Stockholders. Consequently, we request your approval for the continuation of the Plan. The main changes from the Current Plan to the Plan are limited to formal amendments that do not include substantial changes in content.

**1. Basic Policy Regarding Persons Who Control the Company’s Decisions on Financial and Business Policies**

The Company believes that it is desirable that persons who control the Company’s decisions on financial and business matters have full understanding of the Company’s financial and business matters and of the source of its corporate value, and are capable of ensuring and enhancing the corporate value of the Company and the common interests of our stockholders in a continuous and sustainable manner.

Nevertheless, as a corporate entity listed on a financial instruments exchange, the Company respects the free trading of the Company’s shares in the market and will not absolutely deny any action of large-scale purchase by a specific party as long as it contributes to the corporate value of the Company and the common interests of our stockholders. Additionally, we believe that a decision over whether to respond to a proposal for the large-scale purchase of shares should ultimately be made based on the will of our stockholders.

However, recently in Japan’s capital market, there are some cases in which an action of large-scale purchase of shares is undertaken “hostilely” without going through a sufficient discussion and agreement process with the management team of the target company, and many such actions of large-scale purchases do not contribute to the corporate value of the target company or the common interests of its stockholders. These include: 1) those that may clearly harm the corporate value and common interests of stockholders in light of the objectives of the takeover and/or management policies after the takeover; 2) those that may effectively force stockholders to sell their shares; 3) those that do not provide sufficient time or information for the Board of Directors or stockholders to consider the terms, etc. of the takeover or for the Board of Directors to present an alternative proposal; and 4) those that require the target company to negotiate with the purchaser in order to procure conditions more favorable than those originally proposed by the purchaser.

Furthermore, as outlined below in 2. (1) The Company’s Corporate Philosophy and Source of Corporate Value, the Company’s business is based on the collaboration of various stakeholders, including our customer companies, employees, and local communities. Creating a sound system that enables these stakeholders to involve themselves in our business with confidence, and providing the stable supply of cutting-edge and high-quality services required globally are essential factors in raising the Company’s corporate value. Unless the person(s) undertaking the action of large-scale purchase of the Company’s shares can ensure and enhance these corporate values in the medium- and long-term based on an understanding of the source of the Company’s corporate value, it is possible that the corporate value of the Company and the common interests of our stockholders will be damaged.

The Company believes that those who conduct such inappropriate large-scale purchases are not appropriate as persons who control the Company’s decisions on financial and business policies, and further believes that it is necessary to ensure the corporate value of the Company and the common interests of our stockholders by taking necessary and appropriate measures against large-scale purchases of shares by such person(s)

## **2. Initiatives to Contribute to the Source of the Corporate Value of the Company and the Realization of our Basic Policy**

### **(1) The Company's Corporate Philosophy and Source of Corporate Value**

The Company was founded in 1934 and, as a manufacturer of functional engine parts. We have promoted technological development in materials, processing, and surface treatment technology. As the result of product development in cylinder liners, camshafts and valve seat inserts, with a focus on piston rings, and by establishing a global supply system, we have responded to the needs of our domestic and overseas customers, including automakers, in our aim to expand our business.

In our efforts to respond promptly and accurately to our customers' needs, we have formulated our corporate philosophy and specified our action guidelines as follows: "Let us build the prosperity of the Company and of our lives by combining the ingenuity and efforts of each individual by strengthening the collaboration between manufacturing, sales and technology."

<Corporate Philosophy>

1. Always act under the principle of "customer first."
2. Respond flexibly to changes in the environment, secure appropriate profits, and give back to stockholders and other stakeholders.
3. Seek harmony with the society and maintain the position as a global comprehensive manufacturer of parts, to contribute to the human development.
4. Always strive for innovation and the better business performance, to build the prosperity of the Company and improve the lives of the employees.

Fully recognizing our role as a global comprehensive manufacturer of parts while valuing relationships with our customers, employees, and local communities, we attribute the growth of the Company thus far to our stockholders' support as well as the results of our efforts to establish a supply system, improve quality, and make technological innovations, etc. based on the corporate philosophy stated above. We believe this is the major source of the Company's corporate value.

In addition, in order to enable many investors to invest in the Company on a long-term and ongoing basis based on a good understanding of such source of the corporate value, we are working to enhance the corporate value of the Company and the common interests of our stockholders from the perspectives of both promoting our mid-term management plan as outlined in (2) below and strengthening our corporate governance as outlined in (3) below.

### **(2) Initiatives to Enhance Corporate Value**

The Company is promoting sales activities striving for differentiation of its products to capture new demands in response to the demands to lower fuel consumption and comply with emission regulations backed by the rising global trend on environmental measures. In addition, we will promote cost cutting activities on an ongoing basis by conducting revolutionary manufacturing ("*monozukuri*") in our mainstay products, upholding the basic policy of "establishing the foundation for Nippon Piston Ring to prosper for 100 years — improve corporate value through marketing and innovation —," we are working to promote the following: 1) acquiring strategic models through differentiation of products; 2) promotion of revolutionary manufacturing; 3) commercialization of new products (non-automobile engine parts); 4) strengthening of human resources development to "achieve the world's highest quality; and 5) strengthening corporate social responsibility activities as priority issues to build a trusted corporation. As part of our priority issues, we are working to upgrade and improve the efficiency of production bases in North America, China, ASEAN, India, etc. for piston rings and valve seat inserts, as well as strengthen and expand our sales capabilities. With regard to technological development, we are working on new product development in response to enhancement of thermal efficiency and the next-generation automobiles with the environmental protection as a top priority issue, as well as new product development with a focus on our proprietary technology toward expanding the non-automobile engine business. Additionally, we have established CSR Promotion Committee and are striving to strengthen our CSR activities.

### **(3) Strengthening Corporate Governance**

The Company's basic approach to corporate governance is to "improve management transparency," "achieve accountability to stakeholders," and "accelerate management," and we are actively working on strengthening them as one of our important management issues. Based on the aforementioned corporate philosophy, we must respect the position of the various stakeholders surrounding the



Company, including our stockholders, customers, the local community and our employees, and fulfill our obligations as a member of society with this in mind. We believe that these will be the driving forces behind the Company's lasting growth and will ultimately bring long-term benefits to our stockholders. Specific initiatives are as follows:

- 1) Formulate the Compliance Action Guidelines and strive for their thorough implementation as well as work toward compliance-centric management by establishing a Compliance Subcommittee.
- 2) In addition to having the Audit & Supervisory Board, consisting of five members including three Outside Audit & Supervisory Board Members, monitor the execution of duties by Directors, in 2013 the Company appointed an Outside Director in order to strengthen management oversight functions. Furthermore, in order to strengthen the mutual checking function of Directors, we are making efforts to appropriately manage the Board of Directors, Management Strategy Meetings and Management Meetings, and are aiming to accelerate business execution and clarify responsibilities.

In addition, we have established a Risk Management Subcommittee to create a system that will respond accurately and promptly to the risks surrounding the Company.

### **3. Initiatives to Prevent Decisions on the Company's Financial and Business Policies being Controlled by Inappropriate Persons in Light of our Basic Policy**

#### **(1) Objectives of the Introduction of the Plan**

The Plan will be introduced in accordance with the basic policy outlined in the aforementioned 1. Basic Policy Regarding Persons Who Control the Company's Decisions on Financial and Business Policies, with the objectives of ensuring and enhancing the corporate value of the Company and the common interests of our stockholders.

