

*This English translation is made for reference purposes only, and in the event of any discrepancies between the English version and the Japanese version, the Japanese version prevails.*

Securities Code: 7979

June 4, 2019

To Our Shareholders:

11 Fukuinekamitakamatsu-cho,  
Higashiyama-ku, Kyoto  
**SHOFU INC.**  
Noriyuki Negoro  
President & CEO

## **Notice of Convocation of the 147<sup>th</sup> Ordinary Shareholders' Meeting**

You are cordially invited to attend the 147<sup>th</sup> Ordinary Shareholders' Meeting of Shofu Inc. (the "Company") to be held on June 26, 2019 (Wednesday) as set forth below.

Sincerely yours,

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|-----------------------|---|
| 1. Date and Time:     | Wednesday, June 26, 2019 at 10:00 a.m. (registration opens at 9:00 a.m.)  |
| 2. Venue:             | Shofu Inc. (Headquarters Kosei-Kan)<br>11 Fukuinekamitakamatsu-cho, Higashiyama-ku, Kyoto, Japan  |
| 3. Purposes:          |   |
| Items to be reported: | <ol style="list-style-type: none"><li>1. The business report, the consolidated financial statements and the results of consolidated financial statement audits by the Accounting Auditor and the Board of Auditors for the 147<sup>th</sup> fiscal year (from April 1, 2018 to March 31, 2019)</li><li>2. The non-consolidated financial statements for the 147<sup>th</sup> fiscal year (from April 1, 2018 to March 31, 2019)</li></ol> |
| Items to be resolved: |   |
| Agenda No. 1:         | Election of Eight (8) Directors   |
| Agenda No. 2:         | Election of One (1) Auditor   |
| Agenda No. 3:         | Election of One (1) Substitute Auditor  |
| Agenda No. 4:         | Decision on Compensation for the Granting of Shares with Restrictions on Transfer to Directors  |
| Agenda No. 5:         | Continuation of Policy on Countermeasures to Large-scale Purchases of the Company's Shares, etc.  |

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- Please submit the enclosed voting form at the reception desk when attending the Meeting in person.
  - If you are unable to attend the Meeting in person, you may exercise your voting rights in writing. Please review the Reference Materials for the Ordinary Shareholders' Meeting attached below, indicate "for" or "against" on each agenda item on the enclosed voting form, and post it to arrive by no later than 5:00 p.m. on Tuesday, June 25, 2019.
  - If you exercise your voting rights at the Meeting through a proxy, the proxy must be a shareholder of the Company. In addition, the proxy must be limited to one person. When your proxy attends the Meeting, he or she is required to submit your voting form as a shareholder, as well as a letter of proxy authorization, at the reception desk.
  - Pursuant to laws and regulations, and Article 16 of the Company's Articles of Incorporation, among the materials to be provided with this Notice of Convocation, the consolidated statement of changes in shareholders' equity and notes to the consolidated financial statements, as well as the non-consolidated statement of changes in shareholders' equity and notes to the non-consolidated financial statements, are not attached to this Notice of Convocation, but are posted on the Company's website (<http://www.shofu.co.jp/ir/contents/hp1330/index.php?No=913&CNo=1330>). The consolidated statement of changes in shareholders' equity, notes to the consolidated financial statements, non-consolidated statement of changes in shareholders' equity, and notes to the non-consolidated financial statements were audited as part of consolidated financial statements and non-consolidated financial statements when the Accounting Auditor and the Board of Auditors prepared the audit report.
  - Please note that any revision made by the previous day of the Meeting to the reference materials for the Meeting, the business report, the financial statements or the consolidated financial statements, will be published on the Company's website.
  - We would appreciate your understanding that our executives and employees will wear light clothing (cool biz) at the Meeting. Please feel free to also attend the Meeting in light clothing.

## Reference Materials for the Ordinary Shareholders' Meeting

### Meeting Agenda and Referential Matters

#### Agenda No. 1: Election of Eight (8) Directors

The terms of office of eight (8) Directors – Noriyuki Negoro, Wataru Fujishima, Takashi Chikamochi, Fumitaka Yamazaki, Mikito Deguchi, Kazuhiko Murakami, Kiichi Suzuki and Kenji Nishida – will expire upon the close of this Ordinary Shareholders' Meeting. Accordingly, the election of eight (8) Directors is proposed.

The candidates for Director are as follows.

