

To Our Shareholders with Voting Rights

Tadao Hanagata, President  
**KOA CORPORATION**  
3672, Arai, Ina-shi, Nagano Prefecture, Japan  
Head office: 14016, Oaza-Nakaminowa, Minowa-machi,  
Kamiina-gun, Nagano Prefecture, Japan

**NOTICE OF CONVOCATION  
OF THE 89TH ORDINARY GENERAL MEETING  
OF SHAREHOLDERS**

Dear Shareholder:

Taking this occasion, we would like to express our deep gratitude to you for your good offices.

This is to notify you of the 89th Ordinary General Meeting of Shareholders of KOA CORPORATION to be held as described below. We are looking forward to your attendance at the meeting.

**If you are unable to attend the meeting, you may exercise your voting rights in writing or on the Internet. Please read the reference documents for the Ordinary General Meeting of Shareholders attached at the end and exercise your voting rights by 5 p.m., Friday, June 16, 2017 according to the instructions given on page 2.**

Notice

1. **Date:** 10:00 a.m., Saturday, June 17, 2017
2. **Place:** Meeting Room in KOA Pine Park,  
14016, Oaza-Nakaminowa, Minowa-machi, Kamiina-gun, Nagano Prefecture, Japan
3. **Meeting Agenda**  
**Matters to report:**
  1. The business report, consolidated financial statements as well as the Audit Reports of the Independent Auditors and Board of Corporate Auditors for consolidated financial statements for the 89th fiscal year (from April 1, 2016 to March 31, 2017)
  2. The non-consolidated financial statements for the 89th fiscal year (from April 1, 2016 to March 31, 2017)

**Matters to be resolved:**

- Proposal 1: Appropriation of retained earnings
- Proposal 2: Election of nine (9) directors
- Proposal 3: Election of two (2) corporate auditors
- Proposal 4: Election of one (1) substitute corporate auditor
- Proposal 5: Continuation of the countermeasures to large-scale acquisitions of KOA Corporation's shares, etc. (takeover defense measures)

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•Disclosure via the Internet

- Any change that may occur in the reference documents for the ordinary general meeting of shareholders, business report, non-consolidated or consolidated financial statements will be reported on the company's Internet website.

The Company's website: <http://www.koaglobal.com>

- The Company participates in the voting rights exercise platform for institutional investors operated by ICJ, Inc.
- This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damage arising from the translation.

## **Instructions on the Exercise of Your Voting Rights**

You can exercise your voting rights using one of the three following methods.

### **Attending the meeting in person**

Please turn in the voting form enclosed here at the reception desk in the meeting hall.

(Use of seal is not required.)

Date: 10:00 a.m., Saturday, June 17, 2017

Location: Meeting Room in KOA Pine Park,

14016, Oaza-Nakaminowa, Minowa-machi, Kamiina-gun, Nagano Prefecture, Japan

### **Exercising voting rights by mail**

Please indicate your approval or disapproval of each of the proposals on the voting form and mail it without a stamp.

Voting forms that arrive by the deadline of 5 p.m., Friday, June 16, 2017 will be deemed valid.

### **Exercising voting rights via the Internet**

Please access the voting rights website from your computer, smartphone, or mobile phone (<http://www.evotepj.com>) and enter the login ID and temporary password noted on the lower right side of the enclosed voting form. Follow the instructions on the screen and enter your approval or disapproval.

The deadline for exercising your voting rights via the Internet is 5 p.m., Friday, June 16, 2017.

(Notes)

- (1) To prevent fraudulent accesses by non-shareholder third parties (“spoofing”) and the doctoring of the voting rights exercised, you will be asked to change the “tentative password” on the exercise voting rights website.
- (2) We will notify you of a new “log-in ID” and “tentative password” each time the Ordinary General Meeting of Shareholders is convened.
- (3) The expenses of your accesses to the exercise voting rights website (e.g., Internet access fees, etc.) shall be borne by you. If you use your cellphone, you shall bear the expenses for using cellphones, such as packet communication charges.

(Attached documents with regard to the NOTICE OF CONVOCATION OF THE 89TH ORDINARY  
GENERAL MEETING OF SHAREHOLDERS)

## **BUSINESS REPORT**

(From April 1, 2016 to March 31, 2017)

### **1. Operating Performance**

#### **(1) Status of Operations in the Fiscal Year Under Review**

##### 1) Process and Results of Operations

In the consolidated fiscal year ended March 31, 2017, the global economy overall took a moderate upswing. In Asia, the economy in China continued to trend gradually toward recovery, mainly evidenced by public investment from the second half. In the United States, the economy continued to expand modestly, mainly reflecting an upturn in corporate earnings, an increase in consumer spending, and an improvement in employment trends. In Europe, the economy continued to trend gradually toward recovery underpinned by firm trends in consumer spending. Meanwhile, in Japan, the economy overall continued on a modest trajectory toward recovery. Despite a still listless rebound in consumer spending, corporate earnings continued to improve, mainly buoyed by exports.

In the electronic parts industry, to which KOA CORPORATION (“the Company” or “we”) and its corporate group (“the Group” or “we”) belong, there has been expansion of the automotive parts market through advancements in digitization, and automotive parts performed well, particularly in Asia.

In this environment, the Group pushed forward with activities such as expanding sales of high-value added products focused on markets that value quality and reliability. In addition, the Group increased R&D investments for future growth.

In the fiscal year under review, the Group posted consolidated net sales of ¥45,600 million, an increase of ¥137 million or 0.3% from the previous fiscal year. Despite the yen’s strength against other major currencies, there was benefit in part from an increase in sales to auto manufacturers in Japan, Asia, and Europe.

On the profit front, the Group benefited from the aforementioned sales expansion activities and cost reduction measures. Consequently, consolidated operating income was ¥3,136 million, an increase of ¥545 million or 21.0% from the previous fiscal year, ordinary income totaled ¥3,323 million, an increase of ¥352 million or 11.9% from the previous fiscal year, and net income attributable to owners of the parent came to ¥2,563 million, an increase of ¥564 million or 28.3% from the previous fiscal year.

With regard to segment results, in Japan, net sales were ¥39,491 million, an increase of ¥1,201 million from the previous fiscal year, and regional profit was ¥1,999 million, an increase of ¥552 million from the previous fiscal year. In Asia, net sales were ¥21,769 million, a decrease of ¥1,343 million from the previous fiscal year, and regional profit was ¥785 million, an increase of ¥111 million from the previous fiscal year. In the United States, net sales were ¥7,819 million, a decrease of ¥610 million from the previous fiscal year, and regional profit was ¥337 million, an increase of ¥111 million from the previous fiscal year. In Europe net sales were ¥5,459 million, an increase of ¥142 million from the previous fiscal year, and regional profit was ¥170 million, a decrease of ¥30 million from the previous fiscal year.

The breakdown of our consolidated net sales by product type is as follows:

Product type	Net sales (millions of yen)	Percentage (%)
Resistors	39,747	87.1
ICs and IC-related equipment	935	2.1
High-frequency inductors	1,054	2.3
Protective components	1,906	4.2
Others	1,958	4.3
Total	45,600	100.0

2) Capital Expenditures

The capital expenditures in the fiscal year under review totaled ¥2,271 million, including those for quality improvements, development of new products and mass-production equipment, etc.

3) Financing Activities

Not applicable.

## (2) The Group's Assets and Profit and Loss during the Recent Three Fiscal Years

Item	86th fiscal year (year ended March 31, 2014)	87th fiscal year (year ended March 31, 2015)	88th fiscal year (year ended March 31, 2016)	89th fiscal year Consolidated fiscal year under review (year ended March 31, 2017)
Net sales	¥44,895 million	¥46,595 million	¥45,462 million	¥45,600 million
Ordinary income	¥3,813 million	¥4,647 million	¥2,971 million	¥3,323 million
Net income attributable to owners of parent	¥2,430 million	¥3,423 million	¥1,999 million	¥2,563 million
Net income per share	¥66.28	¥93.33	¥54.50	¥69.90
Total assets	¥63,979 million	¥69,972 million	¥69,169 million	¥71,859 million
Net assets	¥51,378 million	¥56,356 million	¥55,615 million	¥56,935 million
Net assets per share	¥1,398.78	¥1,534.08	¥1,513.95	¥1,549.50

- Notes:
1. Net income per share is based on the average number of shares outstanding during the period, excluding treasury shares. Net assets per share are calculated based on the total number of issued shares at the end of the period excluding treasury shares.
  2. Concerning the calculation of net income per share for the 89th fiscal year, the Company's shares held by the Employee Stock Ownership Plan (ESOP) Trust were treated as treasury shares and therefore were not included in the average number of shares outstanding during the period. In addition, when calculating net assets per share, the Company's shares held by the ESOP Trust were also excluded from the total number of issued shares at the end of the period.

## (3) Status of Important Subsidiaries

### 1) Status of Important Subsidiaries

Company name	Capital stock	Ratio of voting rights (%)	Principal business
KOA ELECTRONICS CO., LTD.	¥400 million	100.0	Manufacture of electronic parts
KOA SPEER HOLDING CORPORATION	US\$1,210	100.0	Sale of electronic parts
KOA DENKO (S) PTE. LTD.	US\$47,333	100.0	Sale of electronic parts
KOA TRADING CO., LTD.	¥10 million	100.0	Sale of electronic parts
SANADA KOA Corporation	¥100 million	100.0	Manufacture of electronic parts
KOA ELECTRONICS (TAICANG) CO., LTD.	RMB143 million	100.0	Manufacture of electronic parts
SHANGHAI KOA ELECTRONICS TRADING CO., LTD.	RMB1,659 thousand	100.0	Sale of electronic parts
KOA DENKO (MALAYSIA) SDN. BHD.	M\$48,104 thousand	100.0	Manufacture of electronic parts
KOA ELECTRONICS (H.K.) LTD.	HK\$1,500 thousand	100.0	Sale of electronic parts
KOA Europe GmbH	EUR766,938	100.0	Sale of electronic parts

## 2) Status of Important Affiliates

Company name	Capital stock	Ratio of voting rights (%)	Principal business
DAH HSING ELECTRIC CO., LTD.	NT\$39,000 thousand	39.0	Sale of electronic parts

### (4) Our Tasks Ahead

The economy overall is expected to remain on a modest path to recovery. However, the outlook for the global economy is likely to remain murky due to negative impact from rising geopolitical risks, including Brexit, the possible outcome from U.S. policies under the new presidency, and the threat of North Korea, concerns of a slowdown in economic growth in China, and sluggish economic sentiment in emerging economies.

In the electronic parts industry, of which the Group is a member, it is required that order trends in the next fiscal year be cautiously considered. On the profit front, moreover, causes for concern include rising prices of raw materials, as well as exchange rate fluctuations.

With these circumstances in mind, we, as a manufacturer specializing in resistors, will concentrate on the fields where quality and reliability are important factors, particularly onboard equipment, aerospace and health care, and where the market is expected to grow larger by future technological innovation in an effort to satisfy the expectations of our customers.

Concretely speaking, in markets where future growth is expected because of such factors as technological innovation, by strengthening our technical proposal activities and the like and thereby raising our sales ratio of high-value-added products, we will proceed with reforming our business structure and make every effort to improve our business performance. Furthermore, in order to ensure our competitive advantage in markets that demand unparalleled product quality, we have set “Building Zero Defect Flows” as a group-wide target, and we are proceeding with activities to increase quality and reliability. Finally, by continuing with our cost-cutting activities and our activities aimed at substantially improving productivity, we will increase profitability.

### (5) Principal Business Activities (as of March 31, 2017)

The Group’s principal business activities are the development, manufacture and sale of various electronic parts, mainly fixed resistors.

### (6) Principal Offices and Plants (as of March 31, 2017)

#### 1) Principal Offices and Plants of the Company

Head office	Minowa-machi, Kamiina-gun, Nagano Prefecture, Japan (Earth Wing)
Main office	Ina-shi, Nagano Prefecture, Japan (Ina Office)
Branch	Fuchu-shi, Tokyo, Japan (Musashino Kohbo)
Business bases	Shin-Yokohama; (sales offices): Sendai, Mito, Takasaki, Tokyo, Musashino, Ina, Shizuoka, Nagoya, Osaka
Plants	East Wing, MINOWA Wing, Minowa, Nishiyama, Chuo, Nanakurinomori, Takuminosato (all in Nagano Prefecture)

2) Subsidiaries

Company name	Address
KOA ELECTRONICS CO., LTD.	Anan-cho, Shimoina-gun, Nagano Prefecture, Japan
KOA SPEER HOLDING CORPORATION	U.S.A.
KOA DENKO (S) PTE. LTD.	Republic of Singapore
KOA TRADING CO., LTD.	Chiyoda-ku, Tokyo, Japan
SANADA KOA Corporation	Ueda-shi, Nagano Prefecture, Japan
KOA ELECTRONICS (TAICANG) CO., LTD.	People's Republic of China
SHANGHAI KOA ELECTRONICS TRADING CO., LTD.	People's Republic of China
KOA DENKO (MALAYSIA) SDN. BHD.	Malaysia
KOA ELECTRONICS (H.K.) LTD.	Hong Kong
KOA Europe GmbH	Federal Republic of Germany

**(7) Employees** (as of March 31, 2017)

1) Employees in the Group

Number of employees	Year-on-year change
3,770 persons	-37 persons

(Note) The above figures are the numbers of employees excluding part-timers.

2) Employees in the Company

Number of employees	Year-on-year change	Average age	Average length of service
1,357 persons	+8 persons	40.5 years of age	16.7 years

(Note) The above figures are the numbers of employees excluding part-timers.

**(8) Major Lenders** (as of March 31, 2017)

Not applicable.

## 2. Status of the Company

### (1) Status of Shares (as of March 31, 2017)

- 1) Number of shares authorized to be issued by the Company: 150,000,000 shares
- 2) Number of outstanding shares: 40,479,724 shares
- 3) Number of shareholders: 5,488 persons
- 4) Major Shareholders (top 10 shareholders)

Name	Number of shares held (thousand shares)	Ratio of equity participation (%)
Credit Suisse AG	3,461	9.34
Nippon Life Insurance Co.	2,226	6.01
The Hachijuni Bank, Ltd.	1,832	4.94
Sompo Japan Nipponkoa Insurance Inc.	1,452	3.92
Credit Suisse AG Singapore Trust A/C For Phycomp Holding B.V.	1,279	3.45
Japan Trustee Services Bank, Ltd. (trust account)	1,277	3.44
CBNY-GOVERNMENT OF NORWAY	1,227	3.31
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,000	2.70
The Master Trust Bank of Japan, Ltd. (trust account)	916	2.47
Bank Julius Baer And Co. Ltd. Singapore Clients	871	2.35

- (Notes)
1. The Company holds 3,424,527 treasury shares, but it is excluded from the major shareholders shown above.  
The 371,000 shares of the Company held by the Employee Stock Ownership Plan (ESOP) Trust are not included in treasury shares.
  2. The treasury shares held by the Company are omitted from the figures for the ratio of equity participation.



## 5) Other Important Matters Concerning Shares

### (Employee Stock Ownership Plan (ESOP) trust)

The Company has introduced an employee incentive plan “Employee Stock Ownership Plan (ESOP) Trust” (hereinafter referred to as the “ESOP Trust”). The decision to implement this plan was approved at a Board of Directors meeting held on October 20, 2016. The goal is to provide better welfare benefits to our employees as they support the growth of the Company. In addition, we believe this will improve our corporate value in the medium and long term, as this creates an incentive for employees to increase the share price by boosting their awareness of corporate earnings and share price trends.

The ESOP Trust was modeled after the ESOP system in the United States. It is an employee incentive plan that takes the form of a trust which applies the employee ownership structure. The objective is to expand savings (enhance employee benefits) by promoting asset-building among employees using the Company’s shares.

The Company has established a trust account for which the beneficiaries are legitimate employee members who satisfy certain requirements, of the Company and the Group’s domestic subsidiaries (hereinafter referred to as the “group employees”) that participate in the “KOA Employee Shareholding Association” (hereinafter referred to as the “Company’s Shareholding Association”). The trust account acquires, in one lot, the Company’s shares of which the number is expected to be acquired by the Company’s Shareholding Association from February 2017 to February 2022 (plan). Then, the trust sells the Company’s shares to the Company’s Shareholding Association on a certain date every month. The voting rights that come with the Company’s shares in the ESOP Trust will be exercised reflecting the intentions of the Company’s Shareholding Association. Once the ESOP Trust reaches maturity, if there are proceeds from a rise in share price, money will be distributed to the beneficiaries (employees) based on contribution ratio. In the event of a loss on the sale of shares due to a decline in share price, the remaining debt related to the trust assets will be paid to the bank in a lump sum by the Company in accordance with the guarantee clause in the loan agreement. Employees will not shoulder any extra financial burden.

The gross method is applied for accounting treatment for financial statements related to the ESOP Trust. The Company’s shares held by the ESOP Trust are included as treasury shares under net assets in the balance sheet.

Note that as of March 31, 2017, the book value of the treasury shares, based on the gross method was ¥429 million (371,000 shares). The book value of the loans payable was ¥437 million.

## (2) Policy on cross-shareholdings and criteria for exercising voting rights

The Company holds shares in our business partners as strategic shareholdings with the goal of reinforcing business transactions. We assess investments in cross-shareholdings based on a comprehensive evaluation of the gains for the Company from the strengthening of business relationships versus the amount of the investment, etc.

We appropriately exercise voting rights that come with cross-shareholdings based on a close examination of the details of the agenda item and whether it will contribute to an improvement in shareholder value. Note that as this stage we do not have uniform criteria since it is necessary to make a comprehensive evaluation for individual shares.

## (3) Status of Company Officers

### 1) Directors and Corporate Auditors (as of March 31, 2017)

Position in the Company	Name	Tasks responsible and important concurrent positions
Representative director and chairman	Koichi Mukaiyama	Chairman, KOA TRADING CO., LTD. Representative Vice Director, DAH HSING ELECTRIC CO., LTD.
Representative director and president	Tadao Hanagata	In charge of the KPS-3 Initiative and Quality Assurance Initiative
Managing Director	Kayoko Fukano	In charge of the Management Administration Initiative Chairman, KOA SPEER HOLDING CORPORATION Managing Director, KOA Europe GmbH Representative Director, SHANGHAI KOA ELECTRONICS TRADING CO., LTD. Director, DAH HSING ELECTRIC CO., LTD.
Director	Takuo Hayashi	In charge of the KPS-3 Initiative
Director	Katsuhiko Momose	In charge of the Manufacturing Initiative, Kamiina Business Field, Shimoina Business Field, and China Business Field Director, KOA ELECTRONICS CO., LTD. Director, SANADA KOA Corporation Director, KOA ELECTRONICS (TAICANG) CO., LTD. Chairman, KOA DENKO (MALAYSIA) SDN. BHD.
Director	Akira Nonomura	In charge of the Sales & Marketing Initiative and Japan Sales Business Field President, KOA TRADING CO., LTD. Director, KOA DENKO (S) PTE. LTD. Director, KOA ELECTRONICS (H.K.) LTD. Director, SHANGHAI KOA ELECTRONICS TRADING CO., LTD.
Director	Etsuji Yamaoka	In charge of the Research & Development Initiative and Minowa Business Field
Director	Masaru Yuzawa	

Position in the Company	Name	Tasks responsible and important concurrent positions
Director	Michael John Korver	Outside director, BJIT Inc. Professor at the Graduate School of International Corporate Strategy Research, Hitotsubashi University Representative director of Global Venture Capital Inc. Outside director, Geovector Corporation Representative director, Durafizz Holdings Corporation
Full-time Corporate Auditor	Kazuo Endo	
Corporate Auditor	Ryoichi Sawa	
Corporate Auditor	Tetsuro Kamijikkoku	Attorney Outside director [member of Audit Committee], CAN DO CO., LTD.
Corporate Auditor	Nobuyuki Shigemune	

- (Notes)
1. Director Michael John Korver is an outside director.  
The Company appointed Director Michael John Korver as an independent officer in accordance with the rules of the Tokyo Stock Exchange and the Nagoya Stock Exchange and reported the appointment to both of the stock exchanges.
  2. Corporate Auditors Tetsuro Kamijikkoku and Nobuyuki Shigemune are outside corporate auditors.  
The Company appointed Corporate Auditor Tetsuro Kamijikkoku and Corporate Auditor Nobuyuki Shigemune as independent officers in accordance with the rules of the Tokyo Stock Exchange and the Nagoya Stock Exchange and reported the appointment to both of the stock exchanges.
  3. Corporate Auditors Kazuo Endo, Ryoichi Sawa, and Nobuyuki Shigemune have considerable knowledge of financial affairs and accounting, as follows:
    - Corporate Auditor Kazuo Endo has experience as a general manager in charge of the Management Administration Initiative of the Company and is familiar with the Company's financial affairs and accounting as a result of his attendance at various meetings for management analysis, business results examination, and the like.
    - Through his position as the representative director and president of KASHIMA KOA DENKO CO., LTD, one of the Company's subsidiaries, Corporate Auditor Ryoichi Sawa has experienced corporate management and has obtained thorough knowledge of the Company's operations related to financial affairs and accounting.
    - Having held positions such as director and president at a securities company, Corporate Auditor Nobuyuki Shigemune has considerable knowledge of financial affairs and accounting.