The Board of Directors believes that persons who conduct large-scale purchases that do not contribute to the corporate value of the Company and the common interests of our stockholders are inappropriate as persons who control the Company's decisions on financial and business policies, as stipulated in the Basic Policy. In order to prevent decisions on the Company's financial and business policies being controlled by inappropriate persons, and to deter large-scale purchases that are contrary to the corporate value of the Company and the common interests of our stockholders, the Company has deemed it necessary to have a framework in place that enables the Board of Directors to present an alternative proposal to our stockholders when a large-scale purchase of the Company's shares is carried out; secure the necessary information and time so that our stockholders can determine whether to respond to a large-scale purchase; and conduct negotiations on behalf of our stockholders.

The overall flow, from the emergence of a large-scale purchaser to the invoking or non-invoking of countermeasures, is outlined in the flow chart in Appendix 1. However, as stated in the below-mentioned 3. (2) 1) Details of Large-scale Purchase Rules, the Company may request a party (hereinafter, "Large-scale Purchaser") who intends to execute the action of large-scale purchase, etc. of the Company's shares (defined in the below-mentioned 3. (2) 1) (a) Action of Large-scale Purchase, etc. Subject to the Plan") to comply with prescribed procedures (hereinafter, "Large-scale Purchase Rules), and may invoke certain countermeasures in order to prevent damage in the event that the action of large-scale purchase, etc. is not in accordance with said procedures or in the event that the details, terms and methods of the Action of Large-scale Purchase, etc. are deemed to damage the corporate value of the Company and the common interests of our stockholders. Additionally, in order to eliminate arbitrary judgments by the Board of Directors, the invoking of countermeasures, etc. shall be based on the objective judgment of an independent committee comprising only the Company's Outside Directors, Outside Audit & Supervisory Board Members or external experts who are independent from the management team that executes the Company's business operations (hereinafter, "Independent Committee").

#### **(2) Details of the Plan**

##### **1) Details of Large-scale Purchase Rules**

The Large-scale Purchase Rules set out by the Board of Directors refer to the following: i) The Large-scale Purchaser presents the necessary and sufficient information concerning the Action of Large-scale Purchase to the Board of Directors in advance; ii) The Board of Directors sets a certain evaluation period then consults the Independent Committee, to carefully formulate and

announce their opinion as the Board of Directors, including the invoking of countermeasures; and  
iii) The Large-scale Purchaser commences said action of purchase after the procedures of i) and  
ii).

Details are as described in (a) to (f) below.

(a) Action of Large-scale Purchase, etc. Subject to the Plan

The Plan shall be applied in the event of actions that fall under (i) or (ii) below or similar actions or when these proposals<sup>1</sup> are made. (However, this excludes the actions separately approved by the Board of Directors. The relevant action is hereinafter referred to as “Action of Large-scale Purchase, etc.”.)

The Large-scale Purchaser who intends to conduct Action of Large-scale Purchase, etc. must comply with the Large-scale Purchase Rules stipulated in the Plan in advance.

- (i) A purchase of with the share certificates, etc. issued by the Company<sup>2</sup> resulting the holder<sup>3</sup> or joint holders<sup>4</sup> to have a holding ratio of share certificates, etc.<sup>5</sup> of 20% or more. (The holders and joint holders are hereinafter collectively referred to as “Specific Large-volume Holders, etc.”)

1. “Proposal” includes acts of solicitation toward third parties.
2. Refers to share certificates, etc. stipulated in Article 27-23, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.
3. Refers to holders stipulated in Article 27-23, Paragraph 1 of the Financial Instruments and Exchange Act of Japan, including parties deemed to be holders pursuant to Article 27-23, Paragraph 3 of the Act.
4. Refers to joint holders stipulated in Article 27-23, Paragraph 5 of the Financial Instruments and Exchange Act of Japan, including parties deemed to be joint holders pursuant to Article 27-23, Paragraph 6 of the Act.
5. Refers to the holding ratio of share certificates, etc. stipulated in Article 27-23, Paragraph 4 of the Financial Instruments and Exchange Act of Japan. In this event, the number of share certificates, etc. held by the holder or joint holders (refers to the number of share certificates, etc. held as stipulated in the same Paragraph) shall also be added.

- (ii) A tender offer of the share certificates, etc. issued by the Company<sup>6</sup> resulting the party conducting the takeover bid<sup>7</sup> to have a holding ratio of share certificates, etc.<sup>8</sup> of 20% or more together with a number of percentages of share certificates, etc. held by those parties with a special relationship<sup>9</sup>. (The party conducting the takeover bid and those parties with a special relationship are hereinafter collectively referred to as “Specific Large-volume Purchasers, etc.”)

(b) Submission of Letter of Intent and Provision of Information

Prior to conducting the Action of Large-scale Purchase, etc., the Large-scale Purchaser subject to the Plan shall submit an outline (including specific names, addresses, jurisdiction over incorporation, the names of representatives and contact information within Japan) of the Large-scale Purchaser and their group (including joint holders, parties with a special relationship, and partners and other constituent members in the case of a fund), the objectives, method and outline of the Action of Large-scale Purchase, etc. (including the type and amount of the purchase consideration, the timing, feasibility, and the structure and legality of the transaction overall), a pledge expressing the intent to comply with the Large-scale Purchase Rules prescribed in the Plan and compensation wording in the event of a violation, in a written form prescribed by the Company (hereinafter, “Letter of Intent”) to the Board of Directors. All such documents must be written in Japanese (the same shall apply to the documents and information to be submitted by the Large-scale Purchaser).

Within 10 working days<sup>10</sup> of receipt of the Letter of Intent, the Board of Directors shall provide the Large-scale Purchaser with a list of necessary information required to enable our stockholders to make judgment and the Board of Directors to evaluate and investigate the Action of Large-scale Purchase, etc. (hereinafter, “Necessary Information”), and shall request the provision of this Necessary Information (hereinafter, “Necessary Information Provision Procedures”).

6. Refers to share certificates, etc. stipulated in Article 27-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.
7. Refers to a takeover bid stipulated in Article 27-2, Paragraph 6 of the Financial Instruments and Exchange Act of Japan.
8. Refers to the holding ratio of share certificates, etc. stipulated in Article 27-2, Paragraph 8 of the Financial Instruments and Exchange Act of Japan.
9. Refers to parties with a special relationship stipulated in Article 27-2, Paragraph 7 of the Financial Instruments and Exchange Act of Japan. However, regarding those listed in Article 27-2, Paragraph 7, Item 1, it excludes parties stipulated in Cabinet Office Ordinance Article 3, Paragraph 2 concerning the disclosure of a takeover bid for share certificates, etc. by parties other than the issuer.
10. Refers to days other than days specified in Article 1, Paragraph 1 of the Act on Holidays of Administrative Organs.

The main points corresponding to the Necessary Information are as follows.