Candidate No.	Noriyuki Negoro			
1	Date of Birth : March 9, 1956		Number of Company shares held: 57,400 shares	
Re-Appointment	Brief profile, positions, responsibilities and significant concurrent positions			
	March 1981	Joined the Company	April 2009	Managing Director, Research & Development, Quality Assurance and Production
	June 2003	Director		
		General Manager, Research & Development Department	June 2009	President (Representative Director)
	July 2007	Managing Director		
		General Manager, Research & Development Department	June 2015	Representative Director, President Chief Executive Officer (to present)
	June 2008	Managing Director, Research & Development, Quality Assurance and Production		
		General Manager, Research & Development Department		
	Reasons for nomination as a candidate for Director			
	Mr. Noriyuki Negoro has been committed to the development of a variety of new products at the research & development department since joining the Company and has gained experience as director in charge of research & development, quality assurance and production. He has demonstrated leadership since assuming the position of President (Representative Director), setting forth the goals and future direction of the Company. He has been nominated as a candidate for Director because of such achievements as listed above.			

Candidate No.

2

**Wataru Fujishima**

Date of Birth : August 26, 1954

Number of Company shares held: 31,200 shares

**Re-Appointment**

**Brief profile, positions, responsibilities and significant concurrent positions**

March 2009	Joined the Company	April 2015	Senior Managing Director
April 2009	General Manager, Finance Department		(Representative Director), Finance, Personnel, General Affairs and Nail Business
June 2011	Executive Officer		General Manager, Nail Business Department
June 2012	Managing Director, Finance, Personnel, General Affairs and Corporate Planning	June 2015	Representative Director
June 2013	Managing Director, Finance, Personnel, General Affairs and Nail Business		Senior Managing Executive Officer, Finance, Personnel, General Affairs and Nail Business
June 2014	Senior Managing Director (Representative Director), Finance, Personnel, General Affairs and Nail Business	April 2016	General Manager, Nail Business Department
December 2014	Senior Managing Director (Representative Director), Finance, Personnel, General Affairs and Nail Business	June 2018	Representative Director, Senior Managing Executive Officer, Finance, Personnel, General Affairs and Nail Business
	General Manager, Finance Department		(to present)
	General Manager, Nail Business Department		

**Reasons for nomination as a candidate for Director**

Mr. Wataru Fujishima has a proven track record as a director in charge of nail business in addition to serving as a director of the management department since joining the Company. Recently, he has assumed the prominent position of Representative Director. He has been nominated as a candidate for Director because of such achievements as listed above.

Candidate No.

3

## Takashi Chikamochi

Date of Birth : September 11, 1955

Number of Company shares held: 35,900 shares

### Re-Appointment

#### **Brief profile, positions, responsibilities and significant concurrent positions**

March 1981	Joined the Company	June 2015	Director
June 2007	Director General Manager, Tokyo Branch		Managing Executive Officer, Marketing
October 2009	Director General Manager, Sales Department	June 2017	Director Senior Managing Executive Officer, Sales, Marketing and International
June 2011	Senior Executive Officer General Manager, Sales Department	April 2018	Director Senior Managing Executive Officer, Sales and Marketing (to present)
June 2012	Director, Marketing		

#### **Reasons for nomination as a candidate for Director**

Mr. Takashi Chikamochi has been a member of the sales department since joining the Company, and has currently assumed the prominent position of director in charge of sales and marketing. He has been nominated as a candidate for Director because of such achievements as listed above.

Candidate No.

4

## Fumitaka Yamazaki

Date of Birth : May 27, 1961

Number of Company shares held: 20,700 shares

### Re-Appointment

#### **Brief profile, positions, responsibilities and significant concurrent positions**

March 1981	Joined the Company	June 2013	Director, Corporate Planning
April 2008	General Manager, Corporate Planning Department	June 2015	Director Managing Executive Officer, Corporate Planning (to present)
June 2011	Executive Officer General Manager, Corporate Planning Department		

#### **Reasons for nomination as a candidate for Director**

Mr. Fumitaka Yamazaki has been a member of the management and corporate planning department since joining the Company, and has currently assumed the prominent position of director in charge of general planning. He has been nominated as a candidate for Director because of such achievements as listed above.

**Candidate No. Mikito Deguchi****5**

Date of Birth : September 19, 1955

Number of Company shares held: 23,700 shares

**Re-Appointment****Brief profile, positions, responsibilities and significant concurrent positions**

March 1982	Joined the Company	June 2014	Director, Research &
April 2009	General Manager, Research & Development Department		Development, Quality Assurance and Production
June 2011	Executive Officer	June 2015	Director
	General Manager, Research & Development Department		Managing Executive Officer, Research & Development, Quality Assurance and Production
April 2013	Executive Officer		(to present)
	General Manager, Quality Assurance Department		
June 2013	Executive Officer		
	General Manager, Quality Assurance Department		
	General Manager on Special Assignment, Nail Business Department		

**Reasons for nomination as a candidate for Director**

Mr. Mikito Deguchi has been a member of the research & development department since joining the Company, has transferred to the quality assurance department, and has currently assumed the prominent position of director in charge of research & development, quality assurance and production. He has been nominated as a candidate for Director because of such achievements as listed above.