## 2) Overview of Limited Liability Contracts

Under the provisions of Article 427, Paragraph 1 of the Companies Act, the Company signs a limited liability contract with Mr. Michael John Korver, an outside director, and each corporate auditor to limit the liability for damages, as stipulated in Article 423, Paragraph 1 of the same Act.

The limited liability contract provides that the maximum liability for damages shall be ¥5 million or the amount provided for in laws and regulations, whichever is higher.

3) Position and Task responsible of Directors during the Fiscal Year under Review

At the meeting of the Board of Directors held on January 25, 2017 the following changes were made to positions or tasks responsible.

Name	Previous position/task responsible	New position/task responsible
Tadao Hanagata	Representative director and president In charge of the KPS-3 Initiative	Representative director and president In charge of the KPS-3 Initiative and Quality Assurance Initiative
Katsuhiko Momose	Director In charge of the Manufacturing Initiative, Shimoina Business Field and China Business Field	Director In charge of the Manufacturing Initiative, Kamiina Business Field, Shimoina Business Field, and China Business Field
Masaru Yuzawa	Director In charge of the Quality Assurance Initiative and Kamiina Business Field	Director

4) Compensation, etc. Paid to the Directors and Corporate Auditors

a. Total Amount of the Compensation, etc. Paid in the Fiscal Year under Review

Position	Number of officers	Amount paid
Directors (of whom an outside director)	Nine (one)	¥281 million (¥6 million)
Corporate Auditors (of whom outside corporate auditors)	Four (two)	¥43 million (¥9 million)
Total (of whom outside officers)	Thirteen (three)	¥325 million (¥15 million)

- (Notes)
1. The amount of compensation paid to the directors does not include the amount paid to the directors who were also employees as employee's salaries.
  2. The 85th Ordinary General Meeting of Shareholders held on June 15, 2013, resolved that the total amount of compensation for the directors should be up to ¥350 million in one year (excluding salaries as employees).
  3. The 70th Ordinary General Meeting of Shareholders held on June 13, 1998, resolved that the total amount of compensation for the corporate auditors should be up to ¥70 million in one year.
  4. Based on the resolution of the 86th General Meeting of Shareholders held on June 14, 2014, the accrued balance of payments, due to the termination of the retirement benefit system for directors and corporate auditors, was ¥587 million, which is to be paid to seven directors (of which ¥ – million was paid to – outside directors) and ¥5 million to one corporate auditor (of which ¥ – million was to – outside corporate auditors). Note that payment is made to these directors and corporate auditor when they leave the company.

b. Total Amount of the Compensation, etc. that the Outside Officers Received from the Parent Company, Subsidiary, etc.

The total amount of the compensation, etc. that the Company's outside directors and outside corporate auditors received in the fiscal year under review from the parent company, subsidiary, etc. for which they served as officers was ¥2 million.

5) Matters Regarding the Outside Officers

a. Important Concurrent Positions in Other Corporations, etc. as Managers and the Relations between the Company and Such Other Corporations, etc.

There are no relations to be disclosed between the Company and the corporations, etc. for which the Company's outside directors and outside corporate auditors serve concurrently.

b. Main Activities of the Outside Officers during the Fiscal Year under Review

	Main Activities
Director, Michael John Korver	Mr. Michael John Korver attended all 13 meetings of the Board of Directors that were held in the fiscal year under review. He expressed his opinions based mainly on his abundant knowledge and long experience as a specialist in corporate strategies and a manager for an investment company, and he gave advice and offered proposals for ensuring the appropriateness and adequacy of the decisions made at the meetings of the Board of Directors.
Corporate Auditor, Tetsuro Kamijikkoku	Mr. Tetsuro Kamijikkoku attended 12 out of the 13 meetings of the Board of Directors, and 9 out of the 12 meetings of the Board of Corporate Auditors that were held in the fiscal year under review. He expressed his opinions mainly from the specialist viewpoint of an attorney, and gave advice and offered proposals for ensuring the appropriateness and adequacy of the decisions made at the meetings of the Board of Directors. In addition, Mr. Kamijikkoku made appropriate and necessary remarks in the exchange of opinions about the audit results, consultations about matters to be audited, etc. at the meetings of the Board of Corporate Auditors.
Corporate Auditor, Nobuyuki Shigemune	Mr. Nobuyuki Shigemune attended all 13 meetings of the Board of Directors and all 12 meetings of the Board of Corporate Auditors that were held in the fiscal year under review. Mainly by expressing opinions based on experience and deep insight gained over many years of involvement in management of a financial institution, he voiced opinions to ensure the adequacy and appropriateness of decision-making at the meeting of the Board of Directors. In addition, Mr. Shigemune made appropriate and necessary remarks in the exchange of opinions about the audit results, consultations about matters to be audited, etc. at the meetings of the Board of Corporate Auditors.

(Note) In addition to the aforementioned number of times that meetings of the Board of Directors were held, based on Article 370 of the Companies Act and Article 28 of the Company's Articles of Incorporation, there was one written resolution that was deemed a resolution by the Board of Directors.

#### (4) Status of the Independent Auditor

1) Name:

Grant Thornton Taiyo LLC

2) Amount of Compensation, etc.

	Amount of compensation, etc.
Amount of compensation, etc. for the independent auditor for the fiscal year under review	¥39 million
Total amount of the money and other financial benefits to be paid by the Company and its subsidiaries to the independent auditor	¥39 million

- (Notes)
1. The audit contract between the Company and the independent auditor does not clearly distinguish the compensation, etc. for the audit under the Companies Act from the compensation, etc. for the audit under the Financial Instruments and Exchange Act, and it is virtually impossible to distinguish these compensations, etc. Because of this, the amounts stated in the table above are the totals of these compensation, etc.
  2. The Board of Corporate Auditors has agreed to the amount of compensation etc. for the independent auditor after careful scrutiny of the content of the independent auditing plan for the fiscal year under review, such as the number of auditing days and allocation of personnel as explained by the independent auditor, inspection and evaluation of the previous fiscal year's audit results, the suitability of the audit conducted by the independent auditor, and the basis for calculation in the estimate on which compensation etc. is based.
  3. The Company's overseas subsidiaries are audited by the certified public accountant (or the independent auditor) other than the Company's independent auditor.

3) Non-auditing Services

Not applicable.

4) Policy of the Dismissal or Non-reappointment of Independent Auditors

If an independent auditor is deemed to correspond to any provision prescribed in each item of Article 340, Paragraph 1, of the Companies Act, the Board of Corporate Auditors shall, with the consent of all the corporate auditors, dismiss the independent auditor.

In addition, in the event that the Board of Corporate Auditors determines that it is difficult for the independent auditor to satisfactorily fulfill his or her duties in light of the evaluation criteria for independent auditors, or in other cases in which it is deemed necessary, the Board of Corporate Auditors shall include the dismissal or non-reappointment of the independent auditor in the agenda for the general meeting of shareholders.

### **3. Systems for Ensuring Proper Performance of Duties and the Operation of these Systems**

#### **(1) Overview of decisions made about systems for ensuring proper performance of duties**

The decisions made about the systems for ensuring that the directors' performance of duties is compatible with laws and regulations and the Articles of Incorporation and systems for ensuring the proper performance of other Company business are outlined below.

- 1) Systems for Ensuring that the Performance of Duties by Directors and Employees of the Company and its Subsidiaries (hereafter, "the Group") is Compatible with Laws and Regulations and the Articles of Incorporation
  - The Group has established the KOA Mind (code of conduct and behavior guidelines), a management philosophy laid down as internal regulations, with which all of the Group's officers and employees comply.
  - The Group promptly recognizes and deals with inappropriate, illegal, and anti-social behavior by organizations or individuals, based on the Whistleblower System Regulation.
  - The Operations Audit Center strives to work with Corporate Auditors and audit the overall Group, including subsidiaries, based on the Whistleblower System Regulation and other internal-related regulations. The results are reported to the audited divisions and the Company president.

- 2) System for Keeping and Managing Information about the Fulfillment of the Directors' Duties

The information about the fulfillment of the directors' duties is recorded on paper or electromagnetic media and is kept and managed properly and securely in accordance with the "Regulations of Document Management."

- 3) Regulations for the Management of the Risk of Losses and Other Related Systems

- The possible risks of the Group are analyzed, the risk management system has been created to cope with each risk, the "Risk Management Regulations" have been established as the basic policy for risk management, and efforts are made to prevent losses in advance.
- Each director responsible promotes improvement in the risk management system in each section and reports the activities of the system to the Board of Directors.

- 4) System for Ensuring that the Directors' Duties Are Efficiently Fulfilled

- The Company makes decisions on important matters at its board meetings and supervises the conduct of business by the directors. To strengthen the functions of the Board of Directors and to increase its business efficiency, the Company holds management strategy meetings, where it makes decisions flexibly on matters concerning the conduct of business and on important matters. In addition, it holds consolidated management strategy meetings where responsible people in the subsidiaries attend, as well. The subjects discussed and decided at these meetings include how to achieve the goals, checking of the conduct of business and steps to solve the management problems common to the Group.
- As for the conduct of daily business, the Company delegates authority to the sections

concerned according mainly to the Regulations for Division of Duties so that the responsible person at each stage of the organization can conduct business efficiently.

- 5) System for Ensuring that the Group Conducts Their Business Properly
  - The Company appoints a director in charge of each of its affiliates, who is responsible for the management of the affiliate, in accordance with the “Regulations for the Management of Affiliates.”
  - The director in charge of each of the affiliates works to flexibly manage the affiliate and to achieve mutual growth and reports important information about the affiliate to the Company’s Board of Directors.
  
- 6) Matters Related to Employees to Assist Duties of Corporate Auditors When So Requested by Corporate Auditors and the Independence of Such Employees from Directors
  - The corporate auditor will, if necessary, appoint an employee as an assistant, to help the auditor in his duties. The auditor should consult with the directors about the appointment, change and merit rating of such employees.
  - If the employee is given a direction or an order by the corporate auditor concerning auditing work, he does not have to follow any direction or order regarding such work from any director or any other employee.
  
- 7) Systems Allowing Group Directors and Employees to Report to Corporate Auditors, Other Systems Related to Reporting to Corporate Auditors, and Systems Ensuring that Directors and Employees are not Treated Unfairly as a Result of Their Report
  - If facts that are likely to significantly damage the Group are discovered, the directors and employees of the Group immediately report such facts as well as legal matters to the corporate auditors of the Company.
  - The Operations Audit Center functions as the whistleblowing hotline stipulated in the Whistleblower System Regulation. When a report is received from the Group, it is reported to the Ethics and Compliance Committee, depending on its importance. The corporate auditors receive these reports through the Ethics and Compliance Committee.
  - The Group has stipulated in its related internal regulations that directors and employees who have made such reports cannot be treated unfairly because of their report.
  
- 8) Other Systems Ensuring the Efficient Performance of Audits by Corporate Auditors
  - Corporate Auditors attend board of directors meetings and other important meetings, and supervise the legality and efficiency of management. In addition, they hold regular meetings with representative directors, confirm management policies, and exchange views on issues that should be addressed, risks, the environment for conducting audits, and important issues in order to ensure mutual awareness and deepen a relationship of trust.
  - Corporate Auditors hold meetings to exchange views as necessary with Company management and independent auditors.



9) Pre-payment of Costs Incurred in the Corporate Auditor's Performance of Duties and Procedures for Repayment, and Other Items Related to Policies on the Treatment of Costs and Liabilities Incurred for the Performance of these Duties

- Pre-payment of costs incurred in the Corporate Auditor's performance of duties and procedures for repayment and costs and liabilities incurred for the performance of these duties are processed promptly at the request of the Corporate Auditor, based on related internal regulations.
- Costs incurred in the Corporate Auditor's performance of duties are included in the annual budget based on related internal regulations.

10) System for Ensuring the Reliability of Financial Reports

The Company formulated the "Internal Control Basic Regulations over Financial Reporting" to ensure the reliability of financial reports and establishes, operates and evaluates the internal control system in accordance with the Basic Regulations.

11) Systems to Eradicate Anti-social Forces

The Group will not comply with inappropriate demands from anti-social forces and groups that threaten the order and safety of civil society, and takes an unequivocal stance on this.

## **(2) Outline of Management of Systems to Ensure Suitability of Duties**

An outline of management of systems to ensure suitability of duties is as follows:

We have designated "KOA Mind (Code of Conduct and Action Guideline)," which establishes the Company's management philosophy, as our internal regulations, and we ensure its uptake and penetration by distributing copies to all employees, including officers, at the beginning of each fiscal year and conducting education in each department.

With regard to risk management, based on the Risk Management Regulations, we are implementing measures etc., in order to have mechanisms in place to assess, avoid, mitigate, and remove risks before issues arise, as well as other measures deemed necessary. Specifically, the Ethics and Compliance Committee and the KOA Group Health and Safety Committee each meet twice yearly, analyze risks, and implement measures to combat them. Furthermore, we recognize that the greatest risk we face is halting of production at Japanese production centers, due to earthquakes etc., and we are promoting various earthquake proofing measures in addition to implementing our BCP regulations.

With regard to carrying out the duties of directors, in addition to decisions concerning important matters and auditing etc. of the conduct of business at the monthly Board of Directors meetings, the Company also held management strategy meetings as appropriate, where it made decisions flexibly on matters concerning the conduct of business and important matters. Furthermore, consolidated management strategy meetings are held twice yearly, which are also attended by representatives of Group companies. Subjects discussed and decided at these meetings, included how to achieve the goals, checking on the conduct of business, and steps to respond to Group-wide management issues.

With regard to the conduct of audits, Corporate Auditors not only attended meetings of the

Board of Directors and other important meetings etc., they also conducted audits with regard to legality and efficiency, periodically held meetings with representative director, where they confirmed management policies and exchanged opinions concerning issues to be addressed and important issues etc. Corporate auditors also exchanged opinions with the Operations Audit Center and the independent auditor as necessary. In the fiscal year under review, opinions were exchanged 4 times with the representative director, 12 times with the Operations Audit Center, and 7 times with the independent auditor.

With regard to ensuring the suitability of operations at the Group, the director responsible for management of each affiliate reports to the Board of Directors etc. as necessary with regard to management conditions and other important information, based on the “Regulations for Management of Affiliates.”

The Operations Audit Center receives reports from throughout the Group through the “KOA Hotline” internal reporting mechanism, and reports to the Ethics and Compliance Committee as necessary, depending on the importance of the content of the report. In the fiscal year under review, there were 1 domestic reports and 1 overseas report, and each report was dealt with as appropriate.

#### **4. Basic Policy Regarding the Control of the Company**

##### **(1) Basic Policy Regarding the Ideal Method of the Person Controlling the Decisions of the Company's Financial and Business Policies**

The Company respects the free trading of its shares in the market. It does not unconditionally disapprove of large purchases of its shares by particular persons as long as those purchases increase the corporate value of the Company itself and enhance shareholder interests.

Furthermore, the Company believes that a decision on whether or not to accept a proposal for a large purchase of shares should ultimately be left up to the shareholders.

However, among large purchases of shares, there may be some that do not contribute to the corporate value of the target company or, by extension, to the common interests of its shareholders. Such purchases include those that, in light of their purposes, would damage corporate value and, by extension, the common interests of shareholders; those that, in effect, might compel shareholders to sell their shares; and those that do not provide sufficient time or information to the target company's Board of Directors and shareholders to consider the terms and conditions of the purchase of shares or sufficient time or information to allow the target company's Board of Directors to propose an alternative proposal.

The Company believes that the persons who control decisions on the Company's financial and business policies must be those persons who fully understand the sources of the Company's various corporate values, including the corporate culture of the Company and a solid relationship of trust with stakeholders, and who ensure and enhance the corporate value of the Company and common interests of its shareholders in the medium-to-long term. Therefore, the Company believes that a person who would make a large-scale acquisition in a manner that might harm the corporate value of the Company and the common interests of its shareholders would be inappropriate as a person who controls decisions on the Company's financial and business policies.

##### **(2) Special Activities Contributing to the Effective Use of the Company's Assets, the Formation of a Proper Business Group and the Implementation of Other Basic Policies**

###### **1. Spirit of the Founder**

Kazuto Mukaiyama, the founder of the Company, was born into a silk cultivation farming family in Nakaminowa-mura (now Minowa-machi, Kamiina-gun in Nagano Prefecture) in Nagano Prefecture in 1914. The Inadani area of Nagano Prefecture, where the head office of the Company and many major manufacturing sites are still located to this day, was a rich silk cultivation area at that time. Many silk mills were located in this area, including the world-famous Katakura Silk Industries in Okaya, and farming families raised silkworms and shipped cocoons to earn cash income here. This situation suddenly changed when the Great Depression hit in 1929. This triggered the beginning of the collapse in the price of raw silk thread. Moreover, the advent of rayon and similar led to the continued decline in the raw silk thread industry in Japan after that. Silk cultivation farming families were unable to raise many of the children who had been valuable labor. This meant that all those apart from the eldest son had to leave home.

The founder was the second son of eight siblings. He grew up watching his hometown becoming impoverished at an impressionable age and so personally chose to pay for his own schooling by working in Tokyo. Under these circumstances, the founder discovered business promise in electricity – in particular, the field of light electricity. He went independent and founded the Company at the young age of 26 in 1940. He then established a factory in the town of his birth the following year. He promoted management under the concept of “agriculture and industry working together as one” to create the way to achieve cash income in rural areas so that “farmers can live together with their families as farmers” since that time. The Company has established competitive advantages through accumulation of steady improvements and engineering developments and has grown into a global company with a top class share of the worldwide market for fixed resistors under the spirit of “protect our workplaces by ourselves” against the handicap of a regional company in that “it took half a day to make a connection even if applying for a business phone call urgently” and overseas rivals with low production costs.

The Company believes that the source of the Company’s corporate value is in the enthusiastic corporate culture, which is to diligently inherit the above-mentioned “spirit of the founder,” to take strong root in Japan and other countries it serves in the true sense and to make untiring efforts to improve the corporate value while building a relationship of trust. The Company made an early start in its business in China, North America and Southeast Asia and later in Europe and constructed a global production, marketing and sales network.

## 2. KPS (KOA Profit System)

In KPS (KOA Profit System), the participation-by-all improvement activities that we have been working on continuously since the second half of the 1980s, we first adopted the Toyota Production System and then worked on ending waste in all areas of management in addition to the production process.

In the 2000s, KPS took up quality as the theme for the next stage. We established automotive applications as the area of symbolic sales expansion and promoted “quality first” activities to shift our sales areas from the generic product-orientated home appliance market to markets where quality and reliability of a different magnitude are required. In this activity, we aimed for the improvement of all work and employees involved in addition to product quality. As a result of this activity, automotive applications that accounted for about 10% of our net sales at the start of this activity have now risen to close to 40% and customers have come to praise the “KOA of quality and services.” This brand value is the pride and treasure of the Company.

Furthermore, the Company started the third stage of KPS in the 2010s. To put this simply, this is our “response to innovation.” In our history as a fixed resistor specialist manufacturer approaching the 80th anniversary of the foundation of the Company in 2020, the Company has accumulated fundamental technologies, which are the process technology of thick films and thin films, materials technology and production and control technology. This is an activity that will continue to take advantage of these in the “joint development” of the technological and product development with our customers. In this era of change, we are strengthening investment in our marketing and technical departments to make proactive

proposals from the Company in anticipation of new product and technological demands born in advance of these changes in addition to supplementing the so-called “missing pieces” of customers they do not have in their development and training with the basic technologies of the Company. As a result of this, new products combining the resistors of the Company with the mechanical parts of other firms have already been released.

### 3. Resistors and Future Developments

In terms of product development, we are expanding our product lineup. This includes high-precision low resistance resistors suitable for detection of large currents, resistors with improved sulfide resistance that can be used safely even in environments with air pollution and similar, ultra-thin passive components to support three-dimensional high-density mounting, high withstand voltage chip resistors that can be used even at high voltages, small-sized fuses with excellent environment resistance, noise suppression components with high energy resistance and excellent responsive performance that protect advanced control equipment for automatic operation and similar, and temperature sensors that can be used in high-temperature environments.

In particular, in the automotive field, it is predicted that there will be an increase in the number of motors used in power steering drives in addition to those for driving due to further advances in motorization because of toughening environmental regulations. It is necessary to precisely detect the currents flowing in the circuits to control these rotations. The Company has long focused on high precision “metal plate resistors” suitable for this application. It is expected that there will be an increase in the need for the detection of electric currents in many fields such as industrial equipment in addition to automotive applications. Therefore, we will continue to expand the number of products we provide to meet the needs of our customers for this application.