- (i) Details (including history, specific name, capital structure, financial condition, description of business, and the existence, if any, and details of past transactions by the Large-scale Purchaser similar to the Action of Large-scale Purchase, etc.) of the Large-scale Purchaser and their group (including joint holders, parties with a special relationship, and partners and other constituent members in the case of a fund)
- (ii) Objectives, method and outline of the Action of Large-scale Purchase, etc. (including the presence of management participation intent, type and amount of the purchase consideration, the timing, feasibility, and the structure and legality of the transaction overall)
- (iii) Basis for calculating the purchase consideration for the Company's share certificates, etc. (including the underlying facts and assumptions for the calculation, the calculation method and the numerical data used in the calculation, the details and calculation basis of any expected synergies created through a series of transactions relating to the Action of Large-scale Purchase, etc., and information concerning the price of consideration in the event that the Action of Large-scale Purchase, etc. is conducted with consideration other than cash)
- (iv) Procurement status of the funds required for the Action of Large-scale Purchase, etc. (including the specific name of the provider of the funds (including substantial providers), procurement method, and details of the transaction)
- (v) Timing of all past acquisitions of the Company's share certificates, etc. by the Large-scale Purchaser and the group, the number of acquisitions and the acquisition price for each period, the timing of all past sales of the Company's share certificates, etc. and the number of sales and sales price for each period
- (vi) Reasons for and details of any plan for further acquisition of the Company's share certificates, etc. after the Action of Large-scale Purchase, etc.
- (vii) In the event of any lease contracts, collateral contracts, resale contracts, purchase reservation contracts or any other important contracts or agreements (hereinafter, "collateral contracts, etc.") concerning the Company's share certificates, etc. that the Large-scale Purchaser has already acquired or will acquire in the future, specific details of the collateral contracts, etc., including the type of contract, the counterparty of the contract, and the number of the Company's share certificates, etc. that will be subject to the contract
- (viii) The Company's management policies, business plans, financial plans, capital policies, dividend policies and asset utilization policies, etc. after the Action of Large-scale Purchase, etc. (in the event that the Company's share certificates, etc. are expected to be delisted, the facts and reasons)
- (ix) Treatment and policies concerning the Company's employees, business partners, customers, local communities and other stakeholders after the purchase, etc.
- (x) Other information the Board of Directors or the Independent Committee reasonably deems necessary

The Board of Directors may, as necessary, set a deadline for the Large-scale Purchaser to provide this Necessary Information from the perspective of ensuring the prompt application of the Large-scale Purchasing Rules. However, this deadline may be extended should the Large-scale Purchaser request an extension based on reasonable reasons.

Additionally, in the event that, as the result of careful examination by the Board of Directors of the information initially provided by the Large-scale Purchaser in accordance with the aforementioned list of Necessary Information, the Board of Directors reasonably deems that the information is insufficient for the judgment of our stockholders and evaluation and investigation by the Board of Directors in light of the details and terms of the Action of Large-scale Purchase, etc., the Company may, upon setting a new deadline, request the Large-scale Purchaser to provide additional information to receive the Necessary Information. With regard to the judgment as to whether the Necessary Information provided by the Large-scale Purchaser is sufficient, and whether the details and scope of the Necessary Information requested by the Board of Directors are appropriate, the Board of Directors shall respect the advice and recommendations of the Independent Committee to the maximum extent in order to eliminate any arbitrary judgment.

In the event that the Company reasonably deems that the provision of information concerning the Action of Large-scale Purchase, etc. by the Large-scale Purchaser is completed, the Company shall provide the Large-scale Purchaser with a notification to this effect (hereinafter, "Notification of Completion of Information Provision"). Furthermore, notwithstanding a request by the Board of Directors for the additional provision of Necessary Information, in the event that the Large-scale Purchaser presents a reasonable explanation to the effect that the provision of said information is difficult in part, the Board of Directors may recognize that the provision of information by the Large-scale Purchaser has been completed even if the Necessary Information requested by the Board of Directors has not been received, and may issue the Notification of Completion of Information Provision.

In the event that the Board of Directors receives a Letter of Intent from the Large-scale Purchaser; in the event that the list of Necessary Information is sent to the Large-scale Purchaser; or in the event that the provision of Necessary Information by the Large-scale Purchaser is deemed to be complete, the Board of Directors shall make a prompt announcement to this effect. Furthermore, the Board of Directors shall disclose to our stockholders the Necessary Information provided to the Board of Directors in a timely and appropriate manner in accordance with applicable laws and regulations and the rules of the Financial Instruments Exchange.

(c) Evaluation and Investigation by the Board of Directors

After issuing a Notification of Completion of Information Provision, the Board of Directors shall set a period as in (i) and (ii) below, during which the Board of Directors evaluates, investigates, negotiates, forms opinions, and formulates alternative proposals (hereinafter, "Board of Directors' Investigation Period") in accordance with the level of difficulty of evaluating the Action of Large-scale Purchase, etc.

- (i) A maximum period of 60 days (not including the first day) from the day the Company issues the Notification of Completion of Information Provision if purchasing all of the Company's shares through a tender offer in exchange for cash (yen) only.
- (ii) A maximum of 90 days (not including the first day) from the day the Company issues the Notification of Completion of Information Provision if the Action of Large-scale Purchase, etc. is by other methods.

However, in the event that the Board of Directors fails to reach a judgment as to whether or not to introduce countermeasures before the expiration of the Board of Directors' Investigation Period as noted in either of the aforementioned (i) or (ii) for such reasons that the Independent Committee fails to make a recommendation within the Board of Directors' Investigation Period concerning the invoking or non-invoking of countermeasures as specified in the below-mentioned 3. (2) 1) (d) Establishment of the Independent Committee and Recommendations to the Board of Directors, the Board of Directors may pass a resolution to extend the Board of Directors' Investigation Period within a reasonable extent, upon consultation with the Independent Committee. In this event, the Board of Directors shall notify the Large-scale Purchaser of the specific period of extension and the reasons for deeming the

extension necessary, and shall disclose the information to stockholders. Any such extension shall, in principle, be limited to a single extension for a maximum of 30 days.

During the Board of Directors' Investigation Period, the Board of Directors shall adequately evaluate and investigate Necessary Information provided while receiving advice and recommendations from the Independent Committee as well as advice, as necessary, from independent external experts (financial advisors, certified public accountants, attorneys-at-law, and other experts), and shall carefully compile and publish their opinions as the Board of Directors with regard to the Action of Large-scale Purchase, etc. Furthermore, the Board of Directors may, as necessary, negotiate improvement of conditions related to the Action of Large-scale Purchase, etc. with the Large-scale Purchaser and present alternative proposals to the Company's stockholders.

(d) Establishment of the Independent Committee and Recommendations to the Board of Directors

The Company will establish an Independent Committee as an independent organization to appropriately implement the Plan and prevent arbitrary decisions by the Board of Directors. The Independent Committee shall consist of three or more members who shall be appointed from among the Company's Outside Directors, Outside Audit & Supervisory Board Members, and external experts (including attorneys-at-law, certified public accountants, corporate managers with a wealth of management experience, and academic experts) to ensure fair and neutral judgments. An outline of the Independent Committee is as stated in Appendix 2, and the names and past experience and positions of members of the Independent Committee are as stated in Appendix 3.

The Board of Directors shall promptly provide the Independent Committee with the Letter of Intent and the Necessary Information submitted by the Large-scale Purchaser upon their receipt, and shall promptly provide the Independent Committee with the results of the Board of Directors' evaluation and analysis of the Necessary Information and alternative proposals, etc. upon their compilation. In addition, the Board of Directors shall consult with the Independent Committee with regard to: (i) the adequacy of the Necessary Information provided by the Large-scale Purchaser; (ii) the need, if any, for an extension of the Board of Directors' Investigation Period; and (iii) the appropriateness, etc. of invoking countermeasures to the Action of Large-scale Purchase, etc.