**Candidate No. Kazuhiko Murakami****6**

Date of Birth : April 26, 1958

Number of Company shares held: 16,500 shares

**Re-Appointment****Brief profile, positions, responsibilities and significant concurrent positions**

March 1981	Joined the Company	June 2017	Director
April 2011	General Manager, International Department		Managing Executive Officer
June 2015	Executive Officer		General Manager, International Department
	General Manager, International Department	April 2018	Director
			Managing Executive Officer, International (to present)

**Reasons for nomination as a candidate for Director**

Mr. Kazuhiko Murakami has been a member of the finance department and subsequently the international department since joining the Company, and has currently assumed the prominent position of director in charge of international. He has been nominated as a candidate for Director because of such achievements as listed above.

**Candidate No. Kiichi Suzuki****7**

Date of Birth : May 23, 1949

Number of Company shares held: 13,200 shares

**Re-Appointment****Outside Director****Independent Officer****Brief profile, positions, responsibilities and significant concurrent positions**

April 1973	Joined Mitsui Toatsu Chemicals, Inc.	April 2013	Director of Mitsui Chemicals, Inc. (retired in June 2013)
June 2003	Executive Officer of Mitsui Chemicals, Inc.		Representative Director and Chairman of Mitsui Chemicals Agro, Inc.
April 2007	Managing Executive Officer of Mitsui Chemicals, Inc.	April 2015	Senior Advisor of Mitsui Chemicals Agro, Inc. (retired in June 2017)
June 2007	Managing Director of Mitsui Chemicals, Inc.		
June 2009	Senior Managing Director of Mitsui Chemicals, Inc.	June 2015	Director of the Company (to present)
April 2012	Director Senior Managing Executive Officer of Mitsui Chemicals, Inc.		

**Reasons for nomination as a candidate for Outside Director**

Mr. Kiichi Suzuki is a candidate for Outside Director. He is expected to exercise his excellent judgment on the basis of his extensive experience as a corporate manager in business operations. He has served as Outside Director of the Company for four years.

**Candidate No. Kenji Nishida****8**

Date of Birth : May 5, 1947

Number of Company shares held: 17,600 shares

**Re-Appointment****Outside Director****Independent Officer****Brief profile, positions, responsibilities and significant concurrent positions**

July 1972	Joined Chuo Accounting Firm (retired in May 1982)	June 2001	Auditor of the Company
December 1975	Registered as a Certified Public Accountant	June 2015	Director of the Company (to present)
May 1982	Opened Kenji Nishida Certified Public Accountant Office (to present)		

**Reasons for nomination as a candidate for Outside Director**

Mr. Kenji Nishida is a candidate for Outside Director. He is expected to appropriately perform the duties of Outside Director due to his thorough knowledge of finance and accounting as a certified public accountant with excellent judgment regarding business administration. He has served as Outside Auditor for 14 years and Outside Director for four years.

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- (Notes) 1. There are no special interests between any of the candidates and the Company.
2. The Company has concluded agreements with Mr. Kiichi Suzuki and Mr. Kenji Nishida, which limit their liability for damages, as specified in Article 423, Paragraph 1 of the Company Act, to the amount prescribed in laws and regulations, and will continue to maintain said limited liability agreements with them.
3. Mr. Kiichi Suzuki and Mr. Kenji Nishida satisfy the requirements for independent officers in accordance with the provisions set forth by Tokyo Stock Exchange, Inc. The Company has registered Mr. Kiichi Suzuki and Mr. Kenji Nishida as the Company's independent officers with the Tokyo Stock Exchange.



## Agenda No. 2: Election of One (1) Auditor

The term of office of Mr. Mitsuo Kamimoto as Auditor will expire upon the close of this Ordinary Shareholders' Meeting. Accordingly, the election of one (1) Auditor is proposed.

For the submission of this proposal, the Board of Auditors' consent has been obtained in advance.

The candidate for Auditor is as follows.