### 4. Becoming a R&D Company That Can Jointly Develop with Our Customers

The Company is proactively performing activities connecting to new product and business development from underlying technology development jointly with research institutions, universities and other organizations in Japan and overseas with the aim of being a R&D company. We opened the Kitakyushu Research Laboratory in the Hibikino Kitakyushu Science and Research Park in Kitakyushu City in Fukuoka Prefecture in April 2016 as part of this. Hibikino was established in 2001 by Kitakyushu City and Fukuoka Prefecture with the aims of “becoming a core academic research center in Asia” and “promoting creation of new industries and further development of technology.” This has now become one of the leading research and development parks to rival that of the Tsukuba Science City by bringing together science and technology universities, public research institutes, and semiconductor/electronics, automobile and industrial robot related companies, among other organizations. In particular, the park frequently plays host to workshops with companies involved in industrial equipment such as car electronics and robots where the Company is focusing our efforts. We are gradually building a network with researchers in research institutes, engineers in companies and students in graduate schools by directly putting ourselves in such a place of innovation and participating in information gathering/dissemination and various workshops. The Kitakyushu Research Laboratory is

also concentrating on the development of various sensors that are the gateways to information and taking on the role of achieving success with new businesses in anticipation of the IoT era in which various things are connected to the Internet to try and make life more convenient by controlling this.

5. Toward the 80th Anniversary of the Foundation of the Company in 2020

There are increasing demands from customers concerning business continuity due to the Great East Japan Earthquake and the earthquakes that have continued to strike Japan since then. The Company proceeded with work to seismically reinforce our factory buildings and work to prevent the fall of ceilings and similar from an early stage. Moreover, the Company built a new state-of-the-art flat chip resistor production factory in Achi-mura, Shimoina-gun in Nagano Prefecture in 2012 and our subsidiary SANADA KOA Corporation aggregated its old factories into a new factory in Ueda City in Nagano Prefecture in 2013. Furthermore, we established a new product testing and R&D facility in 2016. Together with this, we are looking to strengthen and expand our business continuity structure by improving the important facilities in our group, such as by rebuilding our old logistics center.

In addition, the demand for high reliability of quality is becoming increasingly stronger. Through the problem of recalls of Japanese automobiles in the United States, we saw with our own eyes that, if the response to a problem makes a single misstep, the company as well as the entire supply chain will be greatly affected. The Company saw 63% of our consolidated net sales come from outside of Japan in FY2016 while 73% of this was produced inside Japan. The Company is utilizing and enhancing Japan's domestic strengths in manufacturing to carry out production of high-quality and high-reliability products that are unique to Japan while also rivalling our competitors by collecting the latest information on innovations through taking advantage of our global network.

The Company regards its five stakeholders, i.e., shareholders, customers and business partners, employees and their family members, local communities and the earth as the entities that support the Company, and regards establishing bonds of trust with each of these stakeholders as the mission of the Company. The Company will continue to aim at ensuring and enhancing corporate value and the common interests of shareholders. The Company believes that these efforts will contribute to the realization of the Basic Policy mentioned above.

**(3) Measures to Prevent Decisions on the Company's Financial and Business Policies from Being Controlled by Persons Viewed as Inappropriate under the Basic Policy**

The Company considers that, if a proposal for large-scale share purchase is made by a tender offeror, it will not necessarily be easy for the Company's shareholders to determine the impact of the purchase on the Company's corporate value and, by extension, the common interests of shareholders even after sufficiently understanding the Company's tangible and intangible management resources, potential effects of the measures looking at the future in the medium-to-long term, and other various factors comprising the Company's corporate value. Therefore, at the 80th Ordinary General Meeting of Shareholders held on June 14, 2008, the Company's Board of Directors received approval to introduce the "plan

for countermeasures to be taken against large-scale acquisitions of the shares of the Company (takeover defense measures)” in order to deter purchases that are detrimental to the corporate value of the Company and, in turn, the common interests of its shareholders by ensuring that the necessary time and information are made available for the shareholders to decide whether or not to accept the proposal or for the Company’s Board of Directors to present alternative proposals to the shareholders and by enabling the Board of Directors to negotiate with the tender offeror for the benefit of the shareholders if an acquisition of the shares of the Company is launched. At the 83rd Ordinary General Meeting of Shareholders held on June 18, 2011, and at the 86th Ordinary General Meeting of Shareholders held on June 14, 2014, after having amended some of the contents of the plan, the Company’s Board of Directors received approval to continue the plan.

The Company’s Board of Directors considers that this plan for countermeasures was introduced for the purpose of securing the Company’s corporate value and, in turn, the common interests of its shareholders and is in accordance with the Basic Policy stated above.

Also, the fairness and objectivity of the Plan are guaranteed mainly because it was adopted by the resolution at the Company’s general meeting of shareholders and is based on the intentions of our shareholders, since the Independent Committee has been established and the Committee’s judgments have been regarded as important and also the rational and objective requirements for the Plan’s application have been established. In addition, it has been decided that this Plan may be abolished by the decision at the Company’s general meeting of shareholders or by the Board of Directors composed of the directors elected at the Company’s general meeting of shareholders. Thus, the Plan has high-level rationality and contributes to the corporate value of the Company and, in turn, the common interests of its shareholders, and is not intended to maintain the positions of the Company’s officers.

## Consolidated Balance Sheet

(As of March 31, 2017)

(Millions of yen)

Account item	Amount	Account item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current Assets</b>	<b>40,447</b>	<b>Current Liabilities</b>	<b>9,970</b>
Cash and deposits	19,379	Notes and accounts payable - trade	4,184
Notes and accounts receivable - trade	12,156	Electronically recorded obligations - operating	337
Electronically recorded monetary claims - operating	1,012	Short-term borrowings	237
Securities	1,214	Accrued income taxes	768
Merchandise and finished goods	2,271	Accrued expenses	1,266
Work in process	1,933	Accrued employees' bonuses	1,262
Raw materials and supplies	844	Provision for environmental measures	402
Deferred tax assets	780	Other current liabilities	1,510
Corporation tax refunds receivable, etc.	41	<b>Fixed Liabilities</b>	<b>4,953</b>
Other current assets	839	Long-term borrowings	382
Allowance for doubtful accounts	-27	Long-term accounts payable - other	657
<b>Fixed Assets</b>	<b>31,412</b>	Deferred tax liabilities	1,314
<b>Tangible fixed assets</b>	<b>22,404</b>	Net defined benefit liability	2,286
Buildings and structures	9,233	Other fixed liabilities	312
Machinery, equipment and vehicles	5,813	<b>Total Liabilities</b>	<b>14,924</b>
Tools, furniture and fixtures	436	<b>Net Assets</b>	
Land	6,217	<b>Shareholders' Equity</b>	<b>56,173</b>
Construction in progress	703	Capital stock	6,033
<b>Intangible fixed assets</b>	<b>485</b>	Capital surplus	9,185
<b>Investments and other assets</b>	<b>8,522</b>	Retained earnings	43,776
Investments in securities	5,180	Treasury shares	-2,821
Deferred tax assets	199	<b>Total Amount of Other Comprehensive Income</b>	<b>669</b>
Long-term deposits	1,173	Valuation difference on available for sale securities	1,780
Insurance reserve fund	1,493	Foreign currency translation adjustments	-444
Other investments	504	Remeasurements of defined benefit plans	92
Allowance for doubtful accounts	-29	<b>Non-controlling Interests</b>	
<b>Total Assets</b>	<b>71,859</b>	<b>Total Net Assets</b>	<b>56,935</b>
		<b>Total Liabilities and Net Assets</b>	<b>71,859</b>

(Note) The above figures are rounded down to the nearest ¥1 million.



## Consolidated Statement of Income

(From April 1, 2016 to March 31, 2017)

(Millions of yen)

Account item	Amount	
<b>Net sales</b>		<b>45,600</b>
<b>Cost of sales</b>		<b>31,492</b>
<b>Gross profit</b>		<b>14,107</b>
<b>Selling, general and administrative expenses</b>		<b>10,970</b>
<b>Operating income</b>		<b>3,136</b>
<b>Non-operating income</b>		
Interest income	61	
Dividends income	56	
Investment profit by the equity method	43	
Other	310	471
<b>Non-operating expenses</b>		
Interest expense	20	
Foreign exchange loss	167	
Other	96	284
<b>Ordinary income</b>		<b>3,323</b>
<b>Extraordinary income</b>		
Gain on sales of fixed assets	709	709
<b>Extraordinary losses</b>		
Loss on disposal of fixed assets	77	
Loss on sale of fixed assets	15	
Impairment loss	14	
Provision for environmental measures	402	
Other	7	517
<b>Income before income taxes</b>		<b>3,516</b>
Income taxes current	1,035	
Income taxes deferred	-84	951
Net income		2,564
Net income attributable to non-controlling interests		0
<b>Net income attributable to owners of parent</b>		<b>2,563</b>

(Note) The above figures are rounded down to the nearest ¥1 million.

## Consolidated Statement of Changes in Shareholders' Equity, etc.

(From April 1, 2016 to March 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	6,033	9,012	42,239	-2,656	54,628
Changes during current period					
Dividends of surplus			-1,026		-1,026
Net income attributable to owners of parent			2,563		2,563
Treasury shares acquired				-429	-429
Disposal of treasury shares		173		264	437
Net changes in items other than shareholders' equity during current period					
Total changes during current period	—	173	1,536	-165	1,544
Balance at the end of current period	6,033	9,185	43,776	-2,821	56,173

	Total amount of other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available for sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total amount of other comprehensive income		
Balance at the beginning of current period	1,387	106	-594	899	87	55,615
Changes during current period						
Dividends of surplus						-1,026
Net income attributable to owners of parent						2,563
Treasury shares acquired						-429
Disposal of treasury shares						437
Net changes in items other than shareholders' equity during current period	392	-773	150	-230	5	-225
Total changes during current period	392	-773	150	-230	5	1,319
Balance at the end of current period	1,780	-666	-444	669	92	56,935

(Note) The above figures are rounded down to the nearest ¥1 million.

## Notes to the Consolidated Financial Statements

### 1. Notes on Important Basic Matters for the Preparation of Consolidated Financial Statements

#### (1) Scope of Consolidation

##### 1) Consolidated Subsidiaries

- Number of consolidated subsidiaries: 15 companies

- Names of the principal consolidated subsidiaries:

KOA ELECTRONICS CO., LTD., KOA TRADING CO., LTD., KOA DENKO (S) PTE. LTD., SANADA KOA Corporation, KOA ELECTRONICS (TAICANG) CO., LTD., KOA SPEER HOLDING CORPORATION and KOA DENKO (MALAYSIA) SDN. BHD.

##### 2) Non-consolidated Subsidiaries

- Number of non-consolidated subsidiaries: 3 companies

- Names of the principal non-consolidated subsidiaries:

WUXI KOA ELECTROCERAMICS CO., LTD. and JAPAN ELECTRONIC APPLICATIONS CO., LTD.

- Reason for exclusion from consolidation:

The three non-consolidated subsidiaries were excluded from the scope of consolidation because all of them are small-sized companies and their total assets, net sales, net income or loss (the amount in accordance with the equity), retained earnings (the amount in accordance with the equity), etc. had no significant impact on the consolidated financial statements.

#### (2) Application of the Equity Method

##### 1) Non-consolidated Subsidiaries and Affiliates Accounted for by the Equity Method

- Number of the affiliates accounted for by the equity method: 1 company

- Name of the company accounted for by the equity method:

DAH HSING ELECTRIC CO., LTD.

##### 2) Non-consolidated Subsidiaries Not Accounted for by the Equity Method

- Names of the main companies not accounted for by the equity method:

WUXI KOA ELECTROCERAMICS CO., LTD. and JAPAN ELECTRONIC APPLICATIONS CO., LTD.

- Reason for exclusion from the equity method:

The above two companies have not been accounted for by the equity method because their net income or loss (the amount in accordance with the equity), retained earnings (the amount in accordance with the equity), etc. would have no significant impact on the consolidated financial statements and were not very important as a whole.

##### 3) Special Notes regarding the Application of the Equity Method

As for the financial statements of the companies accounted for by the equity method that employed a different fiscal year from the consolidated fiscal year, we used the fiscal year of such companies for their financial statements.

(3) Fiscal Year, etc. of the Consolidated Subsidiaries

The account closing date of SHANGHAI KOA ELECTRONICS CO., LTD., KOA ELECTRONICS (TAICANG) CO., LTD., and SHANGHAI KOA ELECTRONICS TRADING CO., LTD., which are among the consolidated subsidiaries, is December 31. The consolidated financial statements of these subsidiaries were prepared using the financial documents dated as of December 31. However, the adjustments needed for consolidation were made for all the important transactions that took place between this date and the consolidated closing date.

(4) Accounting Policies

1) Valuation Basis and Methods for Significant Assets

a. Held-to-maturity Securities:

Amortized cost method

b. Available-for-sale Securities

• Marketable securities classified as available-for-sale securities:

Market value method based on market price, etc. as of the end of the fiscal year under review (The valuation difference is valued by the total net assets method, and the cost of securities sold is determined by the moving-average method.)

• Non-marketable securities classified as available-for-sale securities:

Cost method based on the moving-average method

c. Derivative Transactions:

Market value method

d. Inventories:

Mainly the cost method based on the moving-average method

(The values stated in the consolidated balance sheet were calculated by the method of reducing the book value according to lowered profitability.)

2) Depreciation Method of Significant Depreciable Assets

a. Tangible Fixed Assets (excluding Lease Assets):

Mainly the declining-balance method.

However, the straight-line method has been adopted for the buildings (excluding equipment attached to buildings) acquired on or after April 1, 1998, and the equipment attached to buildings and structures acquired on or after April 1, 2016.

b. Intangible Fixed Assets (excluding Lease Assets):

Straight-line method

c. Lease Assets:

With regard to lease assets related to non-ownership transfer finance lease transactions, the straight-line method has been employed, with the residual value as zero, and lease period as the estimated life.

3) Accounting Standards for Significant Allowances

a. Allowance for Doubtful Accounts:

The allowance for doubtful accounts of the Company and its domestic consolidated subsidiaries is provided for possible bad debt at the amount estimated based on the loan loss ratio for general receivables and at the uncollectible amounts determined by reference to the collectability of individual doubtful receivables for doubtful receivables and other specific receivables. That of our overseas consolidated subsidiaries is provided mainly for uncollectible amounts determined by reference to the collectability of the specific receivables.

b. Accrued Employees' Bonuses:

The accrued employees' bonuses are provided for the payment of employees' bonuses based on the estimated amounts to be paid in the future.

c. Provision for Environmental Measures:

The provision for environmental measures is provided for expenses for environmental measures related to soil improvement construction based on the estimated incurred amount.

4) Policies concerning the Conversion of Significant Assets or Liabilities in Foreign Currencies into Those in the Japanese Currency

Assets and liabilities in foreign currencies are converted into yen at the spot exchange rate on the consolidated closing date and the translation difference is treated as a loss or gain. The assets and liabilities of our overseas consolidated subsidiaries are converted into yen at the spot exchange rate on closing date of each company, and the income and expenses, at the average annual exchange rate for each period. The translation difference is recorded in foreign currency translation adjustments and non-controlling interests in the net assets section.

5) Other Important Matters for the Preparation of Consolidated Financial Statements

a. Method of accounting for retirement benefits

i.) Method of attributing estimated retirement benefits

In calculating its retirement benefit obligation, the benefit formula basis is applied for the method of attributing the estimated retirement benefits to the period until the end of the fiscal year under review.

ii.) Amortization of actuarial gains or losses and past service cost

The Company is amortizing prior service cost on a straight-line basis over a certain number of years (10 to 13 years) within the average remaining service years of employees at the time of incurrence.

As for actuarial gains or losses, proportional amounts based on a certain number of years (mainly 10 years) within the average remaining service years of employees when a gain or loss occurs in a consolidated fiscal year are amortized beginning in the consolidated fiscal year following the fiscal year of incurrence.

iii.) Method of accounting for differences in unrecognized actuarial gain or loss, and unrecognized prior service cost

With regard to differences in unrecognized actuarial gain or loss, and unrecognized prior service cost, remeasurements of defined benefit plans in total amount of other comprehensive income in net assets are calculated after adjusting for taxation.

b. Accounting of consumption taxes, etc.:

Transactions subject to consumption taxes and local consumption taxes are recorded at amounts exclusive of the consumption taxes. But non-deducted consumption tax, etc. is posted as a cost for the consolidated fiscal year under review.

(5) Changes in Accounting Policies

(Application of practical solution on a change in depreciation method due to tax reform 2016)

Following the revision to the Corporation Tax Act, the Company has applied the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) from the consolidated fiscal year under review, and changed the depreciation method for equipment attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

As a result, operating income, ordinary income and income before income taxes for the consolidated fiscal year under review have each increased by ¥8 million.

(6) Additional Information

1) Application of ASBJ Guidance on recoverability of deferred tax assets

Effective from the consolidated fiscal year under review, the Company has applied the “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

2) Accounting treatment for Employee Shareholding ESOP Trust

The Company conducts transactions to offer the Company’s shares to the employee shareholding association through a trust, with the aim of enhancing the employee benefits.

a. Outline of transactions

The Company has introduced an employee incentive plan “Employee Stock Ownership Plan (ESOP) Trust” (hereinafter referred to as the “ESOP Trust”). The decision to implement this plan was approved at a Board of Directors meeting held on October 20, 2016. The goal is to provide better welfare benefits to our employees as they support the growth of the Company. In addition, we believe this will improve our corporate value in the medium and long term, and increase the share price by boosting their awareness of corporate earnings and share price trends.

The Company has established a trust account for which the beneficiaries are legitimate employee members who satisfy certain requirements, of the Company and the Group’s domestic subsidiaries that participate in the “KOA Employee Shareholding Association” (hereinafter referred to as the “Company’s Shareholding Association”). The trust account acquires, in one lot, the Company’s shares of which the number is expected to be acquired by the Company’s Shareholding Association from February 2017 to February 2022 (plan). Then, the trust sells the Company’s shares to the Company’s Shareholding Association on a certain date every month.

b. The Company’s own shares remaining in the trust

For accounting transactions related to the ESOP Trust, the Company has applied the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (ASBJ PITF No. 30, March 26, 2015) and accounted for the transactions using the gross method, which treats the Company and the ESOP Trust as combined together. As a result, The Company’s shares held by the ESOP Trust is presented under net assets in the Consolidated Balance Sheet as “Treasury shares” using the book value at the ESOP Trust (excluding amounts of ancillary costs).

Please note that the number of the Company's shares held by the Trust on the last day of the consolidated fiscal year under review (March 31, 2017) is 371,000 shares and its book value is ¥429 million.

c. Book value of loans payable recorded using the gross method

The consolidated fiscal year under review: ¥437 million

**2. Notes to the Consolidated Balance Sheet**

(1) Total Amount of Depreciation of Tangible Fixed Assets ¥43,387 million

(2) Amount of Discounts of Notes Receivables ¥107 million

(3) Contingent Liability

The Company has provided financial guarantees for borrowings, etc. from financial institutions.

ESOP Trust ¥437 million

**3. Notes to the Consolidated Statement of Changes in Shareholders' Equity, etc.**

(1) Total Number of Issued Shares

Type of shares	Number of shares at the beginning of the consolidated fiscal year under review	Number of shares increased in the consolidated fiscal year under review	Number of shares decreased in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	40,479,724 shares	— shares	— shares	40,479,724 shares

(2) Number of Treasury Shares

Type of shares	Number of shares at the beginning of the consolidated fiscal year under review	Number of shares increased in the consolidated fiscal year under review	Number of shares decreased in the consolidated fiscal year under review	Number of shares at the end of the consolidated fiscal year under review
Common shares	3,802,131 shares	378,016 shares	384,620 shares	3,795,527 shares

(Notes) 1) The number of shares of treasury shares at the end of the consolidated fiscal year under review includes 371,000 shares of the Company held by the ESOP Trust.

2) (Summary of the reasons for the changes)

Components of the increase are as follows:

Acquisitions by the ESOP Trust 377,700 shares  
Purchase request for shares less than one unit 316 shares

Components of the decrease are as follows:

Disposal to the ESOP Trust 377,700 shares  
Sale from the ESOP Trust to the employees' shareholding association 6,700 shares  
Additional purchase request for shares less than one unit 220 shares

(3) Appropriation of Retained Earnings

1) Dividends Paid, etc.

a. Dividends decided at the 88th Ordinary General Meeting of Shareholders held on June 18, 2016

- Total amount of dividends: ¥513 million
- Amount of dividends per share: ¥14.00
- Date of record: March 31, 2016
- Effective date: June 20, 2016

b. Dividends decided at the meeting of the Board of Directors held on October 20, 2016

- Total amount of dividends: ¥513 million
- Amount of dividends per share: ¥14.00
- Date of record: September 30, 2016
- Effective date: December 1, 2016

2) Dividends Whose Date of Record Belongs to the Consolidated Fiscal Year under Review But that Become Effective in the Next Consolidated Fiscal Year

At the 89th Ordinary General Meeting of Shareholders scheduled for June 17, 2017, we will propose the payment of dividends as follows:

- Total amount of dividends: ¥555 million
- Funds for dividends Retained earnings
- Amount of dividends per share: ¥15.00
- Date of record: March 31, 2017
- Effective date: June 19, 2017

(Note) Total amount of dividends to be submitted for a resolution at the 89th Ordinary General Meeting of Shareholders held on June 17, 2017 includes the dividends of ¥5 million on the Company's shares held by the ESOP Trust.