The Independent Committee shall, during the Board of Directors' Investigation Period, investigate the details of the Action of Large-scale Purchase, etc. from the perspective of ensuring and enhancing the corporate value of the Company and the common interests of our stockholders, and shall make recommendations to the Board of Directors, including the appropriateness of invoking countermeasures (including recommendations with a reservation that the intentions of stockholders should be confirmed), based on the below-mentioned 3. (2) 2) Countermeasures in the Event of Action of Large-scale Purchase, etc. In order to ensure that the judgments of the Independent Committee contribute to the corporate value of the Company and the common interests of our stockholders, the Independent Committee may, at the Company's expense, obtain advice from independent external experts (financial advisors, certified public accountants, attorneys-at-law, and other experts) and request the attendance of the Company's Directors, Audit & Supervisory Board Members, and employees, etc. at meetings of the Independence Committee to seek explanations in regard to necessary information. Additionally, in the event that the Independent Committee seeks the provision of investigative materials and any other information or consultation and negotiations through the Board of Directors, the Large-scale Purchaser must respond promptly to such requests.

The Company shall promptly disclose information regarding the outline of the recommendations by the Independence Committee and any other matters deemed appropriate, in accordance with the applicable laws and regulations and the rules of the Financial Instruments Exchange.

(e) Resolutions by the Board of Directors, and General Meeting of Stockholders for Confirmation of Stockholders' Intentions

The Board of Directors shall give maximum respect to the aforementioned recommendations of the Independence Committee and, as an entity under the Companies Act, pass a resolution concerning the invoking or non-invoking of countermeasures against the Action of Large-scale Purchase, etc.

However, when invoking countermeasures, in addition to carrying out the consultation procedures with the Independence Committee, in the event that (i) the Board of Directors determines, after considering whether or not it is necessary to carry out a substantive judgment based on the details of the Act of Large-scale Purchase from the perspective of ensuring and enhancing the corporate value of the Company and the common interests of our stockholders, as well as considering details of that Action of Large-scale Purchase, etc. and general matters such as time extension, that it is practically feasible to confirm the intention of the Company's stockholders, and is appropriate in light of laws and ordinances and the duty of care of Directors, or in the event that (ii) the Independent Committee makes a recommendation that the intentions of stockholders should be confirmed with respect to invoking countermeasures against the Action of Large-scale Purchase, etc., the Board of Directors shall convene a General Meeting of Stockholders (hereinafter, "General Meeting of Stockholders for Confirmation of Stockholders' Intentions") upon deciding specific details of the countermeasures, and may confirm the intentions of stockholders with regard to the invoking of countermeasures.

In the event that the decision is made to hold a General Meeting of Stockholders for Confirmation of Stockholders' Intentions, the Board of Directors shall set a period of a maximum of 60 days during which stockholders may adequately consider whether or not to invoke countermeasures against the Plan (hereinafter, "Stockholders' Investigation Period"), and shall hold a General Meeting of Stockholders for Confirmation of Stockholders' Intentions during the Stockholders' Investigation Period. (It should be noted that the Board of Directors' Investigation Period shall terminate at the same time as the commencement of the Stockholders' Investigation Period. The Stockholders' Investigation Period shall terminate at the conclusion of the General Meeting of Stockholders for Confirmation of Stockholders' Intentions.) In the event that a General Meeting of Stockholders for Confirmation of Stockholders' Intentions is held, the Board of Directors shall abide by the judgment of stockholders at the General Meeting of Stockholders for Confirmation of Stockholders' Intentions. In the event that the Board of Directors passes a resolution concerning the invoking or non-invoking of countermeasures against the Action of Large-scale Purchase, etc., or in the event that the Board of Directors passes a resolution to convene a General Meeting of Stockholders for Confirmation of Stockholders' Intentions, the Board of Directors shall promptly disclose information on the outline of the resolution and other matters deemed appropriate by the Board of Directors.

(f) Action of Large-scale Purchase, etc. Waiting Period

The Large-scale Purchaser shall not execute the Action for Large-scale Purchase, etc. during the period from the commencement of procedures relating to the Large-scale Purchase Rules until the expiration of the Board of Directors' Investigation Period (however, in the event that the aforementioned Stockholders' Investigation Period is established, the period shall be until the termination of the period combining the Board of Directors' Investigation Period and the Stockholders' Investigation Period).

2) Countermeasures if the Action of Large-scale Purchase, etc. Takes Place

(a) Conditions for invoking countermeasures

(i) When a Large-scale Purchaser does not comply with the Large-scale Purchase Rules

In the event that the Large-scale Purchaser does not comply with the Large-scale Purchase Rules stipulated in the Plan, and it is not corrected within five working days after the Board of Directors requests such correction in writing, in cases other than where it is obvious that there is a necessity not to invoke countermeasures for the sake of ensuring and enhancing the corporate value of the Company and the common interests of our stockholders and other special circumstances, the Independent Committee shall, in principle, recommend that the Board of Directors invoke countermeasures. (However, there may be cases when the Independent Committee makes a recommendation with a reservation that the intentions of stockholders should be confirmed.)

The Board of Directors shall decide to invoke the countermeasures with the utmost respect for the recommendations of the Independent Committee. However, in the event that, in addition to the recommendation procedures by the Independent Committee with regard to invoking the countermeasures, a General Meeting of Stockholders for Confirmation of

Stockholders' Intentions is held as stipulated in the aforementioned 3. (2) 1) (e), the Board of Directors shall decide to invoke countermeasures pursuant to the judgment of stockholders at the General Meeting of Stockholders for Confirmation of Stockholders' Intentions.

When determining whether or not the Large-scale Purchase Rules have been complied with, it is necessary to adequately consider the circumstances of the Large-scale Purchaser within a reasonable extent and not to certify that the Large-scale Purchase Rules have not been complied with simply for the reason that the Necessary Information has not been provided in part.

(ii) When a Large-scale Purchaser complies with the Large-scale Purchase Rules

In the event that the Large-scale Purchaser complies with the Large-scale Purchasing Rules, the Independent Committee shall, in principle, recommend that the Board of Directors does not invoke countermeasures against the Action for Large-scale Purchase, etc. In such cases, whether or not to respond to the Action for Large-scale Purchase, etc. by the Large-scale Purchaser should be decided by our stockholders upon consideration of the details of the Action for Large-scale Purchase, etc. and the opinions and alternative proposals, etc. regarding the Action for Large-scale Purchase, etc. presented by the Company.

However, even if the Large-scale Purchasing Rules are complied with, in the event that the Independent Committee deems that the party demonstrates any of the following circumstances from (a) to (i) and as a result would bring about a significant loss of the corporate value of the Company and the common interests of our stockholders for reasons such as causing damage from which it would be difficult to recover, the Independent Committee shall recommend that the Board of Directors invoke countermeasures against the Action for Large-scale Purchase, etc. (However, there may be cases when the Independent Committee makes a recommendation with a reservation that the intentions of stockholders should be confirmed.) In this event, the Board of Directors shall decide to invoke countermeasures in accordance with the same procedures as the abovementioned (i) in the Event the Large-scale Purchaser does not comply with Large-scale Purchase Rules.

- (a) When it is judged that the purchaser, despite having no intention of participating in the management of the Company, is acquiring or is attempting to acquire the Company's share certificates, etc. for the purpose of raising the share price and forcing the Company or a party affiliated to the Company to purchase the shares at a high price (so-called "greenmailer")
- (b) When it is judged that the purchaser is acquiring the share certificates, etc. of the Company for the purpose of temporarily controlling the management of the Company and transferring intellectual property rights, expertise, confidential business information and main business partners and customers that are necessary for the business management of the Company to the Large-scale Purchaser or their group companies, etc.
- (c) When it is judged that the purchaser is acquiring the Company's share certificates, etc. for the purpose of diverting the Company's assets as security or funds for repayment of debts of the Large-scale Purchaser or their group companies, etc. after taking control of the management of the Company
- (d) When it is judged that the purchaser is acquiring the Company's share certificates, etc. for the purpose of temporarily controlling the Company to sell or otherwise dispose of high value assets, including real estate and securities that are not related to our business for the time being, and using the profits from such disposal to pay a temporarily high dividend or for the purpose of using the opportunity of the rapid rise in share value resulting from the temporarily high dividend to sell the Company's share certificates, etc. at a high price
- (e) When it is judged that the purchase conditions of the Company's share certificates, etc. proposed by the Large-scale Purchaser (including but not limited to the type and amount of purchase consideration, the basis for calculating said amount, specific details of other conditions (including the timing and method of acquisition), any illegality, and the feasibility) are significantly inadequate or inappropriate in light of the corporate value of the Company
- (f) When it is judged that the purchase method of the Company's share certificates, etc. proposed by the Large-scale Purchaser may restrict the opportunity or the freedom for

stockholders to make a judgment and effectively force our stockholders to sell the Company's share certificates, etc., such as the so-called coercive two-step acquisition (refers to the purchase of shares such as a tender offer, in which the purchase of all the share certificates, etc. of the Company is not induced in the first stage of purchase, and the purchasing conditions in the second stage of purchase are set unfavorably, or not stated clearly)

- (g) When it is judged that the acquisition of control by the Large-scale Purchaser could significantly damage the corporate value of the Company, and consequently hinder the ensuring and enhancement of the common interests of our stakeholders, such as cases where the corporate value of the Company including the interests of our stockholders, customers, employees and other stakeholders and/or the common interests of our stockholders would significantly be damaged
- (h) When it is judged that, in a comparison of future corporate value in the medium to long term, the corporate value of the Company in the event that the Large-scale Purchaser acquires control of the Company is significantly inferior compared with the corporate value of the Company in the event that the Large-scale Purchaser does not acquire control of the Company
- (i) When it is judged that the Large-scale Purchaser is significantly inappropriate as the controlling stockholder of the Company from the perspective of public order and morality

(b) Details of countermeasures

Countermeasures against the Action of Large-scale Purchase, etc. by the Company in accordance with the Plan shall, in principle, be based on the gratis allotment of share options prescribed in Article 277 of the Companies Act. However, in the event that it is deemed appropriate to invoke other countermeasures approved by the Companies Act, other laws and regulations, and the Articles of Incorporation of the Company, other countermeasures may be taken.

The outline of share options issued in the event that the gratis allotment of share options is carried out as a countermeasure (hereinafter, the "Share Options") is stated in Appendix 4. The Share Options shall be allotted without contribution to stockholders recorded in the final stockholder registry (excluding the Company) on a certain date (hereinafter, "record date of allotment") determined separately by resolution of the Board of Directors with regard to gratis allotment of the Share Options (however, in the event that the General Meeting of Stockholders is made the decision-making body for the gratis allotment of share options as the result of amendments to the Articles of Incorporation, this decision shall be made by the General Meeting of Stockholders; hereinafter, "Gratis Allotment Resolution for the Share Options") in the proportions stipulated separately in the Gratis Allotment Resolution for the Share Options at the rate of one or more share option for every one share of the Company.

The value of assets to be contributed upon exercise of one Share Option shall be one yen or more and shall be determined separately by means of the Gratis Allotment Resolution for the Share Options, and the exercise of one Share Option shall result in the issuance of one share of the Company's common stock to the holder of said Share Option. However, the Share Options are subject to a discriminatory condition to exercise and share options held by the following persons may not be exercised: (i) Specific Large-volume Holders, etc., (ii) Specific Large-volume Purchasers, etc., (iii) persons who have acquired or inherited the Share Options from persons who fall under (i) or (ii) without obtaining approval from the Board of Directors, or (iv) a related person<sup>11</sup> with those who fall under any of (i) to (iii). (These persons shall hereinafter be collectively referred to as "nonqualified persons.")

3) Countermeasure Suspension Procedures

Even after a resolution for the gratis allotment of the Share Options is passed or the gratis allotment of the Share Options is undertaken as a means of invoking countermeasures, in the event that it is judged that the invoking of countermeasures is not appropriate, for reasons such as the Large-scale Purchaser rescinding or amending the Action of Large-scale Purchase, etc., the Board of Directors may, after respecting the recommendations of the Independent Committee to the maximum extent possible, halt the invoking of countermeasures by way of suspending the gratis allotment of the Share Options during the period up until the effective day of the gratis allotment of the Share Options, or by way of the Company acquiring the Share Options without contribution



during the period from the effective day of the gratis allotment of the Share Options until the day prior to the commencement day of the exercise period of the Share Options. This will enable the Company to suspend countermeasures in the event that it is no longer appropriate to invoke the countermeasures for reasons such as the Large-scale Purchaser rescinding or amending the purchase proposal or action of purchase.

In this event, the Board of Directors will promptly disclose the information.

#### 4) Effective Term, Abolition and Amendments of the Plan

The effective term of the Plan shall be up to the time of the conclusion of the Annual General Meeting of Stockholders regarding the last business year ending within the three years (at the conclusion of the Annual General Meeting of Stockholders to be held in June 2020).

However, even prior to the expiration of the effective term of the Plan, the Company shall review the Plan from time to time from the perspective of ensuring and enhancing the corporate value of the Company and the common interest of our stockholders and, (i) in the event that the General Meeting of Stockholders passes a resolution to abolish or amend the Plan or (ii) in the event that the Board of Directors passes a resolution to abolish or amend the Plan, the Plan shall be abolished or amended at that time. In the event of making important changes to the details of the Plan, the Board of Directors shall submit a proposal to the General Meeting of Stockholders for the introduction of the Plan after amendments in order to obtain the opportunity to appropriately reflect the intentions of stockholders. The Plan after amendments shall take effect on the condition that the approval of stockholders is obtained for the proposal.

11. "A related person" refers to a person who substantially controls that person; a person who is controlled by or under the joint control of that person (including any person the Board of Directors recognizes as falling under this definition), or a person who the Board of Directors recognizes as acting in collaboration with that person. "Control" means "when controlling decisions over the financial and business policies" of another company, etc." (as prescribed in Article 3, Paragraph 3 of Enforcement Regulations of the Companies Act).

In the event that the Plan is abolished or amended, etc. the Company shall promptly disclose information, as necessary, about the facts of the abolition or amendment and (in the event of amendment, etc.) the details and other matters regarding the amendment.