#### 4. Notes on Financial Instruments

##### (1) Status of Financial Instruments

The Group limits the management of its funds mainly to short-term deposits and the like and raises necessary funds by borrowings from banks and other financial institutions.

The Group reduces customer credit risk for notes receivable, accounts receivable, and electronically recorded monetary claims - operating by performing due date management and credit management. Our investments in securities are mainly those in stocks, and we check the market price of the listed stocks we hold every quarter.

The uses of the Company's borrowings are working capital (mainly short-term) and capital expenditure funds (long-term).

Our derivative transactions are the exchange contract transactions aiming at hedging part of the foreign exchange fluctuation risks related to foreign currency operating receivables and payables, and we make it a policy to conduct derivative transactions within the actual demand according to the Risk Management Regulations.

##### (2) Market Value of Financial Instruments, etc.

The amount posted in the consolidated balance sheet, market value and difference between them as of March 31, 2017 (consolidated closing date for the fiscal year under review) are as shown in the table below. The items whose market value is considered to be very difficult to estimate are excluded from the table (See Note 2 below).

(Millions of yen)

	Amount recorded in the consolidated balance sheet (*1)	Market value (*1)	Difference
1) Cash and deposits	19,379	19,379	—
2) Notes and accounts receivable - trade	12,156	12,156	—
3) Electronically recorded monetary claims - operating	1,012	1,012	—
Allowance for doubtful accounts (*2)	-27	-27	—
4) Securities and Investments in securities	13,141	13,141	—
Held-to-maturity securities	987	968	-19
Available-for-sale securities	4,423	4,423	—
5) Notes and accounts payable - trade	(4,184)	(4,184)	—
6) Electronically recorded obligations - operating	(337)	(337)	—
7) Short-term borrowings	(237)	(237)	—
8) Long-term borrowings	(382)	(373)	-9
9) Derivative transactions (*3)	19	19	—

(\*1) The items recorded as liabilities are shown in parentheses.

(\*2) We subtract an allowance for doubtful accounts for notes and accounts receivable, and electronically

recorded monetary claims - operating.

(\*3) Net credit or liability arising from derivative transactions is shown.

(Note 1) Method of calculating the market value of financial instruments and the matters concerning securities and derivative transactions

1) Cash and deposits; 2) Notes and accounts receivable - trade; and 3) Electronically recorded monetary claims - operating

The market value of these items is roughly equal to their book value because they are settled in a short period. Therefore, their market value is stated using their book value.

4) Securities and Investments in securities

(Held-to-maturity securities)

The market value of held-to-maturity securities is calculated using the price presented by our financial institutions. The amount posted in the consolidated balance sheet, market value and difference between them by type are as stated in the table below. There are no held-to-maturity securities sold during the consolidated fiscal year under review.

(Millions of yen)

	Type	Amount posted in the consolidated balance sheet	Market value	Difference
Held-to-maturity securities with a market value higher than the amount posted in the consolidated balance sheet	Others	200	205	5
Held-to-maturity securities with a market value below the amount posted in the consolidated balance sheet	Others	787	762	-24
Total		987	968	-19

(Available-for-sale securities)

The market value of available-for-sale securities is based on the price at the stock exchange as for stocks. The difference between the amount posted in the consolidated balance sheet and the acquisition cost is as shown in the table below.

(Millions of yen)

	Type	Acquisition cost	Amount posted in the consolidated balance sheet	Difference
Available-for-sale securities with an amount posted in the consolidated balance sheet higher than the acquisition cost	Stocks	655	3,207	2,552
Available-for-sale securities with an amount posted in the consolidated balance sheet below the acquisition cost	Stocks	1	1	-0
Total		657	3,209	2,551

The “acquisition cost” stated in the table above is the book value after applying impairment accounting. There are no marketable securities whose purpose of holding was changed during the consolidated fiscal year under review.

Please note that, since some marketable securities, such as MMF (¥1,214 million), are settled in a short period of time, the market price approximates the book value. Therefore, they have been excluded from the above table.

- 5) Notes and accounts payable - trade, 6) Electronically recorded obligations - operating, and  
7) Short-term borrowings

The market value of these items approximates their book value because they are settled in a short period. Therefore, they are stated using their book value.

- 8) Long-term borrowings

The market value of long-term borrowings is calculated by discounting the sum of the principal and interest by the interest rate supposed for newly made borrowings.

- 9) Derivative transactions

The current market price of forward exchange transactions is calculated based on the price indicated by the correspondent financial institution. Hedge accounting is not applied.

**Currency** (Millions of yen)

Classification	Transaction type	Contract amount etc.	Contract amount etc. over 1 year	Current market price	Appraisal of profit/loss
Transaction other than market transaction	Forward exchange transaction Short position US dollars	570	—	9	9
Transaction other than market transaction	Forward exchange transaction Short position Euros	968	—	9	9

(Note 2) The non-listed stocks (amount posted in the consolidated balance sheet: ¥983 million) have no market price and their future cash flows cannot be estimated, making it very difficult to check their market value. Therefore, these stocks are not included in “4) Securities and Investments in securities” above.

(Note 3) Planned amount of redemption of monetary claims and securities with maturity after the consolidated closing date

(Millions of yen)

	Redeemable within one year	Redeemable over one year but within five years	Redeemable over five years but within ten years
Cash and deposits	19,379	—	—
Notes receivable, accounts receivable, and electronically recorded monetary claims - operating	13,141	—	—
Securities and investments in securities			
Held-to-maturity securities	—	400	587
<b>Total</b>	<b>32,521</b>	<b>400</b>	<b>587</b>

(Note 4) Planned amount of repayment of borrowings after the consolidated closing date

(Millions of yen)

	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years
Short-term borrowings	123	—	—	—	—
Long-term borrowings	114	114	93	87	87

## 5. Notes on the Information about Amounts per Share

(1) Amount of Net Assets per Share ¥1,549.50

(2) Net Income per Share ¥69.90

(Note) Treasury shares held by the ESOP Trust are included in treasury shares deducted from total number of issued shares at the end of the period when calculating net assets per share, and are also included in treasury shares deducted from the average number of shares during the period when calculating net income per share.

Number of treasury shares at the end of the period 371,000 shares

Average number of treasury shares during the period 374,350 shares

## 6. Other notes

There is nothing to be stated here.

## Non-consolidated Balance Sheet

(As of March 31, 2017)

(Millions of yen)

Account item	Amount	Account item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current Assets</b>	<b>23,247</b>	<b>Current Liabilities</b>	<b>7,992</b>
Cash and deposits	7,695	Notes payable-trade	53
Notes receivable-trade	1,310	Electronically recorded obligations - operating	618
Electronically recorded monetary claims - operating	1,010	Accounts payable-trade	4,227
Accounts receivable-trade	10,591	Accounts payable-other	804
Merchandise and finished goods	205	Accrued employees' bonuses	882
Work in process	1,061	Provision for environmental measures	402
Raw materials and supplies	383	Other current liabilities	1,003
Other current assets	987	<b>Fixed Liabilities</b>	<b>2,926</b>
<b>Fixed Assets</b>	<b>29,629</b>	Long-term accounts payable - other	571
<b>Tangible fixed assets</b>	<b>13,023</b>	Allowance for employees' retirement benefits	1,087
Buildings	5,466	Other fixed liabilities	1,268
Structures	325		
Machinery and equipment	2,395	<b>Total Liabilities</b>	<b>10,919</b>
Vehicles	21	<b>Net Assets</b>	
Tools, furniture and fixtures	131	<b>Shareholders' Equity</b>	<b>40,226</b>
Land	4,181	<b>Capital stock</b>	<b>6,033</b>
Construction in progress	501	<b>Capital surplus</b>	<b>11,434</b>
<b>Intangible fixed assets</b>	<b>105</b>	Legal capital surplus	11,261
Software	90	Other capital surplus	173
Other intangible fixed assets	15	<b>Retained earnings</b>	<b>25,580</b>
<b>Investments and other assets</b>	<b>16,500</b>	Legal retained earnings	916
Investments in securities	4,055	Other retained earnings	24,663
Investments in stocks of subsidiaries	9,619	Reserve for advanced depreciation of fixed assets	861
Long-term loans receivable for subsidiaries	167	General reserve	16,040
Other investments	2,663	Retained earnings brought forward	7,762
Allowance for doubtful accounts	-5	<b>Treasury shares</b>	<b>-2,821</b>
		<b>Valuation and translation adjustments</b>	<b>1,730</b>
		Valuation difference on available for sale securities	1,730
		<b>Total Net Assets</b>	<b>41,957</b>
<b>Total Assets</b>	<b>52,876</b>	<b>Total Liabilities and Total Net Assets</b>	<b>52,876</b>

(Note) The above figures are rounded down to the nearest ¥1 million.

## Non-consolidated Statement of Income

(From April 1, 2016 to March 31, 2017)

(Millions of yen)

Account item	Amount	
<b>Net sales</b>		<b>38,341</b>
<b>Cost of sales</b>		<b>30,794</b>
<b>Gross profit</b>		<b>7,546</b>
<b>Selling, general and administrative expenses</b>		<b>5,537</b>
<b>Operating income</b>		<b>2,008</b>
<b>Non-operating income</b>		
Interest income	2	
Dividends income	539	
Other	253	795
<b>Non-operating expenses</b>		
Interest expense	0	
Foreign exchange loss	193	
Other	48	242
<b>Ordinary income</b>		<b>2,562</b>
<b>Extraordinary income</b>		
Gain on sales of fixed assets	4	4
<b>Extraordinary losses</b>		
Loss on disposal of fixed assets	102	
Impairment loss	13	
Provision for environmental measures	402	517
<b>Income before income taxes</b>		<b>2,049</b>
Income taxes current	430	
Income taxes deferred	-177	253
<b>Net income</b>		<b>1,795</b>

(Note) The above figures are rounded down to the nearest ¥1 million.

## Non-consolidated Statement of Changes in Shareholders' Equity, etc.

(From April 1, 2016 to March 31, 2017)

(Millions of yen)

	Shareholders' equity											
	Capital stock	Capital surplus			Retained earnings						Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings			Total retained earnings			
						Reserve for advanced depreciation of fixed assets	General reserve	Retained earnings brought forward				
Balance at the beginning of current period	6,033	11,261	—	11,261	916	873	16,040	6,981	24,812	-2,656	39,450	
Changes during current period												
Dividends of surplus								-1,026	-1,026		-1,026	
Reversal of reserve for advanced depreciation of fixed assets						-12		12			—	
Net income								1,795	1,795		1,795	
Treasury shares acquired										-429	-429	
Disposal of treasury shares			173	173						264	437	
Net changes in items other than shareholders' equity during current period												
Total changes during current period	—	—	173	173	—	-12	—	780	768	-165	775	
Balance at the end of current period	6,033	11,261	173	11,434	916	861	16,040	7,762	25,580	-2,821	40,226	

	Valuation and translation adjustments	Total net assets
	Valuation difference on available for sale securities	
Balance at the beginning of current period	1,346	40,796
Changes during current period		
Dividends of surplus		-1,026
Reversal of reserve for advanced depreciation of fixed assets		—
Net income		1,795
Treasury shares acquired		-429
Disposal of treasury shares		437
Net changes in items other than shareholders' equity during current period	384	384
Total changes during current period	384	1,160
Balance at the end of current period	1,730	41,957

(Note) The above figures are rounded down to the nearest ¥1 million.



## Notes to the Non-consolidated Financial Statements

### 1. Notes on matters relating to the important accounting policies

#### (1) Valuation Basis and Methods for Assets

##### 1) Securities of Subsidiaries and Affiliates:

Cost method based on the moving-average method

##### 2) Held-to-maturity Securities

Amortized cost method

##### 3) Available-for-sale Securities

###### • Marketable securities classified as available-for-sale securities:

The market value method based on market price, etc. as of the end of the fiscal year  
(The valuation difference is valued by the total net assets method, and the cost of securities sold is determined by the moving-average method.)

###### • Non-marketable securities classified as available-for-sale securities:

The cost method based on the moving-average method

##### 4) Derivatives

Market value method

##### 5) Inventories

###### • Merchandise and finished goods, raw materials, and work in process:

The cost method based on the moving-average method

(For the values stated in the balance sheet, the method of reducing the book value according to lowered profitability)

###### • Stores:

The cost method based on the last invoice cost method

(For the values stated in the balance sheet, the method of reducing the book value according to lowered profitability)

#### (2) Depreciation Method of Fixed Assets

##### 1) Tangible Fixed Assets (excluding Lease Assets):

The declining-balance method. However, the straight-line method has been adopted for the buildings (excluding equipment attached to buildings) acquired on or after April 1, 1998, and the equipment attached to buildings and structures acquired on or after April 1, 2016.

##### 2) Intangible Fixed Assets

###### • Software for own use:

The straight-line method based on the usable period in the Company (five years)

###### • Other intangible fixed assets:

The straight-line method

##### 3) Lease Assets:

With regard to lease assets related to non-ownership transfer finance lease transactions, the straight-line method has been employed, with the residual value as zero, and lease period as the estimated life.

#### (3) Accounting Standards for Allowances

##### 1) Allowance for Doubtful Accounts:

The allowance for doubtful accounts is provided for possible bad debt at the amount estimated based on the loan loss ratio for general receivables and at the uncollectible amounts determined by reference to the collectibility of individual doubtful receivables for doubtful receivables and other specific receivables.

##### 2) Accrued Employees' Bonuses:

The accrued employees' bonuses are provided for the payment of employees' bonuses based on the estimated amounts to be paid in the future.

3) Provision for Environmental Measures:

The provision for environmental measures is provided for expenses for environmental measures related to soil improvement construction based on the estimated incurred amount.

4) Allowance for Employees' Retirement Benefits:

The allowance for employees' retirement benefits is provided for the possible payment of employees' post-retirement benefits at the amount to be accrued at the end of the fiscal year under review, and is calculated based on the retirement benefit obligation and the fair value of pension plan assets at the end of the fiscal year under review.

The accounting methods for the Company's allowance for employees' retirement benefits and for its retirement benefit expenses are as follows:

a. Method of attributing expected retirement benefits

In calculating its retirement benefit obligation, the Company applies the benefit formula basis as the method of attributing its expected benefit payments to the period until the end of the fiscal year under review.

b. Method of amortizing actuarial gains or losses

As for actuarial gains or losses, proportional amounts based on a certain number of years (10 years) within the average remaining service years of employees when a gain or loss occurs in a fiscal year are amortized beginning in the fiscal year following each fiscal year of incurrence.

(4) Other Important Matters for the Preparation of Financial Statements

1) Method of accounting for retirement benefits

The accounting methods for unrecognized actuarial gains and losses related to retirement benefits differ from the accounting methods used in the consolidated financial statements.

2) Accounting of consumption taxes, etc.

Transactions subject to consumption taxes and local consumption taxes are recorded at amounts exclusive of the consumption taxes. However non-deducted consumption tax, etc. is posted as a cost for the fiscal year under review.

(5) Changes in Accounting Policies

(Application of practical solution on a change in depreciation method due to tax reform 2016)

Following the revision to the Corporation Tax Act, the Company has applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) from the fiscal year under review, and changed the depreciation method for equipment attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

As a result, operating income, ordinary income and income before income taxes for the fiscal year under review have each increased by ¥6 million.

(6) Additional Information

1) Application of ASBJ Guidance on recoverability of deferred tax assets

Effective from the fiscal year under review, the Company has applied the "Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

2) Accounting treatment for Employee Shareholding ESOP Trust

The notes regarding transactions to offer the Company's shares to the employee shareholding association through the trust are omitted because the same content is stated in "Additional Information" of the notes to the consolidated financial statements.

## 2. Notes to the Non-consolidated Balance Sheet

(1) Total Amount of Depreciation of Tangible Fixed Assets ¥22,683 million

(2) Contingent Liability

The Company guarantees the borrowings from financial institutions, etc. of its affiliates as follows:

Koa Kasei Co., Ltd. ¥190 million

ESOP Trust ¥437 million

(3) The Company's monetary claims against and liabilities for its affiliates are as follows:

1) Short-term monetary claims ¥6,392 million

2) Short-term monetary liabilities ¥2,201 million

3) Long-term monetary claims ¥167 million

## 3. Note to the Statement of Income

The Company's transactions with its affiliates:

1) Operating transactions (income) ¥24,424 million

2) Operating transactions (expenses) ¥15,071 million

3) Non-operating transactions (income) ¥574 million

## 4. Note to the Statement of Changes in Shareholders' Equity, etc.

Number of treasury shares

Type of shares	Number of treasury shares at the beginning of the fiscal year under review	Number of treasury shares increased in the fiscal year under review	Number of treasury shares decreased in the fiscal year under review	Number of treasury shares at the end of the fiscal year under review
Common shares	3,802,131 shares	378,016 shares	384,620 shares	3,795,527 shares

(Notes) 1) The number of shares of treasury shares at the end of the fiscal year under review includes 371,000 shares of the Company held by the ESOP Trust.

2) (Summary of the reasons for the changes)

Components of the increase are as follows:

Acquisitions by the ESOP Trust 377,700 shares

Purchase request for shares less than one unit 316 shares

Components of the decrease are as follows:

Disposal to the ESOP Trust 377,700 shares

Sale from the ESOP Trust to the employees' shareholding association 6,700 shares

Additional purchase request for shares less than one unit 220 shares

## 5. Note on Tax Effect Accounting

The main causes of deferred tax assets are the accrued employees' bonuses included in expenses and the allowance for employees' retirement benefits included in expenses, and the main causes of the occurrence of deferred tax liabilities are reserve for advanced depreciation of fixed assets and valuation difference on available-for-sale securities.

## 6. Notes on Transactions with Parties Interested

Subsidiaries, etc.

Status	Name	Capital stock or money invested (¥million)	Business	Ownership of voting rights, etc. (ownership ratio (%))	Relations		Transactions	Amount of transactions (¥million)	Account item	Term-end balance (¥million)
					Officer's post held, etc.	Business relations				
Subsidiary	KOA SPEER ELECTRONICS, INC.	0.1	Electronic parts business	Indirect ownership: 100	2	The Company's main customer	Sale of the Company's products	5,504	Accounts receivable-trade	999
Subsidiary	KOA Europe GmbH	98	Electronic parts business	Direct ownership: 55 Indirect ownership: 45	1	The Company's main customer	Sale of the Company's products	4,220	Accounts receivable-trade	1,595
Subsidiary	KOA DENKO (S) PTE. LTD.	10	Electronic parts business	Direct ownership: 100	2	The Company's main customer	Sale of the Company's products	3,429	Accounts receivable-trade	896
Subsidiary	KOA ELECTRONICS (H. K.) LTD.	21	Electronic parts business	Direct ownership: 100	2	The Company's main customer	Sale of the Company's products	4,665	Accounts receivable-trade	1,039
Subsidiary	SHANGHAI KOA ELECTRONICS TRADING CO., LTD.	22	Electronic parts business	Direct ownership: 50 Indirect ownership: 50	3	The Company's main customer	Sale of the Company's products	2,451	Accounts receivable-trade	706
Affiliate	DAH HSING ELECTRIC CO., LTD.	276	Electronic parts business	Direct ownership: 39	2	The Company's main customer	Sale of the Company's products	1,267	Accounts receivable-trade	708

(Notes) 1. While the figures in the "Amount of transactions" column include no consumption taxes, etc., those in the "Term-end balance" column include consumption taxes, etc.

2. The terms of transactions, etc. with the above companies were determined using market prices, etc. for reference.

## 7. Notes on the Information about Amounts per Share

(1) Amount of Net Assets per Share ¥1,143.74

(2) Net Income per Share ¥48.95

(Note) Treasury shares held by the ESOP Trust are included in treasury shares deducted from total number of issued shares at the end of the period when calculating net assets per share, and are also included in treasury shares deducted from the average number of shares during the period when calculating net income per share.

Number of treasury shares at the end of the period 371,000 shares

Average number of treasury shares during the period 374,350 shares

## 8. Other notes

There is nothing to be stated here.

**Certified Copy of the Independent Auditors' Report on the Consolidated Financial Statements**

**INDEPENDENT AUDITORS' REPORT**

May 5, 2017

To the Board of Directors  
KOA CORPORATION

Grant Thornton Taiyo LLC  
Tatsuya Arai, CPA Seal  
Designated Partner, Engagement Partner  
Tomohiro Tamura, CPA Seal  
Designated Partner, Engagement Partner

Pursuant to the provisions of Article 444, Paragraph 4 of the Companies Act, we have audited the consolidated financial statements for the consolidated fiscal year from April 1, 2016 to March 31, 2017 of KOA CORPORATION; that is, the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in shareholders' equity, etc. and the notes to the consolidated financial statements.

**Responsibility of the Company's management for consolidated financial statements**

The responsibility of the Company's management is to prepare and present properly consolidated financial statements in accordance with the accounting standards generally accepted in Japan. This includes establishing and operating the internal control that the management considers necessary in order to prepare and present properly such consolidated financial statements free of any material misstatement due to dishonesty or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on the consolidated financial statements as independent auditors on the basis of the audit we conducted. We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we draft an audit plan and conduct an audit based on such plan in order to obtain reasonable reassurance about whether the consolidated financial statements and their supporting schedules are free of any material misstatement.