The provisions of laws and ordinances cited in the Plan are based on the provisions enacted as of May 28, 2017 and, in the event that it becomes necessary in accordance with the establishment, revision or abolition of laws and ordinances on or after that date, the Board of Directors may, upon consideration of the intent of said establishment, revision or abolition, change the meaning of clauses or terms in the Plan to a reasonable extent and within an extent that does not disadvantage the stockholders.

Additionally, with regard to the Plan after the Annual General Meeting of Stockholders scheduled to be held in June 2020, we intend to obtain the approval of stockholders for the continuation of the Plan or the introduction of a plan with new content at the Annual General Meeting of Stockholders scheduled to be held in June 2020 following the necessary review of the Plan by the Board of Directors.

### **(3) Reasonableness of the Plan**

#### 1) Consistency with Guidelines and Timely Disclosure Rules for Anti-takeover Measures

The Plan satisfies the three principles set out in the "Guidelines Regarding Takeover Defenses for the Purposes of Protection and Enhancement of Corporate Value and Shareholders' Common Interests" (hereinafter, "Anti-takeover Guidelines") jointly released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005: (i) the principle of the protection and enhancement of corporate value and shareholders' common interests; (ii) the principle of prior disclosure and the intentions of shareholders; and (iii) the principle of necessity and suitability, and is in complete accordance with the Anti-takeover Guidelines.

The Plan also takes into full consideration the "Takeover Defense Measures in Light of Recent Environmental Changes" released on June 30, 2008 by the Corporate Value Study Group of the Ministry of Economy, Trade and Industry.

In addition, the Plan also fulfils the intent of the various regulations pertaining to the

introduction of anti-takeover measures prescribed by Tokyo Stock Exchange, Inc.

2) Introduction for the Purpose of Ensuring and Enhancement of the Common Interests of Stockholders

As stated above, the Plan will be introduced for the purpose of ensuring and enhancement of the corporate value and common interests of our stockholders by securing the necessary information and time required for stockholders to judge whether the Action of Large-scale Purchase, etc. is appropriate, and enabling negotiations to be conducted for the benefit of stockholders when such Action of Large-scale Purchase, etc. is carried out against the Company.

3) Sufficient Respect for Stockholders' Intentions (Sunset Provision)

The Plan will be introduced subject to the approval of stockholders at this Annual General Meeting of Stockholders in order to ensure the opportunity to appropriately reflect the intentions of stockholders on its introduction. The Plan will not be introduced unless the approval of the majority of stockholders present at this Annual General Meeting of Stockholders is obtained.

As stated in the abovementioned 3. (2) 1) (e) General Meeting of Stockholders for Confirmation of Stockholders' Intentions, in the event that the Board of Directors deems that the Plan is appropriate in light of laws and regulations and the duty of care of the Directors, or in the event that the Independent Committee makes a recommendation that the intentions of stockholders should be confirmed with respect to invoking countermeasures, it shall be possible to confirm the intentions of stockholders with regard to the invoking or non-invoking of countermeasures at the General Meeting of Stockholders.

In addition, if a resolution to abolish the Plan is passed at a General Meeting of Stockholders, or if a resolution to abolish the Plan is passed at a meeting of the Board of Directors, which comprises Directors appointed at the General Meeting of Stockholders, the Plan shall be abolished at that point even if it's prior to the expiration of the effective term. In that sense the introduction and abolition of the Plan will be based on the will of the Company's stockholders.

4) Eliminating Arbitrariness of the Board of Directors

The Company has established the Independent Committee as a unit independent from the Board of Directors so as to appropriately carry out this countermeasure, prevent arbitrary judgments by the Board of Directors, and ensure the rationality and fairness of the judgments. The Independent Committee is comprised of three or more members who shall be selected from among the Company's Outside Directors, Outside Audit & Supervisory Board Members, and external experts (including attorneys-at-law, certified public accountants, corporate managers with a wealth of management experience, and academic experts), all of whom are independent from the management team that executes the Company's business operations. (An outline of the Independent Committee is as stated in Appendix 2, and the names, past experience and positions of the members of the Independent Committee are as stated in Appendix 3.)

In the event that Action of Large-scale Purchase, etc. is taken against the Company, as stated in the aforementioned 3. (2) 2) Countermeasures if the Action of Large-scale Purchase, etc. Takes Place, the Independent Committee shall make a substantive judgment as to whether the Action of Large-scale Purchase, etc. will damage the corporate value of the Company and the common interests of our stockholders, and the Board of Directors shall make a decision respecting the judgment to the maximum extent as a body under the Companies Act. In this way, the Independent Committee conducts strict oversight to ensure that the Board of Directors does not conduct arbitrary operations of the Plan, including its invoking, and shall disclose an outline of its decisions to stockholders to ensure a mechanism for the transparent operation of the Plan in order to maintain the corporate value of the Company and the common interests of our stockholders.

5) Setting Objective and Reasonable Requirements

As stated above, the Plan is designed in such a way that countermeasures will not be invoked unless the Independent Committee deems that reasonable and detailed objective requirements have been satisfied, and can be said to ensure a mechanism that prevents any arbitrary invoking by the Board of Directors.

6) No Dead-hand or Slow-hand Anti-takeover Measure

The Plan is designed in such a way that it may be abolished even prior to the expiration of its effective term by a decision of the Board of Directors, which comprises Directors appointed at the General Meeting of Stockholders, or by the Board of Directors which comprises Directors appointed by the General Meeting of Stockholders and nominated by a person who has purchased a large number of the Company's shares. Therefore, the Company believes that the Plan is of a completely different nature to the rights plans known as the dead-hand anti-takeover measure (an anti-takeover measure in which the invoking of the measure cannot be prevented even if a majority of the members of the Board of Directors are replaced) and the slow-hand anti-takeover measure (an anti-takeover measure in which the invoking of the measure takes more time to prevent due to the inability to replace all of the directors at once) that make it impossible or difficult for the management team to abolish a plan.

7) Acquiring the Opinions of Third-party Experts

The Plan enables the Independent Committee to receive advice from external experts (financial advisors, certified public accountants, attorneys-at-law, consultants and other experts) at the Company's expense should a Large-scale Purchaser emerge. This mechanism more securely guarantees the fairness and objectivity of judgments by the Independent Committee.

**(4) Impact on our Stockholders**

1) Impact on Stockholders on Introduction of the Plan

At the time of the introduction of the Plan, it will have no impact on the rights of stockholders since no actual allocation of the Share Options will then be made.

2) Impact on Stockholders when Countermeasures are Invoked

In the event that a decision is made to invoke countermeasures based on the Plan and a resolution is passed concerning the implementation of gratis allotment of share options pursuant to the principles, stockholders who are recorded in the final stockholder registry on the record date of allotment shall naturally become the holders of share options on the day when gratis allotment of share options becomes effective, without making an application or following any other procedures. As a result of this mechanism, even if the dilution of share value per share of the Company held by stockholders and investors arises at the time of gratis allotment of the Share Options, dilution of the overall economic value of shares held in the Company will not arise. Additionally, since dilution of voting rights per share of the Company will not arise, no direct or specific impact on the legal rights and economic interests with regard to shares of the Company held by stockholders and investors is assumed.

In the event that the Board of Directors recognizes that the invoking of countermeasures is not appropriate for reasons such as the rescindment or amendment of the purchase action by the Large-scale Purchaser, the Company may, until the day prior to the commencement date of the exercise period of the Share Options, halt the allotment of the Share Options or acquire the Share Options without consideration and without delivering the Company's shares in exchange for the Share Options even after the gratis allotment resolution for the Share Options and effective date of the gratis allotment of the Share Options. In such cases, since dilution of the value per share will not arise, any stockholders and investors who purchased the Company's share certificates, etc. assuming that the value of shares would be diluted may suffer significant damages due to the fluctuation in share price.

Furthermore, in the event that discriminatory terms are attached to the exercise or acquisition of the Share Options, it is assumed that the legal rights and economic interests of the Large-scale Purchaser will be affected upon such exercise or acquisition. However, even in this case, there is no assumption of any direct and specific impact on the legal rights and economic interests of the Company's shares held by stockholders and investors other than the Large-scale Purchaser.

3) Necessary Procedures for Stockholders upon the Gratis Allotment of the Share Options

(a) Procedures for recording in the stockholder registry

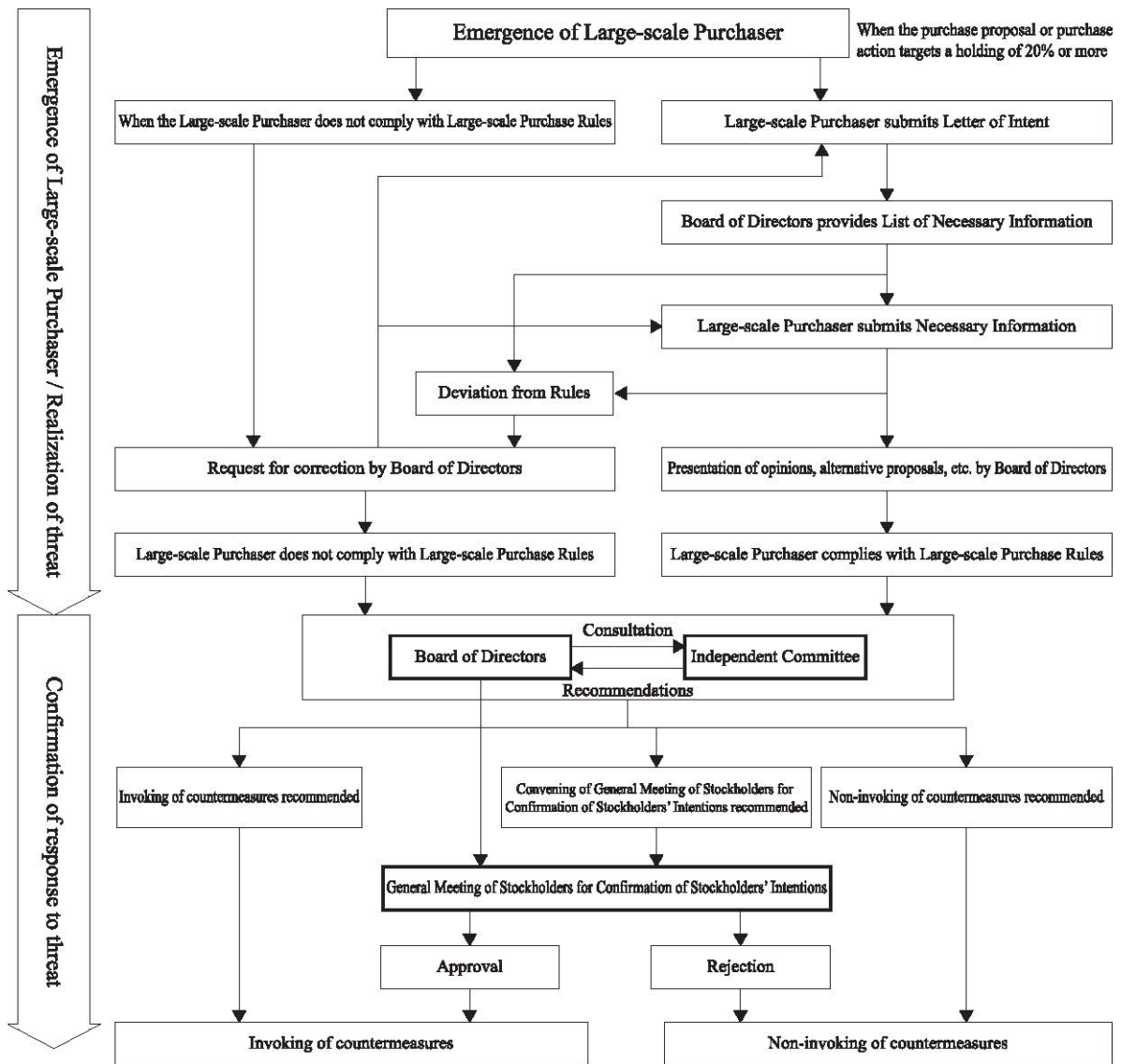
In the event of a resolution to conduct the gratis allotment of the Share Options, the Company shall announce the record date of allotment for the Share Options, pursuant to laws and regulations. As the Share Options will be allocated to the stockholders recorded in the final

stockholder registry on the record date of allotment, it is necessary for stockholders to be recorded in the final stockholder registry on the relevant record date of allotment.

(b) Necessary procedures on exercising or acquiring the Share Options

The Company shall send claim forms and other documents required for exercising the rights of the Share Options to stockholders recorded in the final stockholder registry on the record date of allotment. When stockholders who have been allotted the Share Options exercise their rights during the period for exercising rights, in principle by paying the amount separately stipulated by the gratis allotment resolution for the Share Options of one yen or more to the payment-handling institution after submitting the claim form for exercising the Share Options, one share of the Company's common stock shall in principle be issued for each share option. If stockholders fail to complete the procedures for exercising the Share Options, including cash payment, the Share Option will be terminated (Article 287 of the Companies Act) and the Company's shares held will be diluted as a result of the exercise of the Share Options by other stockholders. However, in the event that the Board of Directors decides to acquire the Share Options pursuant to the provision that allows the Share Options to be acquired in exchange for the Company's shares, in accordance with statutory procedures, stockholders, other than nonqualified persons, who have been deemed to have satisfied the requirements for the invoking of countermeasures, shall in principle receive one share of the Company's common stock for each Share Option as consideration for the Company acquiring the Share Options, without making the cash payment equivalent to the payment amount, on a day separately stipulated by the Board of Directors.

In addition to the above, the Company will announce or advise details of the payment method, etc. to stockholders after the resolution concerning the gratis allotment of the Share Options is passed, so we would like to ask our stockholders to check the details at that time.