In our audit, we perform the procedure for obtaining audit evidence as to the amounts and disclosure of the consolidated financial statements. The audit procedure is selected and used, according to our judgment, on the basis of the assessment of the risk of material misstatements on the consolidated financial statements due to dishonesty or error. Although the purpose of our audit is not to express our opinion on the validity of the internal control, we examine the internal control relating to the preparation and proper presentation of consolidated financial statements in order to plan a proper audit procedure according to the situation in conducting the assessment of the risk. Our audit also includes examining the overall presentation of the consolidated financial statements, including the assessment of the accounting policies and their application method adopted by the management and of the estimates made by the management.

We believe that we obtained the sufficient and appropriate audit evidence that serves as the basis for expressing our opinions.

**Audit opinion**

In our opinion, the above consolidated financial statements present properly in every material point the situations of the assets as well as the income and losses of the Group composed of KOA CORPORATION and its consolidated subsidiaries for the term related to these consolidated financial statements in accordance with the accounting standards generally accepted in Japan.

**Interests**

Neither the above audit corporation nor its engagement partners have any interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Law.

## Certified Copy of the Independent Auditors' Report on the Non-consolidated Financial Statements

### INDEPENDENT AUDITORS' REPORT

May 5, 2017

To the Board of Directors  
KOA CORPORATION

Grant Thornton Taiyo LLC

Tatsuya Arai, CPA Seal  
Designated Partner, Engagement Partner

Tomohiro Tamura, CPA Seal  
Designated Partner, Engagement Partner

Pursuant to the provisions of Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the financial statements for the 89th fiscal year from April 1, 2016 to March 31, 2017 of KOA CORPORATION; that is, the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in shareholders' equity, etc. and the notes to the non-consolidated financial statements as well as their supporting schedules.

#### Responsibility of the Company's management for non-consolidated financial statements

The responsibility of the Company's management is to prepare and present properly financial statements and their supporting schedules in accordance with the accounting standards generally accepted in Japan. This includes establishing and operating the internal control that the management considers necessary in order to prepare and present properly such financial statements and their supporting schedules free of any material misstatement due to dishonesty or error.

#### Auditors' responsibility

Our responsibility is to express an opinion on the financial statements and their supporting schedules as independent auditors on the basis of the audit we conducted. We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we draft an audit plan and conduct an audit based on such plan in order to obtain reasonable reassurance about whether the non-consolidated financial statements and their supporting schedules are free of any material misstatement.

In our audit, we perform the procedure for obtaining audit evidence as to the amounts and disclosure of the financial statements and their supporting schedules. The audit procedure is selected and used, according to our judgment, on the basis of the assessment of the risk of material misstatements on the financial statements and their supporting schedules due to dishonesty or error. Although the purpose of our audit is not to express our opinion on the validity of the internal control, we examine the internal control relating to the preparation and proper presentation of financial statements and their supporting schedules in order to plan a proper audit procedure according to the situation in conducting the assessment of the risk. Our audit also includes examining the overall presentation of the financial statements and their supporting schedules, including the assessment of the accounting policies and their application method adopted by the management and of the estimates made by the management.

We believe that we obtained the sufficient and appropriate audit evidence that serves as the basis for expressing our opinions.

#### Audit opinion

In our opinion, the above financial statements and their supporting schedules present properly in every material point the situations of the assets as well as the income and losses for the term related to these financial statements and their supporting schedules in accordance with the accounting standards generally accepted in Japan.

#### Interests

Neither the above audit corporation nor its engagement partners have any interest in the Company that should be disclosed pursuant to the provisions of the Certified Public Accountants Law.

**Certified Copy of the Audit Report by the Board of Corporate Auditors**

AUDIT REPORT

Regarding the performance of duties by the Directors for the 89th fiscal year beginning on April 1, 2016, and ending on March 31, 2017, the Board of Corporate Auditors hereby submits its audit report, which has been prepared through discussions based on the reports prepared by the respective corporate auditors.

1. Auditing Methods Employed by the Corporate Auditors and the Board of Corporate Auditors and the Details of the Audit

- The Board of Corporate Auditors determined the auditing policies, the assignment of tasks to corporate auditors, etc., and received from each corporate auditor reports of the situation of auditing work and its result. In addition, it received reports on the performance of duties, and if necessary, asked for explanations, from directors, etc. and from independent auditors.
- Based on the standards of auditing of corporate auditors and in accordance with the auditing policies, the assignment of tasks to corporate auditors, etc., each corporate auditor kept up communications with directors, the internal audit section, other employees, etc. and worked to collect information and improve the auditing environment. Auditing has been conducted using the following method.

(1) Corporate auditors also attended the meetings of the Board of Directors and other important meetings, received reports on the performance of duties from the directors, employees, etc., read important authorized documents, etc. and studied the operations and financial positions at the head office and principal branch offices. Furthermore, with regard to subsidiaries, we facilitated communication and exchange of information with directors and corporate auditors etc. of subsidiaries, and received business reports from subsidiaries as necessary.

(2) For the details of the resolutions of the Board of Directors on the establishment of the system for ensuring that the performance of the directors’ duties conforms to laws and ordinances and to the Articles of Incorporation stated in the Business Report and other systems provided for the Ordinance for Enforcement of the Companies Act Article 100, Paragraph 1 and Paragraph 3 as necessary to ensure the proper conduct of business of a corporation and the system established according to such resolutions (internal control system), we regularly received reports on the situation of the establishment and operation of such systems from the directors, employees, etc., asked them for explanations and expressed our opinions when necessary.

(3) With regard to the basic policy of the Ordinance for Enforcement of the Companies Act, Article 118, Item 3 (a) stated in the business report above and the efforts taken to enforce Item 3 (b), we examined the details of the policy and efforts considering the situations of discussion at the meetings of the board of directors, etc.

(4) The Corporate Auditors monitored and inspected to check whether the independent auditors maintained their independence and conducted their audit work properly, and received reports from them about the performance of their duties and, if necessary, asked them for explanations. We also received a report from them to the effect that they had established the system for ensuring that they properly perform the duties (matters stated in each item of the Corporate Accounting Rules, Article 131) provided for in the “Quality Control Standards for Audit,” (October 28, 2005, Business Accounting Deliberation Council), etc. and, if necessary, asked them for explanations.

Based on the above methods, we gave consideration to reports and supporting schedules, non-consolidated financial statements (Non-consolidated Balance sheet, Non-consolidated Statement of Income, Non-consolidated Statement of Changes in Shareholders’ Equity etc. and Notes to the Non-consolidated Financial Statements) and their supporting schedules, and consolidated financial statements (Consolidated Balance Sheet, Consolidated Statement of Income, Consolidated Statement of Changes in Shareholders’ Equity etc. and Notes to the Consolidated Financial Statements) concerning the fiscal year under review.

## 2. Audit Results

### (1) Audit Results of the Business Report, etc.

- 1) In our opinion, the business report and its supporting schedules fairly represent the Company's situations in accordance with the laws and ordinances and the Articles of Incorporation.
- 2) With regard to the performance of duties by the directors, we have found neither evidence of wrongful action nor any material violation of the laws and ordinances or the Articles of Incorporation.
- 3) In our opinion, the resolution of the Board of Directors regarding the internal control system is fair and reasonable. As for the statements in the business report and the performance of directors' duties concerning such internal control system, as well, we have found no matters to be pointed out.
- 4) We have found no matters to be pointed out with regard to the "basic policy regarding the persons who would control decisions on the Company's financial and business policies" stated in the business report. Each of the measures in the Ordinance for Enforcement of the Companies Act, Article 118, Item 3 (b) complies with the basic policy and will not harm the common interests of the Company's shareholders, and is not intended to maintain the positions of the directors of the Company.

### (2) Audit Results of the Financial Statements and Their Supporting Schedules

In our opinion, the audit method and results employed and rendered by the independent auditor, Grant Thornton Taiyo LLC, are fair and reasonable.

### (3) Audit Results of the Consolidated Financial Statements

In our opinion, the audit method and results employed and rendered by the independent auditor, Grant Thornton Taiyo LLC, are fair and reasonable.

May 9, 2017

Board of Corporate Auditors of KOA CORPORATION:

Kazuo Endo  
Full-time Corporate Auditor Seal

Ryoichi Sawa  
Corporate Auditor Seal

Tetsuro Kamijikkoku  
Corporate Auditor Seal

Nobuyuki Shigemune  
Corporate Auditor Seal

(Note) Corporate Auditors Tetsuro Kamijikkoku and Nobuyuki Shigemune are outside corporate auditors.



## Reference Documents for the 89th Ordinary General Meeting of Shareholders

### **Proposal 1:** Appropriation of retained earnings

The Company believes that it is one of its important policies to pass on some part of its profit to the shareholders. Thus, we make it our basic principle to strive to provide our shareholders with a more stable and better distribution of dividends while working to maintain and reinforce our competitiveness through capital expenditures and research and development in response to rapid technological innovations and also to strengthen our financial positions.

We hereby propose the distribution of the term-end dividends for the 89th fiscal year as follows, increasing the payment by ¥1 per share compared with the previous fiscal year in consideration of the track record in the fiscal year under review and future business plans and so as to respond to the continued support of our shareholders:

### **Matters regarding the term-end dividends**

#### (1) Type of dividend assets

The dividend assets are those in money.

#### (2) Allocation and total amount of dividend assets

We propose that the amount of dividends per the Company's common share be ¥15.00.

The total amount of dividends in this case would be ¥555,827,955.

As a result, the amount of the annual dividends for the fiscal year under review, including interim dividends, would be ¥29 per share.

#### (3) Date when the dividends of surplus become effective

We propose to make this date June 19, 2017.

**Proposal 2: Election of nine (9) directors**

The term of all of the nine directors will expire at the end of this ordinary general meeting of shareholders.

Thus, we would like to propose increasing the number of outside directors by one and electing nine directors (of which two are outside directors) to further strengthen our corporate governance system.

The nominees for directors are as follows:

No.	Name (Date of birth)	Brief personal history and position and tasks responsible in the Company (Important concurrent positions)	Number of the Company's shares held
1	Koichi Mukaiyama (September 13, 1948)  Reappointment	March 1972      Joined the Company. June 1976      Director of the Company December 1977   Representative director and president of the Company October 2001   In charge of the Environmental Business Field of the Company. April 2013      Representative director and chairman of the Company (present position)  (Important concurrent positions) Representative director and chairman, KOA TRADING CO., LTD. Representative Vice Director, DAH HSING ELECTRIC CO., LTD.	452,108 shares
2	Tadao Hanagata (January 28, 1956)  Reappointment	March 1979      Joined the Company. April 2000      General manager of the Discrete Product Block, Resistor Production Dept. of the Company  October 2001   General manager of the Quality Improvement Center of the Global Quality Assurance Initiative of the Company October 2003   Representative of the Kamiina Business Field of the Manufacturing Initiative of the Company June 2008      Director of the Company In charge of the Manufacturing Initiative and Kamiina Business Field of the Company. April 2009      In charge of the Shimoina Business Field and Minowa Business Field of the Company. April 2013      Representative director and president of the Company (present position) June 2015      In charge of the KPS-3 Initiative (present responsibility). January 2017   In charge of the Quality Assurance Initiative (present responsibility).	12,700 shares

No.	Name (Date of birth)	Brief personal history and position and tasks responsible in the Company (Important concurrent positions)	Number of the Company's shares held
3	Kayoko Fukano (July 18, 1958)  Reappointment	<p>October 1995 Corporate advisor of the Company</p> <p>June 2002 Director of the Company In charge of the Administration Initiative and Human Resource Management Initiative of the Company.</p> <p>October 2003 In charge of the Management Administration Initiative of the Company (present responsibility).</p> <p>June 2011 Managing director of the Company (present position) In charge of the China Business Field of the Company.</p> <p>(Important concurrent positions) Chairman, KOA SPEER HOLDING CORPORATION Managing Director, KOA Europe GmbH Representative Director, SHANGHAI KOA ELECTRONICS TRADING CO., LTD. Director, DAH HSING ELECTRIC CO., LTD.</p>	21,800 shares
4	Katsuhiko Momose (November 10, 1962)  Reappointment	<p>March 1985 Joined the Company.</p> <p>July 1996 General manager of the KPS Division of the Company.</p> <p>October 2003 General manager of the Management Strategy Center of the Management Administration Initiative of the Company</p> <p>June 2011 Director of the Company (present position) In charge of the Management Administration Initiative of the Company.</p> <p>April 2013 In charge of the Kamiina Business Field of the Company.</p> <p>June 2015 In charge of the Manufacturing Initiative, (present responsibility). In charge of the Shimoina Business Field of the Company (present responsibility). In charge of the China Business Field of the Company (present responsibility).</p> <p>January 2017 In charge of the Kamiina Business Field of the Company (present responsibility).</p> <p>(Important concurrent positions) Director, KOA ELECTRONICS CO., LTD. Director, SANADA KOA Corporation Director, KOA ELECTRONICS (TAICANG) CO., LTD. Chairman, KOA DENKO (MALAYSIA) SDN. BHD.</p>	17,600 shares

No.	Name (Date of birth)	Brief personal history and position and tasks responsible in the Company (Important concurrent positions)	Number of the Company's shares held
5	Akira Nonomura (August 5, 1960)  Reappointment	<p>March 1983      Joined the Company.</p> <p>October 2003    Representative of the Japan Sales Business Field of the Company</p> <p>December 2009   Managing director of KOA DENKO (S) PTE. LTD.</p> <p>April 2012      General manager of the Marketing Center of the Business Structure Reform Initiative of the Company</p> <p>June 2012      Director of the Company (present position) In charge of the Business Structure Reform Initiative of the Company.</p> <p>June 2015      In charge of the Sales &amp; Marketing Initiative, (present responsibility). In charge of the Japan Sales Business Field of the Company (present responsibility).</p> <p>(Important concurrent positions) Representative director and president, KOA TRADING CO., LTD. Director, KOA DENKO (S) PTE. LTD. Director, KOA ELECTRONICS (H.K.) LTD. Director, SHANGHAI KOA ELECTRONICS TRADING CO., LTD.</p>	5,400 shares
6	Etsuji Yamaoka (October 2, 1963)  Reappointment	<p>April 1986      Joined the Company.</p> <p>April 2007      General manager of the Fundamental Technology Commercialization Center of the Manufacturing Initiative of the Company.</p> <p>June 2012      Director of the Company (present position) In charge of the Manufacturing Initiative of the Company.</p> <p>April 2013      In charge of the Shimoina Business Field of the Company.</p> <p>June 2013      In charge of the Minowa Business Field of the Company (present responsibility).</p> <p>June 2015      In charge of the Research &amp; Development Initiative of the Company (present responsibility).</p>	5,600 shares
7	Toshihiro Kojima (January 22, 1964)  New appointment	<p>April 1986      Joined the Company.</p> <p>April 2007      General manager of the Product Management Center of the Business Structure Reform Initiative of the Company</p> <p>June 2011      General manager of the Marketing Center of the Business Structure Reform Initiative of the Company</p> <p>June 2012      Managing director of KOA DENKO (S) PTE. LTD.</p> <p>June 2015      General manager of the Product Roadmap Development Center of the KPS-3 Initiative of the Company (present position)</p>	2,500 shares

No.	Name (Date of birth)	Brief personal history and position and tasks responsible in the Company (Important concurrent positions)	Number of the Company's shares held
8	Michael John Korver (September 17, 1954)  Reappointment  Independent outside director	<p>July 1983      Obtained an attorney's certificate in California, U.S.A.</p> <p>July 1987      Obtained an attorney's certificate in New York, U.S.A.</p> <p>June 1996      Director of Global Venture Capital Inc.</p> <p>April 2004      Outside director of BJIT Inc. (present position)</p> <p>June 2004      Professor at the Graduate School of International Corporate Strategy Research, Hitotsubashi University (present position)</p> <p>May 2006      Outside director of Really English.com Limited</p> <p>June 2006      Representative director of Global Venture Capital Inc. (present position)</p> <p>October 2006    Outside director of Geovector Corporation (present position)</p> <p>June 2008      Outside director of the Company (present position)</p> <p>September 2011   Representative director, Real English Broadband Co., Ltd.</p> <p>July 2013      Representative director, Durafizz Holdings Corporation (present position)</p> <p>(Important concurrent positions)            Outside director of BJIT Inc.            Professor at the Graduate School of International Corporate Strategy Research, Hitotsubashi University            Representative director, Global Venture Capital Inc.            Outside director of Geovector Corporation            Representative director, Durafizz Holdings Corporation</p>	12,100 shares
9	Toru Kitagawa (August 4, 1960)  New appointment  Independent outside director	<p>April 1983      Joined Kanematsu-Gosho, Ltd. (current KANEMATSU CORPORATION)</p> <p>November 1999    Joined Japan Communications Inc. as General manager of Corporate Planning Office.</p> <p>February 2001    Joined Baltimore Technologies Japan Co., Ltd. (current Cybertrust Japan Co., Ltd.) as Senior executive financial officer.</p> <p>January 2002      Joined Levi Strauss Japan K.K. as Finance Controller.</p> <p>September 2006    Joined Starbucks Coffee Japan, Ltd. as Officer in charge of supervising finance infrastructure and CFO. (present position)</p> <p>March 2016      Outside director [and chairman of Audit Committee] of Cookpad Inc. (present position)</p> <p>October 2016      Outside director, Nippon Ski Resort Development, Co., Ltd. (present position)</p> <p>(Important concurrent positions)            Finance Infrastructure Management Officer and CFO of Starbucks Coffee Japan, Ltd.            Outside Director and Chairman of Audit Committee of Cookpad Inc.            Outside Director of Nippon Ski Resort Development, Co., Ltd.</p>	0 share

- (Notes)
1. There is no special interest between each nominee and the Company.
  2. Mr. Michael John Korver and Toru Kitagawa are nominees for outside director.
  3. The reason that we nominated Mr. Michael John Korver as an outside director is as follows:  
He possesses broad experience in business management, learning, etc. as an expert in corporate strategy and corporate management. We believe his experience will enable him to provide advice on business strategies and to carry out oversight of management for the Company.
  4. The reason that we nominated Mr. Toru Kitagawa as an outside director is as follows:  
He possesses in-depth knowledge and experience in accounting and corporate management, including experience as the CFO and head of Corporate Planning Office at a publicly listed company. We believe his experience will enable him to provide advice on business strategies and to carry out oversight of management for the Company.
  5. Mr. Michael John Korver is now the Company's outside director, and his term of office as an outside director for the Company will be nine years as of the end of this ordinary general meeting of shareholders.
  6. The Company signed a limited liability contract with Mr. Michael John Korver for limiting the liability for damages as provided for in Article 423, Paragraph (1) of the Companies Act in accordance with the provisions of Article 427, Paragraph (1) of the same Act. The upper limit to the liability for damages under such a contract shall be the amount of ¥5 million or the amount provided for in the laws and ordinances, whichever is higher. If the reelection of Mr. Michael John Korver is approved, we will continue the existing limited liability contract with him. In addition, if the election of Mr. Toru Kitagawa is approved, then we will enter into the same limited liability contract with him.
  7. The Company appointed Mr. Michael John Korver as an independent officer in accordance with the rules of the Tokyo Stock Exchange and the Nagoya Stock Exchange and reported the appointment to both of the stock exchanges. If the reelection of Mr. Michael John Korver is approved, we will reappoint him as an independent officer. In addition, Mr. Toru Kitagawa meets the requirements for an independent officer in accordance with the rules of the Tokyo Stock Exchange and the Nagoya Stock Exchange. We plan to report his appointment to both stock exchanges.

Reference: Standard for determining independence of and qualities of an outside director  
The Company selects outside directors based on the prerequisite that they satisfy the standards for independence set by the Tokyo Stock Exchange. Other requirements are a high level of expertise as well as rich experience and knowledge in corporate management, legal affairs, and accounting, among other areas. We expect the candid and constructive advice and oversight of our corporate management.

**Proposal 3: Election of two (2) corporate auditors**

The term of corporate auditors Mr. Ryoichi Sawa and Mr. Tetsuro Kamijikkoku will expire at the end of this ordinary general meeting of shareholders. Thus, we would like to propose that two corporate auditors be elected.

We have obtained the consent of the Board of Corporate Auditors to this proposal.