## Appendix 2 Outline of Independent Committee Rules

1. Establishment and Composition, etc.
  - The Independent Committee shall be established by a resolution of the Board of Directors of the Company.
  - Members of the Independent Committee (hereinafter, “Independent Committee Members”) shall number three or more; shall satisfy all of the requirements below; and shall be appointed by a resolution of the Board of Directors from among Outside Directors, Outside Audit & Supervisory Board Members, and external experts (including attorneys-at-law, certified public accountants, corporate managers with a wealth of management experience, and academic experts), all of whom are independent from the Company.
    - (1) Persons who are not, or who have never been, Directors, executive officers, employees or Audit & Supervisory Board Members (excluding Outside Directors and Outside Audit & Supervisory Board Members) of the Company or its subsidiaries, or close relatives of those persons (a “close relative” refers to a spouse or any family within the second degree, or a relative living in the same household; hereinafter, the same)
    - (2) Persons who are not a Director, executive officer or employee of the Company’s major business partners (“major business partner” refers to a business partner to whom the annual amount paid by the Company to said company as consideration for goods or services, or to whom the annual amount paid by said company as consideration for goods and services to the Company exceeds 3% of the Company’s average consolidated net sales for the past five years; hereinafter, the same)
    - (3) Persons who are not an external advisor (“external advisor” includes, but is not limited to, external legal advisors, certified public accountants, tax accountants, judicial scriveners, and financial advisors) to the Company or its major business partners
    - (4) Persons who have no special interest with the Company
2. Term of Office of Independent Committee Members
  - The term of office shall be until the conclusion of the Annual General Meeting of Stockholders regarding the last business year ending within the three years after the appointment.
3. Management and Resolutions, etc. of the Independent Committee
  - The Independent Committee shall be convened by the Board of Directors or by an Independent Committee Member.
  - Resolutions of the Independent Committee shall, in principle, be passed with all Independent Committee Members in attendance and by a majority of those in attendance. However, for reasons of an accident or other special circumstances, resolutions may be passed with a majority of Independent Committee Members in attendance and by a majority of their voting rights.
4. Activities, etc. of the Independent Committee
  - The Independent Committee shall review and resolve the following matters, and make recommendations to the Board of Directors with the reasons for those resolutions.
    - (1) Examine and consider the details of the purchase proposal submitted by the Large-scale Purchaser
    - (2) Determine the adequacy of the Necessary Information submitted by the Large-scale Purchaser
    - (3) Determine the necessity, if any, for an extension of the Board of Directors’ Investigation Period
    - (4) Determine the invoking or non-invoking of countermeasures
    - (5) Determine whether or not to consult the Board of Directors with regard to the appropriateness of invoking the countermeasures
    - (6) Determine whether or not to halt countermeasures that have been invoked
    - (7) Other matters that the Independent Committee may undertake as stipulated in the Plan, and matters over which the Board of Directors has sought consultation
  - The Independent Committee shall review and resolve the above matters from the perspective of whether or not they will contribute to the corporate value of the Company and the common interests of our stockholders.
  - The Independent Committee may, at the Company’s expense, seek advice from attorneys-at-law, certified public accountants, tax accountants, financial advisors, and other experts.

### Appendix 3 Introduction of the Independent Committee Members

The following five individuals are expected to be the members of the Independent Committee upon the introduction of the Plan.

#### Ryosuke Nagumo

Born in 1953		
April	1975	Joined RHYTHM WATCH CO., LTD.
June	2005	Director, General Manager, Tokyo Branch, Domestic Sales Division, RHYTHM WATCH CO., LTD.
January	2006	Director, General Manager, Sales Headquarters, Domestic Sales Division, RHYTHM WATCH CO., LTD.
June	2007	President and Representative Director, RHYTHM KAIHATSU CO., LTD.
June	2015	Outside Director, the Company (to present)

#### Kan Ishii

Born in 1954		
April	1977	Joined Japan Development Bank (presently Development Bank of Japan Inc.)
October	2008	Managing Executive Officer, Development Bank of Japan Inc.
January	2010	Deputy Trustee of Japan Airlines Co., Ltd.
August	2011	President and C.E.O., Fukuoka Jisho Co., Ltd.
August	2015	Vice Chairman / Director, Fukuoka Jisho Co., Ltd. (to present)
June	2017	Scheduled to be appointed as Outside Director, the Company

#### Hiroshi Ishibashi

Born in 1948		
April	1974	Registered as Attorney-at-Law Joined Marunouchi Sogo Law Office
April	1984	Partner, Marunouchi Sogo Law Office
June	2004	Outside Audit & Supervisory Board Member, the Company (to present)
January	2014	Advisor, Marunouchi Sogo Law Office (to present)

#### Osamu Takai

Born in 1947		
April	1992	Professor, School of Engineering, Nagoya University
April	2012	Professor Emeritus, Nagoya University (to present) Professor, College of Engineering, Kanto Gakuin University, Vice Director, Materials & Surface Engineering Research Institute, Kanto Gakuin University (to present)
June	2014	Outside Audit & Supervisory Board Member, the Company (to present)

Hiroki Kimura

Born in 1962

April	1984	Joined Asahi Mutual Life Insurance Company
July	2013	Director, Executive Officer and Head of Asset Management Administration Division, Asahi Mutual Life Insurance Company
April	2015	Managing Director, Executive Officer in charge of Asset Management Planning Department and Securities Management Department, Asahi Mutual Life Insurance Company
June	2016	Outside Audit & Supervisory Board Member, the Company (to present)
April	2017	President and Representative Director, Asahi Mutual Life Insurance Company (to present)

\* The Company is planning to conclude agreements with Messrs. Ryosuke Nagumo and Kan Ishii as Independent Committee members provided that they will be elected as Outside Directors at this Annual General Meeting of Shareholders.



## Appendix 4 Outline of Share Options

### 1. Total number of allotted Share Options

The total number of allotted Share Options shall be not less than the total number of the Company's issued common stock on the record date of allotment stipulated in the Gratis Allotment Resolution for the Share Options (excluding the number of the Company's common stock held by the Company at the same time), and shall be stipulated separately in the Gratis Allotment Resolution for the Share Options.

### 2. Stockholders eligible for allotment

The Share Options shall be allocated at a ratio stipulated separately in the Gratis Allotment Resolution for the Share Options at one option or more per share owned in the Company (excluding the Company's common stock held by the Company) to stockholders recorded in the stockholder registry on the record date of allotment.

### 3. Effective date of the gratis allotment of the Share Options

The date shall be stipulated separately in the Gratis Allotment Resolution for the Share Options.

### 4. Class and number of shares subject to the Share Options

The class of shares subject to the Share Options shall be the Company's common stock, and the number of shares subject to one Share Option shall be one share (hereinafter, "number of subject shares"). However, the necessary adjustments shall be made if the Company splits shares or consolidates shares.

### 5. Details and price of property to be contributed upon exercise of the Share Options

The object of contribution upon the exercise of the Share Options shall be cash, and the amount per share of the Company's common stock as property to be contributed upon exercise of the Share Options shall be one yen or more, and shall be stipulated separately in the Gratis Allotment Resolution for the Share Options.

### 6. Restrictions on transfer of the Share Options

Acquisition of the Share Options by transfer shall require the approval of the Board of Directors.

### 7. Requirements for exercising the Share Options

Nonqualified persons cannot exercise the Share Options they hold. Details of exercise conditions for the Share Options are stipulated separately in the Gratis Allotment Resolution for the Share Options.

### 8. Acquisition of the Share Options by the Company

The Company may acquire the Share Options held by persons other than nonqualified persons on the date stipulated separately by the Board of Directors, and may grant the number of subject shares of the Company's common stock per one Share Option in exchange for the Share Option as consideration.

Details of the acquisition clause for the Share Options are stipulated separately in the Gratis Allotment Resolution for the Share Options.

### 9. Gratis acquisition when halting the invoking of countermeasures, etc.

In the event that the Board of Directors halts the invoking of countermeasures or in any other event stipulated separately by the Board of Directors in the Gratis Allotment Resolution for the Share Options, the Company may acquire all of the Share Options without consideration.

### 10. Period for exercising the Share Options

The period for exercising the Share Options and other necessary matters shall be stipulated separately in the Gratis Allotment Resolution for the Share Options.