The nominees for corporate auditors are as follows:

No.	Name (Date of birth)	Brief personal history and position in the Company (Important concurrent positions)	Number of the Company's shares held
1	Masashi Gomi (December 15, 1955)  New appointment	March 1980      Joined the Company. April 2000      General manager of the Product Development Center of Resistor Production Dept. of the Company October 2001    Representative of the Resistor Business Field of the Company April 2011      General manager of the Intellectual Property Center of the Management Administration Initiative of the Company (present position)	1,500 shares
2	Tetsuro Kamijikkoku (July 23, 1956)  Reappointment  Independent outside director	March 1992      Registered as an attorney (member of the Daiichi Tokyo Bar Association) March 1992      Joined Asanuma Legal Office April 1995      Established Kamijikkoku Law Office (present position) February 2001    Outside corporate auditor of CAN DO CO., LTD. June 2002      Outside corporate auditor of the Company (present position). February 2016    Outside director [member of Audit Committee] of CAN DO CO., LTD. (present position)  (Important concurrent positions) Attorney Outside director [member of Audit Committee], CAN DO CO., LTD.	5,400 shares

- (Notes)
- There is no special interest between each nominee and the Company.
  - Mr. Tetsuro Kamijikkoku is a nominee for outside corporate auditor.
  - The reason that we nominated Mr. Tetsuro Kamijikkoku as an outside corporate auditor is as follows:  
We would like to ask you to elect Mr. Tetsuro Kamijikkoku as outside corporate auditor because we expect that he will be able to perform audit tasks from an objective standpoint based on his expert knowledge as an attorney and will give us good advice on legal affairs. Although he has not taken part directly in corporate management, we believe that he will be able to carry out an audit for the Company properly by using his high-level special knowledge as an attorney.
  - Mr. Tetsuro Kamijikkoku is now the Company's outside corporate auditor, and his term of office as an outside corporate auditor for the Company will be 15 years as of the end of this ordinary general meeting of shareholders.
  - The Company signed a limited liability contract with Mr. Tetsuro Kamijikkoku for limiting the liability for damages as provided for in Article 423, Paragraph (1) of the Companies Act in accordance with the provisions of Article 427, Paragraph (1) of the same Act. The upper limit to the liability for damages under such a contract shall be the amount of ¥5 million or the amount provided for in the laws and ordinances, whichever is higher. If the reelection of Mr. Tetsuro Kamijikkoku is approved, we will continue the existing limited liability contract with him. In addition, if the election of Mr. Masashi Gomi is approved, then we will enter into the same limited liability contract with him.
  - The Company appointed Mr. Tetsuro Kamijikkoku as an independent officer in accordance with the rules of the Tokyo Stock Exchange and the Nagoya Stock Exchange and reported the

appointment to both of the stock exchanges. If the reelection of Mr. Tetsuro Kamijikkoku is approved, we will reappoint him as an independent officer.



**Proposal 4:** Election of one (1) substitute corporate auditor

The effective term of appointment of Mr. Kenichi Kakuta, who was elected as a substitute corporate auditor at the 88th Ordinary General Meeting of Shareholders held on June 18, 2016, is until the start of the 89th Ordinary General Meeting of Shareholders. Therefore, in preparation for a situation where the number of corporate auditors falls short of the number specified by the laws and regulations, the Company again requests the election of one substitute corporate auditor.

We have obtained the consent of the Board of Corporate Auditors to this proposal.

The nominee for substitute corporate auditor is as follows:

Name (Date of birth)	Brief personal history and position in the Company (Important concurrent positions)	Number of the Company's shares held
Kenichi Kakuta (December 14, 1954)	September 1982 Registered as a certified public accountant. October 1986 Joined Aoyama Audit Corporation (subsequently, ChuoAoyama Audit Corporation). July 1996 Became a representative partner of ChuoAoyama Audit Corporation. July 2000 Representative director of IPO Research Institute, Ltd. (present position).  (Important concurrent positions) Representative director, IPO Research Institute, Ltd.	0 share

- (Notes)
1. There is no special interest between each nominee and the Company.
  2. The Company requests the election of Mr. Kenichi Kakuta as a substitute for the outside corporate auditors.  
If Mr. Kenichi Kakuta assumes the position of corporate auditor, given that he satisfies the requirements for independent officer prescribed by the Tokyo Stock Exchange and the Nagoya Stock Exchange, the Company plans to register him as an independent officer.
  3. The reason that we nominated Mr. Kenichi Kakuta as substitute outside corporate auditor is as follows:  
Because he possesses the qualification of Certified Public Accountant and is also currently involved in corporate management, Mr. Kenichi Kakuta possesses in-depth knowledge and experience of accounting and corporate management. From that standpoint, the Company has high expectations for him to audit the management of the Company.
  4. A summary of the contents of the limited liability contract with substitute outside corporate auditors is as follows:  
If Mr. Kenichi Kakuta assumes the position of corporate auditor, under the provisions of Article 427, paragraph (1) of the Companies Act, the Company plans to conclude between the Company and Mr. Kenichi Kakuta, as an outside corporate auditor, a contract that limits the liability for damages provided for Article 423, paragraph (1) of the Companies Act. The upper limit to the liability for damages under such a contract shall be the amount of ¥5 million or the amount provided for in the laws and ordinances, whichever is higher.

**Proposal 5:** Continuation of the countermeasures to large-scale acquisitions of KOA Corporation’s shares, etc. (takeover defense measures)

The Company introduced, with the approval of shareholders expressed at the 86th ordinary general meeting of shareholders held on June 14, 2014, the “countermeasures to large-scale acquisitions of KOA Corporation’s shares” (hereinafter referred to as the “Current Plan”).

The Current Plan is effective until the end of the ordinary general meeting of shareholders scheduled for June 17, 2017 (hereinafter referred to as the “Ordinary General Meeting of Shareholders”). Therefore, the Company had examined the ideal way of its takeover defense measures in order to ensure the common interest of its shareholders and to maintain and enhance its corporate value. As a result, we decided, at the meeting of the Board of Directors held on April 20, 2017, to amend part of the Current Plan and propose the continuance of the amended Current Plan (hereinafter, the amended version is referred to as the “Plan”) in the Ordinary General Meeting of Shareholders.

Therefore, the Company requests the shareholders’ approval in regard to the continuation of the Plan. Please note that, at the meeting of the Board of Directors when the Plan was adopted, all of the four corporate auditors, including the two outside corporate auditors, were present and expressed their opinions to the effect that the Plan was proper countermeasures to large-scale acquisitions of shares, etc. of the Company.

Major Changes from the Current Plan are as follows:

1. Restriction on the requirements for invoking the countermeasures (For details, please refer to III 2. (2) (e) 2) on page 67.)
2. When the Independent Committee makes a recommendation to the effect that shareholders’ opinion be confirmed regarding the invocation of the countermeasures, the Board of Directors may convene a general meeting of shareholders to confirm shareholders’ opinion. (For details, please refer to III 2. (2) (g) on page 68.)
3. Other necessary changes and adjustments to wordings

I. Basic Policy Regarding the Ideal Method of the Person Controlling the Decisions on the Company’s Financial and Business Policies

The Company respects the free trading of its shares in the market. It does not unconditionally disapprove of large purchases of its shares by particular persons as long as those purchases increase the corporate value of the Company itself and enhance shareholder interests. Furthermore, the Company believes that a decision on whether or not to accept a proposal for a large purchase of shares should ultimately be left up to the shareholders.

However, among large purchases of shares, there may be some that do not contribute to the corporate value of the target company and, in turn, the common interests of its shareholders. Such purchases include those that, in light of their purposes, would damage corporate value and, in turn, the common interests of shareholders; those that, in effect, might compel shareholders to sell their shares; and those that do not provide sufficient time or information to the target company’s Board of Directors and shareholders to consider the terms and conditions of the purchase of shares or sufficient time or information to allow the target company’s Board of Directors to propose an alternative proposal.

The Company believes that the persons who control decisions on the Company’s financial and business policies must be those persons who fully understand the sources of the Company’s

various corporate values, including the corporate culture of the Company and a solid relationship of trust with stakeholders, and who ensure and enhance the corporate value of the Company and common interests of its shareholders in the medium-to-long term. Therefore, the Company believes that a person who would make a large-scale acquisition in a manner that might harm the corporate value of the Company and the common interests of its shareholders would be inappropriate as a person who controls decisions on the Company's financial and business policies.

## II. Special Efforts Contributing to the Realization of the Basic Policy

### 1. Spirit of the Founder

Kazuto Mukaiyama, the founder of the Company, was born into a silk cultivation farming family in Nakaminowa-mura (now Minowa-machi, Kamiina-gun in Nagano Prefecture) in Nagano Prefecture in 1914. The Inadani area of Nagano Prefecture, where the head office of the Company and many major manufacturing sites are still located to this day, was a rich silk cultivation area at that time. Many silk mills were located in this area, including the world-famous Katakura Silk Industries in Okaya, and farming families raised silkworms and shipped cocoons to earn cash income here. This situation suddenly changed when the Great Depression hit in 1929. This triggered the beginning of the collapse in the price of raw silk thread. Moreover, the advent of rayon and similar led to the continued decline in the raw silk thread industry in Japan after that. Silk cultivation farming families were unable to raise many of the children who had been valuable labor. This meant that all those apart from the eldest son had to leave home.

The founder was the second son of eight siblings. He grew up watching his hometown becoming impoverished at an impressionable age and so personally chose to pay for his own schooling by working in Tokyo. Under these circumstances, the founder discovered business promise in electricity – in particular, the field of light electricity. He went independent and founded the Company at the young age of 26 in 1940. He then established a factory in the town of his birth the following year. He promoted management under the concept of “agriculture and industry working together as one” to create the way to achieve cash income in rural areas so that “farmers can live together with their families as farmers” since that time. The Company has established competitive advantages through accumulation of steady improvements and engineering developments and has grown into a global company with a top class share of the worldwide market for fixed resistors under the spirit of “protect our workplaces by ourselves” against the handicap of a regional company in that “it took half a day to make a connection even if applying for a business phone call urgently” and overseas rivals with low production costs.

The Company believes that the source of the Company's corporate value is in the enthusiastic corporate culture, which is to diligently inherit the above-mentioned “spirit of the founder,” to take strong root in Japan and other countries it serves in the true sense and to make untiring efforts to improve the corporate value while building a relationship of trust. The Company made an early start in its business in China, North America and Southeast Asia and later in Europe and

constructed a global production, marketing and sales network.

## 2. KPS (KOA Profit System)

In KPS (KOA Profit System), the participation-by-all improvement activities that we have been working on continuously since the second half of the 1980s, we first adopted the Toyota Production System and then worked on ending waste in all areas of management in addition to the production process.

In the 2000s, KPS took up quality as the theme for the next stage. We established automotive applications as the area of symbolic sales expansion and promoted “quality first” activities to shift our sales areas from the generic product-orientated home appliance market to markets where quality and reliability of a different magnitude are required. In this activity, we aimed for the improvement of all work and employees involved in addition to product quality. As a result of this activity, automotive applications that accounted for about 10% of our net sales at the start of this activity have now risen to close to 40% and customers have come to praise the “KOA of quality and services.” This brand value is the pride and treasure of the Company.

Furthermore, the Company started the third stage of KPS in the 2010s. To put this simply, this is our “response to innovation.” In our history as a fixed resistor specialist manufacturer approaching the 80th anniversary of the foundation of the Company in 2020, the Company has accumulated fundamental technologies, which are the process technology of thick films and thin films, materials technology and production and control technology. This is an activity that will continue to take advantage of these in the “joint development” of the technological and product development with our customers. In this era of change, we are strengthening investment in our marketing and technical departments to make proactive proposals from the Company in anticipation of new product and technological demands born in advance of these changes in addition to supplementing the so-called “missing pieces” of customers they do not have in their development and training with the basic technologies of the Company. As a result of this, new products combining the resistors of the Company with the mechanical parts of other firms have already been released.

## 3. Resistors and Future Developments

In terms of product development, we are expanding our product lineup. This includes high-precision low resistance resistors suitable for detection of large currents, resistors with improved sulfide resistance that can be used safely even in environments with air pollution and similar, ultra-thin passive components to support three-dimensional high-density mounting, high withstand voltage chip resistors that can be used even at high voltages, small-sized fuses with excellent environment resistance, noise suppression components with high energy resistance and excellent responsive performance that protect advanced control equipment for automatic operation and similar, and temperature sensors that can be used in high-temperature environments.

In particular, in the automotive field, it is predicted that there will be an increase in the number of motors used in power steering drives in addition to those for driving due to further advances in motorization because of toughening environmental regulations. It is necessary to precisely detect the currents flowing in the circuits to control these rotations. The Company has long focused on high precision “metal plate resistors” suitable for this application. It is expected that there will be an increase in the need for the detection of electric currents in many fields such as industrial equipment in addition to automotive applications. Therefore, we will continue to expand the

number of products we provide to meet the needs of our customers for this application.

#### 4. Becoming a R&D Company That Can Jointly Develop with Our Customers

The Company is proactively performing activities connecting to new product and business development from underlying technology development jointly with research institutions, universities and other organizations in Japan and overseas with the aim of being a R&D company. We opened the Kitakyushu Research Laboratory in the Hibikino Kitakyushu Science and Research Park in Kitakyushu City in Fukuoka Prefecture in April 2016 as part of this. Hibikino was established in 2001 by Kitakyushu City and Fukuoka Prefecture with the aims of “becoming a core academic research center in Asia” and “promoting creation of new industries and further development of technology.” This has now become one of the leading research and development parks to rival that of the Tsukuba Science City by bringing together science and technology universities, public research institutes, and semiconductor/electronics, automobile and industrial robot related companies, among other organizations. In particular, the park frequently plays host to workshops with companies involved in industrial equipment such as car electronics and robots where the Company is focusing our efforts. We are gradually building a network with researchers in research institutes, engineers in companies and students in graduate schools by directly putting ourselves in such a place of innovation and participating in information gathering/dissemination and various workshops. The Kitakyushu Research Laboratory is also concentrating on the development of various sensors that are the gateways to information and taking on the role of achieving success with new businesses in anticipation of the IoT era in which various things are connected to the Internet to try and make life more convenient by controlling this.

#### 5. Toward the 80th Anniversary of the Foundation of the Company in 2020

There are increasing demands from customers concerning business continuity due to the Great East Japan Earthquake and the earthquakes that have continued to strike Japan since then. The Company proceeded with work to seismically reinforce our factory buildings and work to prevent the fall of ceilings and similar from an early stage. Moreover, the Company built a new state-of-the-art flat chip resistor production factory in Achi-mura, Shimoina-gun in Nagano Prefecture in 2012 and our subsidiary SANADA KOA Corporation aggregated its old factories into a new factory in Ueda City in Nagano Prefecture in 2013. Furthermore, we established a new product testing and R&D facility in 2016. Together with this, we are looking to strengthen and expand our business continuity structure by improving the important facilities in our group, such as by rebuilding our old logistics center.

In addition, the demand for high reliability of quality is becoming increasingly stronger. Through the problem of recalls of Japanese automobiles in the United States, we saw with our own eyes that, if the response to a problem makes a single misstep, the company as well as the entire supply chain will be greatly affected. The Company saw 63% of our consolidated net sales come from outside of Japan in FY2016 while 73% of this was produced inside Japan. The Company is utilizing and enhancing Japan’s domestic strengths in manufacturing to carry out production of high-quality and high-reliability products that are unique to Japan while also rivalling our competitors by collecting

the latest information on innovations through taking advantage of our global network.

The Company regards its five stakeholders, i.e., shareholders, customers and business partners, employees and their family members, local communities and the earth as the entities that support the Company, and regards establishing bonds of trust with each of these stakeholders as the mission of the Company. The Company will continue to aim at ensuring and enhancing corporate value and the common interests of shareholders. The Company believes that these efforts will contribute to the realization of the Basic Policy mentioned in I. above.

### III. Measures to Prevent Decisions on the Company's Financial and Business Policies from Being Controlled by Persons Viewed as Inappropriate under the Basic Policy (The Plan)

#### 1. Purpose of the Plan

The Plan aims to ensure and enhance the corporate value of the Company and the common interests of its shareholders, in compliance with the Basic Policy stated above I. The Company thinks that, if a proposal for a large-scale share purchase is made by a tender offeror, it will not always be easy for the Company's shareholders to determine the impact of the purchase on the Company's corporate value and the common interests of shareholders, after sufficiently understanding the Company's tangible and intangible management resources, potential effects of the measures looking at the future in the medium-to-long term, and other various factors constituting the Company's corporate value. Therefore, Board of Directors of the Company has decided to continue the Plan in order to deter purchases that are detrimental to the corporate value of the Company and, in turn, the common interests of its shareholders, by ensuring that the necessary time and information are made available for the shareholders to decide whether or not to accept the proposal or for Board of Directors of the Company to present an alternative proposal to the shareholders and by enabling the Board of Directors of the Company to negotiate with the tender offeror for the benefit of the shareholders if a purchase of shares is launched against the shares of the Company.

The status of the Company's shares held is outlined in Attachment 1. At this time, there is no actual case of a proposal for or an inquiry about a large-scale purchase to the Board of Directors of the Company by a specified third party.

#### 2. Details of the Plan

##### (1) Outline of the Plan

The Plan formulates the rules that should be observed by a person who intends to carry out a large-scale purchase, etc. of the Company's shares, etc. (defined in (2) "Procedures for the Plan" (a) below; the same shall apply hereinafter). In addition, if the prescribed conditions are satisfied, the Company shall state that the person who intends to make a large-scale purchase, etc. could incur damages as a result of the Company's implementing the countermeasures. Moreover, by appropriately disclosing this information, the Company shall give a warning to a person who intends to make a large-scale purchase, etc. of the Company's shares, etc. that does not contribute to the Company's corporate value and, in turn, the common interests of its shareholders.

In the Plan, in order to avoid any arbitrary decision on the implementation, non-implementation,

etc. of the countermeasures by the Board of Directors of the Company, the Company respects, as much as possible, the recommendation of the Independent Committee composed only of (i) the Company's outside directors or outside corporate auditors of the Company or (ii) outside experts (corporate managers with actual achievement results, former public offices, attorneys, certified public accountants and academic experts, etc.), who are independent from the Company's management (hereinafter referred to as the "Independent Committee") in accordance with the Regulations of the Independent Committee (refer to Attachment 4 for a summary of the committee), and the information will be disclosed to shareholders from time to time in order to ensure transparency. When the Plan is continued, Mr. Tetsuro Kamijikkoku, Mr. Michael John Korver and Mr. Toru Kitagawa will assume positions as the members of the Independent Committee (refer to Attachment 2 below for a brief personal history of each of the members).

## (2) Procedures for the implementation of the Plan

### (a) Large-scale purchases, etc. covered

The Plan will apply to the purchases that fall under 1) or 2) below (including the purchases reasonably determined as equivalent to the purchases covered by the Board of Directors of the Company and excluding the purchases approved in advance by the Board of Directors of the Company; hereinafter generically referred to as "Large-scale Purchases, etc.>").

- 1) Purchases through which the ratio<sup>3</sup> of the shares, etc.<sup>1</sup> held by the holder of shares, etc.<sup>2</sup> whose issuer is the Company will become 20% or more.
- 2) With regard to shares, etc.<sup>4</sup> whose issuer is the Company, persons who carry out or intend to carry out a tender offer or Large-scale Purchase, etc. in which the total of the holding ratio of shares, etc.<sup>6</sup> pertaining to the tender offer<sup>5</sup> and the holding ratio of shares of the specific interested parties of the tender offeror<sup>7</sup> is 20% or more, shall follow the procedures of the Plan in advance. (Hereinafter, these persons are collectively referred to as the "Tender Offeror, etc.>")

### (b) Presentation of a declaration of intention

Except otherwise approved by the Board of Directors of the Company, the Company will request the Tender Offeror, etc. to present to the Company in Japanese, prior to the implementation of a Large-scale Purchase, etc., a document containing a written oath, etc. to the effect that the Tender Offeror, etc. follows the procedures stated in the Plan in implementing a Large-scale Purchase, etc. (hereinafter referred to as the "Declaration of Intention") in the format determined by the Company.

Specifically, the Tender Offeror, etc. should state the following matters in the Declaration of Intention:

#### (i) Information on the Tender Offeror, etc.

- [a] Name or corporate name and address or location;
- [b] Name and position of the representative;
- [c] Purpose of the Tender Offeror, etc.'s company, etc., and details of its business activities;
- [d] Outline of the major shareholders or investors (top ten in the shares held or in the ratio of equity participation);

[e] Contact point in Japan; and

[f] Law governing the foundation of the Tender Offeror, etc.'s company, etc.

- (ii) Number of the Company's shares, etc. actually held by the Tender Offeror, etc. and the status of transaction of the Company's shares, etc. by the Tender Offeror, etc. during the 60 days before the presentation of the Declaration of Intention; and
- (iii) Outline of the Large-scale Purchase, etc. proposed by the Tender Offeror, etc. (including the type and number of the Company's shares the Tender Offeror, etc. plans to acquire by the Large-scale Purchase, etc. and the purpose of such Large-scale Purchase, etc. (If the Tender Offeror, etc. has such purpose as the acquisition of control or participation in management, net investment or policy investment, transfer to any third party of the Company's shares, etc. after the Large-scale Purchase, etc. or an act of important proposal, etc.<sup>8</sup> or any other purpose, the fact and contents of such purpose; if there are two or more purposes, all of the purposes should be stated)).

(c) Request to the Tender Offeror, etc. for information

After presenting the Declaration of Intention mentioned in (b) above, the Tender Offeror, etc. is requested to present to the Company in Japanese, the information necessary and sufficient for the shareholders to examine and for the Board of Directors of the Company to assess and consider the Large-scale Purchase, etc. (hereinafter referred to as the "Essential Information") according to the procedures stated below.

First, within 10 business days<sup>9</sup> from the day when the Declaration of Intention is presented (excluding the first day), the Company will send a list of Essential Information stating the information to be provided initially to the contact point in Japan mentioned in (b) (i) [e] above. The Tender Offeror, etc. is requested to provide the Company with sufficient information according to such list of Essential Information.

On receiving the Essential Information, the Board of Directors of the Company will promptly disclose it and provide it to the Independent Committee.

If the Board of Directors of the Company or the Independent Committee reasonably determines that the information provided by the Tender Offeror, etc. according to the list of the Essential Information is insufficient for the examination by shareholders and the formation of opinions by the Board of Directors of the Company and the Independent Committee, in consideration of the contents and pattern, etc. of the Large-scale Purchase, etc., the Board of Directors of the Company may fix a period for response (the period should not, as a general rule, exceed 60 days from the day when the Company sends the list of the Essential Information to the Tender Offeror, etc.: the period is hereinafter referred to as the "Period for Providing Information") and request that the Tender Offeror, etc. additionally provide the Essential Information. In this case, the Tender Offeror, etc. should additionally provide such Essential Information before the expiration of the Period for Providing Information.

Regardless of the contents and pattern, etc. of the Large-scale Purchase, etc., the information mentioned in each of the following items shall, as a general rule, be included in the Essential Information:



- 1) Details (including the history, specific name, capital structure, business activities, financial position, officers' names and professional careers, etc.) of the Tender Offeror, etc. and its group (including partners and other constituent members in the case of joint holders,<sup>10</sup> persons having a special relationship and funds);
- 2) The purpose (the details of the purpose disclosed in the Declaration of Intention), the method, and the contents of the Large-scale Purchase, etc. (including whether the Tender Offeror, etc. intends to participate in management; the amount and type of payment for the Large-scale Purchase, etc.; the timing of the Large-scale Purchase, etc.; the scheme of any related transactions; the number of shares, etc. planned to be purchased; the holding ratio of shares, etc. after the Large-scale Purchase, etc.; and the legality of the method of the Large-scale Purchase, etc.);
- 3) The basis for the calculation of the payment for the Large-scale Purchase, etc. (including the premises of the calculation; the calculation method; the numerical information used in the calculation; the contents of any synergies that are expected to arise because of a series of transactions related to the Large-scale Purchase, etc.; the name of any third party whose opinions were heard at the time of the calculation; a summary of the said opinions; and the circumstances leading to the determination of the amount based on the said opinions);
- 4) Financial support for the Large-scale Purchase, etc. (including the specific name of the acquisition fund providers (including all indirect funds providers), financing methods, and the details of any related transactions);
- 5) Whether there was any communication of intent with a third party at the time of the Large-scale Purchase, etc. and, if there was a communication of intent, its contents and a summary of the third party;
- 6) If the Tender Offeror, etc. has a loan contract, a security agreement, a reverse repurchase agreement, a purchase option, or any other major contract or arrangement related to the Company's share, etc. already held by the Tender Offeror, etc. (hereinafter referred to as the "Security Agreement, etc."), the type of contract, the counterparty to the contract, and the specific contents of the Security Agreement, etc. (such as the number of shares, etc. that are included in the contract);
- 7) If the Tender Offeror, etc. has a plan to conclude a Security Agreement, etc. relating to the Company's shares, etc. that the Tender Offeror, etc. plans to acquire in the Large-scale Purchase, etc. or has a plan to reach some other agreement with a third party, the type of agreement that is planned, the counterparty to the contract, and the specific contents of the agreement (such as the number of shares, etc. that are included in the contract);
- 8) The management policy, business plan, capital policy and dividend policy of the Group after the Large-scale Purchase, etc.;
- 9) Policies for treatment of the Company's employees, business partners, customers, communities and any stakeholders in the Company after the Large-scale Purchase, etc.; and
- 10) Specific measures to avoid a conflict of interests with other shareholders of the Company.

Please note that if, from among the facts that a Tender Offeror, etc. has made a proposal for a Large-scale Purchase, etc.; a summary of the proposal; a summary of the Essential Information; and any other information, there is information recognized as necessary for the shareholders to make a decision, the Board of Directors of the Company will disclose that information at a time that it deems appropriate.

Furthermore, if the Board of Directors of the Company finds that the Essential Information from the Tender Offeror, etc. has been sufficiently provided, it shall give notice to the Tender Offeror, etc. accordingly. (This notice is hereinafter referred to as the “Notice of Information Provision Completion.”) In addition, it will promptly provide a disclosure to this effect.

The Period for Providing Information shall terminate as of the day that the Board of Directors of the Company issues the Notice of Information Provision Completion or the day that the Period for Providing Information reaches its upper limit, whichever is earlier.

- (d) Consideration of the terms of the Large-scale Purchase, etc., negotiations with the Tender Offeror, etc., and the presentation of an alternative proposal (Board Evaluation Period)
- Taking either the day after the Board of Directors of the Company issues the Notice of Information Provision Completion or the day after the Period for Providing Information terminates as the starting date of the computation, in accordance with factors such as the degree of difficulty of the evaluation of the Large-scale Purchase, etc., the Board of Directors of the Company shall set either period (i) or period (ii) below as the period for evaluation, review, negotiation, formation of opinions, and formulation of an alternative proposal by the Board of Directors of the Company, and it shall promptly disclose the period (hereinafter referred to as the “Board Evaluation Period”).
- (i) Up to 60 days for a tender offer for all of the Company’s shares, etc. by a tender offer where the consideration is paid only in cash (in the yen currency); or
- (ii) Up to 90 days for any other Large-scale Purchase, etc.
- However, in either period (i) or period (ii) above, the Board Evaluation Period may be extended (for a period of up to 30 days) only if the Board of Directors and the Independent Committee reasonably find that Board Evaluation Period to be insufficient for evaluation and review. In such case, the Board of Directors will notify the Tender Offeror, etc. of the specific period of extension and the reason why the said extension period is deemed necessary, and it will also promptly disclose the same information to the shareholders and investors.

During the Board Evaluation Period, the Board of Directors of the Company will fully evaluate and review the Essential Information provided by the Tender Offeror, etc. Furthermore, from the viewpoint of ensuring and enhancing the corporate value of the Company and the common interests of its shareholders, the Board of Directors of the Company will carry out a review of the contents of the Large-scale Purchase, etc. proposed by Tender Offeror, etc. Through its review, the Board of Directors of the Company will carefully compile, as the Board of Directors of the Company, its opinions on the Large-scale Purchase, etc. Furthermore, it will notify the Tender Offeror, etc. of those opinions and, in a timely and appropriate manner, disclose them to the shareholders. In addition, if necessary, the Board of Directors of the Company may also negotiate with the Tender Offeror, etc. on the conditions and method of the Large-scale Purchase, etc. and, furthermore, present an alternative proposal to the shareholders.

- (e) Recommendation of the Independent Committee

In the case where a Tender Offeror, etc. emerges, in accordance with the procedures below, within

the Board Evaluation Period, the Independent Committee shall make a recommendation to the Board of Directors of the Company on whether or not to invoke the countermeasures. In order to ensure that the Independent Committee's decision is made in a way that ensures and enhances the Company's corporate value and the common interests of its shareholders, the Independent Committee may, at the expense of the Company, obtain advice from independent third parties (including investment banks, securities companies, financial advisers, certified public accountants, attorneys, consultants, or any other experts), who are independent from the management that executes the business of the Company. Please note that, if the Independent Committee makes a recommendation or issues a resolution to the Board of Directors of the Company as prescribed in either 1) or 2) below, the Board of Directors of the Company will promptly disclose the fact of the recommendation or the resolution, a summary thereof, as well as any other information that the Board of Directors of the Company and the Independent Committee deem appropriate.

1) When the Tender Offeror, etc. fails to follow the procedures stated in the Plan

If the Tender Offeror, etc. has not observed the procedures prescribed in the Plan, the Large-scale Purchase, etc. will be considered a Large-scale Purchase, etc. that seriously compromises the corporate value of the Company and the common interests of the shareholders, and, as a general rule, the Independent Committee will recommend invoking the countermeasures.

2) When the Tender Offeror, etc. follows the procedures stated in the Plan

When the Tender Offeror, etc. follows the procedures stated in the Plan, the Independent Committee will, in principle, recommend not implementing any countermeasure.

However, even if the procedures prescribed in the Plan have been observed, for any of the reasons given in items (i) and (ii) below, it may be found that the Large-scale Purchase, etc. seriously compromises the corporate value of the Company and the common interests of the shareholders. At the same time, if the Independent Committee deems that invoking the countermeasures is reasonable, it may recommend invoking the countermeasures as exceptional measures.

In addition, the Independent Committee may, for the purpose of respecting shareholders' opinion regarding the invocation of the countermeasures, make a recommendation to the effect that shareholders' opinion be confirmed through a general meeting of shareholders (hereinafter referred to as the "General Meeting of Shareholders Confirming Shareholders' Opinion").

- (i) When the Large-scale Purchase, etc. may definitely damage the Company's corporate value and, in turn, the common interests of shareholders as a result of any of the acts mentioned below or any other similar act:
  - a) The act of acquiring shares, etc. only for the purpose of raising the share price and having the shares, etc. be purchased at a high price by persons associated with the Company, even though, in fact, the Tender Offeror, etc. has no intention of participating in company management;
  - b) The act of acquiring the Company's shares, etc. for the purpose of temporarily taking control of management of the Company and transferring to the Tender Offeror, etc. or to the Tender Offeror, etc.'s group company, etc. intellectual property rights, know-how, and confidential business information that are necessary for the Company's business management, or transferring important

assets, etc. of the Company's main clients or customers;

- c) The act of acquiring the Company's shares, etc. for the purpose of taking control of the Company's corporate management and then diverting the Company's assets to securing or repaying the debts of the Tender Offeror, etc. or the Tender Offeror, etc.'s group company, etc.; and
- d) The act of acquiring the Company's shares, etc. to take control of management of the Company temporarily; cause the Company to dispose of large-amount assets, etc. having no immediate relation to the Company's business; and use the profits from such disposal to cause the Company to pay temporarily high dividends or sell the Company's shares when the price of such shares suddenly rises as a result of the payment of such temporarily high dividends.
- (ii) The case where the method of purchase of shares, etc. of the Company proposed by the Tender Offeror, etc. is deemed to pose a risk of, in effect, compelling the shareholders to sell their shares, etc., such as a so-called coercive two-stage tender offer (a coercive two-stage tender offer means the execution of a purchase of shares, etc. by tender offer, etc., where acquisition of all the shares is not solicited in the initial purchase and the terms and conditions of purchase for the second stage are set unfavorably or not clearly specified).

(f) Resolutions of the Board of Directors

The Board of Directors of the Company shall respect, as much as possible, the Independent Committee's recommendation that is prescribed in (e) above. Furthermore, based on the relevant recommendation, from the viewpoint of ensuring and enhancing the corporate value of the Company and the common interests of the shareholders, it will promptly adopt a resolution on whether to invoke or not invoke the countermeasures.

After the Board of Directors of the Company adopts a resolution on invoking or not invoking the countermeasures, the Board of Directors of the Company will promptly disclose a summary of its resolution and any other matters that the Board of Directors and Independent Committee of the Company consider appropriate.

(g) General Meeting of Shareholders Confirming Shareholders' Opinion

When the Independent Committee made a recommendation to the effect that shareholders' opinion be confirmed through a General Meeting of Shareholders Confirming Shareholders' Opinion regarding the invocation of the countermeasures, the Board of Directors of the Company shall respect the recommendation as much as possible, swiftly convene the General Meeting of Shareholders Confirming Shareholders' Opinion to reflect the shareholders' opinion, and confirm the shareholders' opinion. On that occasion, the Company will promptly disclose a notice of convocation of the General Meeting of Shareholders Confirming Shareholders' Opinion, and any other information that the Board of Directors of the Company deems appropriate.

(h) Suspension of invocation of the countermeasures

After the Board of Directors of the Company has, in accordance with the procedures in (f) and (g) above, adopted a resolution to invoke countermeasures, or after the countermeasures have been invoked, in item (i) or item (ii) below, the Board of Directors of the Company shall adopt a resolution to suspend the countermeasures. (i) The Tender Offeror, etc. has rescinded the

Large-scale Purchase, etc. and any other Large-scale Purchase, etc. has ceased to exist. (ii) A change arises in all the facts, etc. that constituted the premise of the decision on whether to invoke the countermeasures, and, from the viewpoint of ensuring and enhancing the corporate value of the Company and the common interests of the shareholders, circumstances that may be inappropriate for invoking the countermeasures have come into existence.

If the Board of Directors of the Company adopts the aforementioned resolution, it will promptly disclose information including a summary of the resolution and any other information that it and the Independent Committee deem appropriate.

(i) Commencement of Large-scale Purchase, etc.

The Tender Offeror, etc. shall observe the procedures prescribed in the Plan, and, until a resolution on whether to invoke or not invoke the countermeasures is adopted by the Board of Directors of the Company, the Tender Offeror, etc. shall not commence the Large-scale Purchase, etc.

(3) Specific contents of the countermeasures

The countermeasures that the Board of Directors of the Company invokes based on the resolution set forth in (2) (f) (g) above shall be an allotment of stock acquisition rights (hereinafter referred to as the “Stock Acquisition Rights”) without contribution. A summary of the allotment of the Stock Acquisition Rights without contribution is presented in Attachment 3, “Outline of the Allotment of the Stock Acquisition Rights without Contribution.”

When the allotment of the Stock Acquisition Rights without contribution is made, the terms of exercise (discriminative terms of exercise) stipulating that the exercise of the rights by a specified Tender Offeror, etc. (defined in Attachment 3 “Outline of the Allotment of the Stock Acquisition Rights without Contribution”; hereinafter, the same) is not authorized, the clauses of acquisition (discriminatory acquisition provisions) providing that the Company may acquire the Stock Acquisition Rights from a party other than a specified Tender Offeror, etc. in exchange for the Company’s shares, and other conditions will be determined.

After the Board of Directors of the Company has adopted a resolution to invoke the countermeasures, or after the countermeasures have been invoked, as described in (2) (h) above, it may decide to suspend its invocation of the countermeasures. It may, for example, suspend its invocation of the countermeasures by a method such as the following method. In the case where the Board of Directors of the Company has adopted a resolution to execute an allotment of the Stock Acquisition Rights without contribution, if the Tender Offeror, etc. suspends the Large-scale Purchase, etc. and the Board of Directors of the Company adopts the resolution set forth in (2) (h), by the day before the ex-rights date pertaining to the record date set for the allotment of the Stock Acquisition Rights without contribution, the Board of Directors of the Company suspends the allotment of Stock Acquisition Rights without contribution and, on or after the effective date of the allotment of the Stock Acquisition Rights without contribution, by the day before the start date of the exercise period of the Stock Acquisition Rights, the Company acquires the Stock Acquisition Rights without compensation.

#### (4) Effective period, abolition, and change of the Plan

If an approval is obtained from the shareholders at the present ordinary general meeting of shareholders, the effective period of the Plan will be from the time when such approval is obtained to the end of the Company's ordinary general meeting of shareholders scheduled for June 2020.

However, even before the expiration of the effective period of the Plan, if it is resolved at a general meeting of shareholders of the Company that the Plan be changed or abolished, the Plan shall be changed or abolished according to such resolution at that time. Furthermore, if it is resolved at a meeting of the Board of Directors consisting of the directors elected at a general meeting of shareholders of the Company that the Plan be abolished, the Plan shall be abolished at that time.

Please note that, if the Board of Directors of the Company determines that there is a need to formally change the Plan due to changes in the Companies Act, the Financial Instruments and Exchange Law or any other related laws or in the Financial Instruments Exchange Regulations, or changes in their interpretation or application, or due to changes in the tax system, court precedents, etc., it may revise or change the Plan with the approval of the Independent Committee. On the other hand, if the Board of Directors of the Company changes the contents of the Plan in a way that has a material impact on the shareholders of the Company, the Board of Directors of the Company will, at the very next general meeting of shareholders, again propose the Plan as an agenda item and obtain the approval of the shareholders.

If the Plan is abolished or changed in such a way that any contents of the Plan could have a material impact on the Company's shareholders, the Company will promptly disclose the fact of such abolition or change and (in the event of a change) the details of the change and other matters considered appropriate by the Board of Directors of the Company and the Independent Committee.

### 3. Impact on shareholders and investors

#### (1) Impact on shareholders and investors at the time of continuation of the Plan

At the time of its continuation, the Plan will have no direct specific impact on the rights of shareholders because no actual allotment of the Stock Acquisition Rights without contribution will be implemented.

#### (2) Impact on shareholders and investors when the countermeasures are implemented

If the Board of Directors of the Company or the general meeting of shareholders resolves to implement the countermeasures and make the allotment of the Stock Acquisition Rights without contribution, the Company will decide the allotment date in such resolution (hereinafter referred to as the "Allotment Date") and give public notice of the date. In this case, the Company will make the allotment of the Stock Acquisition Rights without contribution to the shareholders who are recorded in the Company's final register of shareholders as of the Allotment Date (hereinafter referred to as the "Entitled Shareholders") at a rate determined by the Board of Directors of the Company in a resolution for the allotment of the Stock Acquisition Rights without contribution. In this scheme, at the time of the allotment of the Stock Acquisition Rights without contribution, the per-share value of the shares of the Company held by the shareholders will be diluted. Nonetheless,

since there will be no dilution of the overall value of the Company's shares held by the shareholders, the Company does not assume that the allotment will have any direct, specific impact on the legal rights and economic interests relating to the shares of the Company that the shareholders hold.

Please note that, even if a resolution for an allotment of the Stock Acquisition Rights without contribution has been adopted, in accordance with the procedures, etc. set forth in 2. (2) (h) above, the Board of Directors of the Company may decide to suspend its invocation of the countermeasures. In the cases mentioned above, the price of the Company's shares may fluctuate accordingly. For example, if the Company acquires the Stock Acquisition Rights without contribution and does not issue new shares after the shareholders who should receive the allotment of the Stock Acquisition Rights without contribution have been determined (after the ex-rights date), the value per share will not be diluted. Therefore, the investors who have purchased or sold in anticipation of a dilution of the price of the Company's shares may incur losses due to fluctuations in stock prices.

In addition, if discriminative terms of exercise or discriminatory acquisition provisions are added in relation to exercise of the Stock Acquisition Rights or acquisition by the Company, at the time of the exercise or the acquisition, it is assumed that there will be an impact on the Tender Offeror, etc.'s legal rights and economic interests. However, even in this case, the Company does not assume that there will be any direct, specific impact on the legal rights and economic interests relating to the shares of the Company that the shareholders other than the Tender Offeror, etc., hold.

(3) Procedures to be followed by the shareholders in conjunction with the allotment of the Stock Acquisition Rights without contribution

Since the shareholders who are recorded in the Company's final register of shareholders as of the date of allotment of the Stock Acquisition Rights without contribution will automatically become holders of stock acquisition rights as of the effective date of the allotment of the Stock Acquisition Rights without contribution, it is unnecessary for them to complete any registration procedures.

Furthermore, if, based on a decision by the Board of Directors of the Company, the Company takes steps to acquire the Stock Acquisition Rights, the shareholders other than the Tender Offeror, etc. will, without paying an amount equivalent to the exercise price, receive shares in the Company as payment for the Company's acquisition of the Stock Acquisition Rights. Therefore, it will not be necessary for them to complete any procedures relating to payment for the stock acquisition rights.

In this case, the shareholders concerned may be requested to submit, in the format prescribed by the Company, a written pledge expressing, among other things, that they are not the specified Tender Offerors, etc.

Apart from the matters above, with regard to details such as the method of allotment of the Stock Acquisition Rights, the method of exercise, the method of acquisition by the Company, and the method of delivery of shares, etc., after a resolution concerning an allotment of the Stock Acquisition Rights without contribution has been adopted, the Company will disclose or give notice of the details in a timely and appropriate manner based on the applicable laws and

regulations and the rules and regulations of the financial instruments exchanges. Thus, please check the contents of any such disclosure or notice.

#### IV. Judgment of the Board of Directors of the Company regarding each measure stated above and reasons for such judgment

##### 1. Special Measures Contributing to Implementation of the Basic Policy (the above II)

The measures in II stated above are to ensure and enhance the corporate value and, in turn, common interest of the shareholders of the Company in the medium-to-long term, which, as a result, will help the Company to implement the Basic Policy.

Therefore, such measures are not for the sake of the Company's officers maintaining their position, but to comply with the Basic Policy and contribute to the corporate value and, in turn, common interest of the shareholders of the Company.

##### 2. Measures to Prevent Decisions on the Company's Financial and Business Policies from Being Controlled by Persons Viewed as Inappropriate under the Basic Policy (the above III)

The Plan is continuously carried out for the purpose of ensuring and enhancing the Company's corporate value and, in turn, the common interests of the shareholders by, among other things, ensuring that the necessary time and information are made available for the shareholders to decide whether or not to accept a Large-scale Purchase, etc. or for the Board of Directors of the Company to present alternative proposals to the shareholders, and by enabling the Board of Directors of the Company to negotiate with the Tender Offeror for the benefit of the shareholders if such a Large-scale Purchase, etc. is launched against the shares, etc. of the Company, and is consistent with the Company's Basic Policy.

In addition, as described below, the Plan has high-level rationality and contributes to the corporate value of the Company and, in turn, the common interests of its shareholders, and is not intended to maintain the positions of the Company's officers.

##### (1) The Plan meets the requirements of the guidelines for takeover defense measures

The Plan fully satisfies the three principles stated in the "Guidelines for Takeover Defense Measures to Ensure or Enhance the Corporate Value and the Common Interests of Shareholders" published by the Minister of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005 (principle of ensuring or enhancing the corporate value and the common interests of shareholders, the principle of prior disclosure and the intention of shareholders and the principle of necessity and appropriateness) and is based on the contents of the "Ideal Ways of Takeover Defense Measures in Light of Recent Changes in Various Circumstances" published by the Research Group on Corporate Value on June 30, 2008.



- (2) The Plan is continuously carried out for the purpose of ensuring and enhancing the common interests of shareholders

The Plan is continuously carried out for the purpose of ensuring and enhancing the Company's corporate value and, in turn, the common interests of the shareholders by, among other things, ensuring that the necessary time and information are made available for the shareholders to decide whether or not to accept the proposal or for the Board of Directors of the Company to present alternative proposals to the shareholders, and by enabling the Board of Directors of the Company to negotiate with the Tender Offeror, etc. for the benefit of the shareholders if an acquisition of shares, etc. is launched against the shares, etc. of the Company.

- (3) The Plan is based on the reasonable intention of shareholders

As stated in III 2. (4) above, "Effective period, abolition and change of the Plan," the Plan will become effective on condition that it is approved by shareholders at the present ordinary general meeting of shareholders, and if an approval of shareholders is obtained, the effective period of the Plan will be until the end of the Company's ordinary general meeting of shareholders scheduled for June 2020.

Furthermore, even before the expiration of the effective period of the Plan, if, at the Company's ordinary general meeting of shareholders, or if, by a Board of Directors consisting of directors elected at a general meeting of shareholders of the Company, a resolution to abolish the Plan is adopted, the Plan will be abolished at that time. In this sense, the characteristics and contents of the Plan are based on the reasonable intention of the shareholders of the Company.

- (4) Determination by highly independent outsiders regarded as important and the disclosure of information

In regard to the Plan, for the purpose of eliminating arbitrary decisions by the Board of Directors of the Company and ensuring the objectivity and rationality of decisions and responses by the Board of Directors, in accordance with the Regulations of the Independent Committee, the Company has established the Independent Committee. (Please refer to Attachment 4 for a summary of those regulations.)

We adopt the policy of promptly disclosing to our shareholders a summary of the decisions of the Independent Committee and thereby securing a mechanism for the transparent implementation of the Plan as far as it contributes to the Company's corporate value and the common interests of shareholders.

- (5) Objective requirements for invocation established

As stated in III 2. (2) above, "Procedures for the implementation of the Plan," the Plan is so designed that no countermeasures based on the Plan may be invoked unless the predetermined reasonable and objective requirements are met and thus a mechanism is secured for avoiding any arbitrary implementation of the countermeasures by the Board of Directors of the Company.

(6) The Plan is no takeover defense measure of the dead-hand type or the slow-hand type

As stated in III 2. (4) above, “Effective period, abolition and change of the Plan,” the Plan may be abolished by a Board of Directors consisting of the directors elected at a general meeting of shareholders of the Company. Therefore, the Plan is no takeover defense measure of the dead-hand type (takeover defense measure whose implementation cannot be prevented even if a majority of the members of the Board of Directors are replaced with new ones).

In addition, because the term of office of the Company’s directors is one year, the Plan is no takeover defense measure of the slow-hand type (takeover defense measure whose implementation can be prevented only after much time because it is impossible to replace the members of the Board of Directors all at once).

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<sup>1</sup> The “share certificates, etc.” defined in Article 27-23, Paragraph (1) of the Financial Instruments and Exchange Law of Japan. This definition is applied throughout this document unless otherwise specified. If there is a revision of the laws and regulations, etc. quoted in the Plan (including a change of the name of a law or regulation or the establishment of new laws and regulations, etc. that succeed former laws and regulations, etc.), after the said revision, except as otherwise provided by the Board of Directors of the Company, the articles of the laws and regulations, etc. quoted in the Plan shall be deemed to be replaced with the articles of the laws and regulations, etc. that in effect succeed the laws and regulations, etc. quoted in the Plan.

<sup>2</sup> The “holders” defined in Article 27-23, Paragraph (1) of the Financial Instruments and Exchange Law of Japan, including the persons that fall under “holders” specified in Paragraph (3) of such article. Hereinafter, the same.

<sup>3</sup> The “holding ratio of share certificates, etc.” defined in Article 27-23, Paragraph (4) of the Financial Instruments and Exchange Law of Japan. Hereinafter, the same.

<sup>4</sup> The “share certificates, etc.” defined in Article 27-2, Paragraph (1) of the Financial Instruments and Exchange Law of Japan. Hereinafter, the meaning shall be the same as the meaning used here in paragraph 2).

<sup>5</sup> Defined in Article 27-2, Paragraph (6) of the Financial Instruments and Exchange Law of Japan. Hereinafter, the same.

<sup>6</sup> The “holding ratio of share certificates, etc.” defined in Article 27-2, Paragraph (8) of the Financial Instruments and Exchange Law of Japan. Hereinafter, the same.

<sup>7</sup> The “persons having a special relationship” defined in Article 27-2, Paragraph (7) of the Financial Instruments and Exchange Law of Japan. However, with regard to the persons set forth in item 1 of the same paragraph, the persons specified in Article 3, Paragraph (2), of the Cabinet Office Ordinance on disclosure of tender offers for share certificates, etc. by persons other than the issuer are excluded. Hereinafter, the same.

<sup>8</sup> An act of important proposal, etc. defined in Article 27-26, Paragraph (1) of the Financial Instruments and Exchange Law of Japan, Article 14-8-2, Paragraph (1) of the Enforcement Regulations of the Financial Instruments and Exchange Law of Japan and Article 16 of the Cabinet Office Ordinance regarding the Disclosure of the Situation of Large-scale Holding of Share Certificates, etc.

<sup>9</sup> Days excluding any day mentioned in each of the Items of Article 1, Paragraph (1) of the Law on Holidays of Government Offices. Hereinafter, the same.

<sup>10</sup> The “joint holders” defined in Article 23-23, Paragraph (5) of the Financial Instruments and Exchange Law of Japan, including the persons considered “joint holders” under Paragraph (3) of such article. Hereinafter, the same.

Attachment 1

Outline of the situation of the Company's shares held  
(As of March 31, 2017)

1. Number of shares authorized to be issued by the Company: 150,000,000 shares  
 2. Number of outstanding shares: 40,479,724 shares  
 3. Number of shareholders: 5,488 persons

4. Major Shareholders (top 10 shareholders)

Name or corporate name	Address	Number of shares held (thousand shares)	Ratio of the number of shares held to the number of outstanding shares (%)
Credit Suisse AG (Permanent agent: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo Settlement Business Department	3,461	8.55
Nippon Life Insurance Co. (Permanent agent: The Master Trust Bank of Japan, Ltd.)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	2,226	5.50
The Hachijuni Bank, Ltd. (Permanent agent: The Master Trust Bank of Japan, Ltd.)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	1,832	4.52
Sompo Japan Nipponkoa Insurance Inc. President: Keiji Nishizawa	26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo	1,452	3.58
Credit Suisse AG Singapore Trust Account for Phycomp Holdings B.V. (Permanent agent: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo Settlement Business Department	1,279	3.16
Japan Trustee Services Bank, Ltd. (trust account) Representative Director and President: Yasuo Kuwana	8-11, Harumi 1-chome, Chuo-ku, Tokyo	1,277	3.15
CBNY-Government of Norway (Permanent agent: Citibank, Ltd.)	27-30, Shinjuku 6-chome, Shinjuku-ku, Tokyo	1,227	3.03
The Bank of Tokyo-Mitsubishi UFJ, Ltd. (President & CEO: Takashi Oyamada)	7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo	1,000	2.47
The Master Trust Bank of Japan, Ltd. (trust account) (Representative Director and President: Kaoru Wachi)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	916	2.26
Bank Julius Bear & Co., Ltd. Singapore Client (Permanent agent: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo Settlement Business Department	871	2.15

Notes: 1. The number of shares stated above related to trust business is as follows:

Japan Trustee Services Bank, Ltd.: 1,277 thousand shares

The Master Trust Bank of Japan, Ltd.: 916 thousand shares

2. In addition to the shares stated above, the Company holds treasury shares totaling to 3,424 thousand shares (8.45%).

## Attachment 2

### Brief Personal History of the Independent Committee Members

#### Tetsuro Kamijikkoku

##### (Brief personal history)

March	1992	Registered as an attorney (member of the Daiichi Tokyo Bar Association)
March	1992	Joins the Asanuma Legal Office.
April	1995	Established Kamijikkoku Law Firm (present position)
February	2001	Outside corporate auditor, CAN DO CO., LTD.
June	2002	Took office as an outside corporate auditor of the Company (present position)
February	2016	Outside director [member of Audit Committee], CAN DO CO., LTD. (present position)

#### Michael John Korver

##### (Brief personal history)

July	1983	Obtained an attorney's certificate in California, U.S.A.
April	1984	Entered Nomura Securities Co., Ltd. (retired from the company in March 1987).
July	1987	Obtained an attorney's certificate in New York, U.S.A.
August	1987	Entered Richards & O'Neal Law Firm (New York, U.S.A.) (retired from the firm in July 1993).
June	1996	Took office as director of Global Venture Capital Inc.
April	2004	Outside director, BJIT Inc. (present position)
June	2004	Took office as professor of Graduate School of International Corporate Strategy, Hitotsubashi University (present position).
May	2006	Outside director, Really English.com Limited (retired in December 2016)
June	2006	Took office as representative director of Global Venture Capital Inc. (present position).
October	2006	Outside director, Geovector Corporation (present position)
June	2008	Took office as an outside director of the Company (present position).
September	2011	Representative director, Real English Broadband Co., Ltd. (retired in December 2016)
July	2013	Representative director, Durafizz Holdings Corporation (present position)

Toru Kitagawa

(Brief personal history)

April	1983	Joined Kanematsu-Gosho, Ltd. (current KANEMATSU CORPORATION)
November	1999	Joined Japan Communications Inc. General manager of Corporate Planning Office
February	2001	Joined Baltimore Technologies Japan Co., Ltd. (current Cybertrust Japan Co., Ltd.) Senior executive financial officer
January	2002	Joined Levi Strauss Japan K.K. Finance controller
September	2006	Joined Starbucks Coffee Japan, Ltd. Officer in charge of supervising finance infrastructure and CFO (present position)
March	2016	Outside director [and chairman of Audit Committee], Cookpad Inc. (present position)
October	2016	Outside director, Nippon Ski Resort Development, Co., Ltd. (present position)
June	2017	Takes office as an outside director of the Company (plan)

For your reference:

The Company designated Mr. Tetsuro Kamijikkoku and Mr. Michael John Korver as independent officers in accordance with the regulations of the Tokyo Stock Exchange and the Nagoya Stock Exchange and reported this to both of the stock exchanges.

Conditioned on the election at the 89th ordinary general meeting of shareholders of the Company, Mr. Toru Kitagawa is scheduled to be appointed as an outside director of the Company. The Company plans to report him as an independent officer in accordance with the regulations of the Tokyo Stock Exchange and the Nagoya Stock Exchange.

## Attachment 3

### Outline of the Allotment of the Stock Acquisition Rights without Contribution

#### 1. Number of the Stock Acquisition Rights

The number of the Stock Acquisition Rights will be the number separately determined in the resolution for the allotment of the Stock Acquisition Rights without contribution by the Board of Directors (hereinafter referred to as the “Resolution for the Allotment of the Stock Acquisition Rights without contribution”), whose upper limit should be the number of shares obtained by subtracting the final total number of issued shares (however, the number of the Company’s shares held by the Company as of the allotment date defined below is deducted) from the total number of shares authorized to be issued by the Company as of the allotment date separately determined in the Resolution for the Allotment of the Stock Acquisition Rights without contribution (hereinafter referred to as the “Allotment Date”).

The Board of Directors of the Company may allot the Stock Acquisition Rights more than once within the range where the total number of Stock Acquisition Rights allotted does not exceed such upper limit.

#### 2. Entitled Shareholders

The Company will allot the Stock Acquisition Rights without consideration to those shareholders excluding the Company, who are recorded in the Company’s final register of shareholders as of the Allotment Date, at a ratio that the Board of Directors of the Company determines separately in the Resolution for the Allotment of the Stock Acquisition Rights without contribution.

#### 3. Effective date of the allotment of the Stock Acquisition Rights without contribution

The effective date of the allotment of the Stock Acquisition Rights without contribution shall be the date separately determined by the Board of Directors of the Company in the Resolution for the Allotment of the Stock Acquisition Rights without contribution.

#### 4. Type and number of shares to be acquired upon exercise of the Stock Acquisition Rights

The type of shares to be acquired upon exercise of the Stock Acquisition Rights shall be the Company’s common shares, and the number of such shares per Stock Acquisition Right (hereinafter referred to as the “Applicable Number of Shares”) shall be one share in principle. However, the Board of Directors of the Company may fix, in the Resolution for the Allotment of the Stock Acquisition Rights without contribution, the Applicable Number of Shares at the number exceeding one share or less than one share within the range of the total number of shares authorized to be issued by the Company.

#### 5. Amount of assets to be contributed upon exercise of the Stock Acquisition Rights

Contributions upon exercise of the Stock Acquisition Rights shall be made in cash, and the amount per share of such assets to be contributed upon exercise of the Stock Acquisition Rights will be the amount separately determined in the Resolution for the Allotment of the Stock Acquisition Rights without contribution by the Board of Directors of the Company whose lowest limit should be one yen.

## 6. Exercise period of the Stock Acquisition Rights

The exercise period of the Stock Acquisition Rights shall be the period separately determined by the Board of Directors of the Company in the Resolution for the Allotment of the Stock Acquisition Rights without contribution, which will start from the effective date of the allotment of the Stock Acquisition Rights without contribution or the date separately determined by the Board of Directors of the Company in the Resolution for the Allotment of the Stock Acquisition Rights without contribution.

## 7. Conditions for the exercise of the Stock Acquisition Rights

In principle, any Tender Offeror, etc., any person who obtains by transfer or succession from any Tender Offeror, etc. the Stock Acquisition Rights with no approval from the Board of Directors of the Company or any person determined separately by the Board of Directors of the Company in the Resolution for the Allotment of the Stock Acquisition Rights without contribution (hereinafter referred to as the “Specified Tender Offeror”) may not exercise such Stock Acquisition Rights. Further, the nonresidents of Japan who are required to follow certain procedures under applicable foreign laws and ordinances so as to exercise the Stock Acquisition Rights may not in principle exercise the Stock Acquisition Rights (except, however, that certain nonresidents, such as those who may use any exemption provision under such applicable foreign laws and ordinances in such foreign country, will be able to exercise the Stock Acquisition Rights, and the Stock Acquisition Rights held by nonresidents will be subject to acquisition by the Company in exchange for the Company’s shares as stated in 9. below).

Other details will be determined separately by the Board of Directors of the Company in the Resolution for the Allotment of the Stock Acquisition Rights without contribution.

## 8. Transfer of the Stock Acquisition Rights

Any acquisition of the Stock Acquisition Rights by transfer requires the approval of the Board of Directors of the Company.

## 9. Acquisition of the Stock Acquisition Rights by the Company

- 1) At any time before the date immediately prior to the commencement date of the exercise period, if the Board of Directors of the Company recognizes that it is appropriate for the Company to acquire the Stock Acquisition Rights, the Company may, on the date separately determined by the Board of Directors of the Company, acquire all of the Stock Acquisition Rights without consideration.
- 2) On the date separately determined by the Board of Directors of the Company, the Company may acquire all of the Stock Acquisition Rights that have not been exercised on or before the business day immediately prior to such date determined by the Board of Directors of the Company, that are held by parties other than Specified Tender Offerors, etc. and, in exchange, deliver the Company’s shares in the Applicable Number of Shares for each of the Stock Acquisition Rights. The Company may acquire such Stock Acquisition Rights in two or more parts.

Other necessary details in addition to those described above will be separately determined by the Board of Directors of the Company.



## Attachment 4

### Outline of the Regulations of the Independent Committee

1. For the purpose of eliminating arbitrary decisions by the Board of Directors in relation to matters such as invoking countermeasures against a Large-scale Purchase, etc., and for the purpose of ensuring the objectivity and rationality of decisions and responses by the Board of Directors, the Independent Committee is established by resolution of the Board of Directors of the Company as an advisory body to the Board of Directors.
2. The Independent Committee shall have no less than three members (hereinafter referred to as “Independent Committee members”), and the Board of Directors of the Company shall elect such members from (i) outside directors of the Company or outside corporate auditors of the Company or (ii) outside experts (corporate managers with actual achievements, former public offices, attorneys, certified public accountants, academic experts, etc.), who are independent from the management that executes the business of the Company.
3. The term of office of the Independent Committee members shall be three years, unless otherwise determined by a resolution of the Board of Directors.
4. On request of consultations from the Board of Directors of the Company, the Independent Committee shall deliberate and then adopt resolutions on the matters indicated in each item below. Furthermore, with reasons attached to the contents of those resolutions, it shall make recommendations to the Board of Directors of the Company.
  - (1) Whether or not to invoke the countermeasures pertaining to the Plan
  - (2) Suspension of invocation of the countermeasures relating to the Plan
  - (3) Abolition and change of the Plan
  - (4) Any other matters, relating to the Plan, on which the Board of Directors of the Company consults, at its discretion, with the Independent Committee

In the deliberations and resolutions by the Independent Committee, each member of the committee must carry out the deliberations and resolutions solely from the standpoint of whether a contribution is made to the corporate value of the Company and the common interests of the shareholders. The deliberations and resolutions shall not be carried out for the purpose of benefiting oneself or the management personnel.
5. If necessary, the Independent Committee may have the Company’s directors, auditors, employees, and any other persons deemed necessary attend its meetings, and it may then request opinions or explanations concerning matters about which it inquires.
6. The Independent Committee may, at the Company’s expense, obtain the advice of independent third parties (including investment banks, securities companies, financial advisers, certified public accountants, attorneys, consultants and other experts) and perform similar actions.
7. The Independent Committee shall be convened by a representative director of the Company or by each member of the Independent Committee.
8. Resolutions by the Independent Committee shall, as a general rule, be adopted by approval of a majority of the Independent Committee members when all of the members are in attendance. However, when any member of the Independent Committee has an accident or any other special circumstances, with a majority of the members of the Independent Committee in attendance, resolutions may be adopted with the approval of a majority of those members.

## Guidance on the exercise of your voting rights on the Internet

If you exercise your voting rights on the Internet, please read the following carefully and exercise your voting rights according to the instructions given.

If you attend the meeting personally, you do not need to follow the procedure for exercising your voting rights by mail (using the Exercise Voting Rights Form enclosed) or on the Internet.

Exercising voting rights website: <http://www.evotep.jp/>

### 1. Exercising voting rights website

(1) You may exercise your voting rights on the Internet only by accessing the exercising voting rights website (<http://www.evotep.jp/>) on your PC, smartphone or cellphone (i-mode, EZweb or Yahoo! Keitai)\* (excluding from 2:00 a.m. to 5:00 a.m. every day).

\* “i-mode,” “EZweb” and “Yahoo! Keitai” are the trademark or registered trademark of NTT docomo, Inc., KDDI Corp. and Yahoo! Inc. of the U.S., respectively.

(2) You are unable to exercise your voting rights on your PC or smartphone in some of your Internet environments, among others, if you use a firewall, etc. for Internet access, have installed anti-virus software, use a proxy server, or when TLS encrypted communication is not designated.

(3) If you exercise your voting rights on your cellphone, please use i-mode, EZweb or Yahoo! Keitai. In addition, for security purposes, you are unable to use any cellphone incapable of dealing with TLS encrypted communication or of sending cellphone information.

### 2. If you exercised your voting rights twice or more

(1) If you exercise your voting rights both on the Internet and in writing, we will deem the voting right exercised on the Internet to be effective.

(2) If you exercise your voting rights on the Internet more than once, we will deem the voting right exercised last to be effective. If you exercised your voting rights more than once using your PC, smartphone and cellphone, we will also deem the voting right exercised last to be effective.

<p>Inquiries about the system, etc. to be addressed to: Securities Business Division (help desk), Mitsubishi UFJ Trust and Banking Corporation Telephone: 0120-173-027 (9:00 - 21:00; toll free)</p>
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### <Exercising voting rights platform>

Trust & Custody Services Bank and other nominal owners (including permanent agents) that applied for the use of the exercising voting rights platform operated by ICJ Inc. may use this platform, in addition to the method of exercising voting rights on the Internet, in exercising their voting rights in the Company’s General Meeting of Shareholders by an electromagnetic method.