<b>Re-Appointment</b>	<b>Mitsuo Kamimoto</b>			
<b>Outside Auditor</b>	Date of Birth : May 21, 1947		Number of Company shares held: 1,600 shares	
<b>Independent Officer</b>	<b>Brief profile, positions and significant concurrent positions</b>			
	October 1970	Joined Tetsuzo Ota Audit Office (now Ernst & Young ShinNihon LLC)	September 2008	Opened Kamimoto Certified Public Accountant Office (to present)
	July 1973	Registered as a Certified Public Accountant	June 2009	Outside Auditor of Elecom Co., Ltd. (retired in June 2017)
	May 1990	Representative Employee of Ota Showa Audit Corporation (now Ernst & Young ShinNihon LLC)	June 2015	Auditor of the Company (to present)
	June 2002	Executive Director and Head of Osaka Office, ShinNihon LLC (now Ernst & Young ShinNihon LLC) (retired in June 2008)		

### Reasons for nomination as a candidate for Outside Auditor

Mr. Mitsuo Kamimoto is a candidate for Outside Auditor. He is expected to appropriately perform the duties of Outside Auditor due to his thorough knowledge of finance and accounting as a certified public accountant with excellent judgment regarding business administration. He has served as Outside Auditor of the Company for four years.

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- (Notes) 1. There are no special interests between the candidate and the Company.
2. The Company has concluded an agreement with Mr. Mitsuo Kamimoto which limits his liability for damages, as specified in Article 423, Paragraph 1 of the Company Act, to the amount prescribed in laws and regulations, and plans to maintain said limited liability agreement with him.
3. Mr. Mitsuo Kamimoto satisfies the requirements for independent officer in accordance with the provisions set forth by Tokyo Stock Exchange, Inc. The Company has registered Mr. Mitsuo Kamimoto as the Company's independent officer with the Tokyo Stock Exchange.

### Agenda No. 3: Election of One (1) Substitute Auditor

The effective tenure of Substitute Auditor Masatoshi Ohara will expire at the opening of this Ordinary Shareholders' Meeting. Accordingly, the election of one new Substitute Auditor is proposed in the event the number of auditors should fall short of the number specified by laws and regulations.

For the submission of this proposal, the Board of Auditors' consent has been obtained in advance.

The candidate for Substitute Corporate Auditor is as follows.

<b>Re-Appointment</b>	<b>Masatoshi Ohara</b>			
<b>Outside Auditor</b>	Date of Birth : April 25, 1951		Number of Company shares held: 0 shares	
<b>Independent Officer</b>	<b>Brief profile, positions and significant concurrent positions</b>			
	April 1979	Registered as attorney at law Joined Kikkawa Sogo Law Offices (currently Kikkawa Law Offices) (to present)	April 2010	Part time lecturer at the Osaka City University’s School of Law (to present)
	August 1986	Registered as an attorney at law in New York, USA	April 2017	Chairman of Osaka Bar Association (retired in March 2018)
	April 2004	Specially appointed lecturer at Osaka City University School of Law (teaching Civil Law) (retired in March 2010)	January 2018	Outside Director, Teijin Frontier Co., Ltd. (to present)

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- (Notes) 1. There are no special interests between the candidate and the Company.
2. Mr. Masatoshi Ohara is a candidate for Substitute Outside Auditor. Mr. Masatoshi Ohara is expected to appropriately perform the duties of Outside Auditor due to his thorough knowledge of legal affairs, including corporate law, as an attorney with excellent judgment regarding business administration.
3. Should Mr. Masatoshi Ohara take office as Outside Auditor, the Company will conclude an agreement with him which limits his liability for damages, as specified in Article 423, Paragraph 1 of the Company Act, to the amount prescribed in laws and regulations.
4. Mr. Masatoshi Ohara satisfies the requirements for independent officer in accordance with the provisions set forth by Tokyo Stock Exchange, Inc. Should Mr. Masatoshi Ohara take office as Outside Auditor, the Company will register him as independent officer with the Tokyo Stock Exchange.
5. Mr. Masatoshi Ohara is scheduled to be appointed (Outside) Director of Sawai Pharmaceutical Co., Ltd., on June 25, 2019.

#### **Agenda No. 4: Decision on Compensation for the Granting of Shares with Restrictions on Transfer to Directors**

The amount of compensation, etc. for directors of the Company was approved for up to 300 million per year (up to 30 million for outside directors) at the 143rd Ordinary Shareholders' Meeting held on June 25, 2015, however, with the objective of giving the directors of the Company (excludes outside directors; hereinafter referred to as "Subject Directors") an incentive to sustainably improve the corporate value of the Company, and to further promote the sharing of value between directors and shareholders, approval is requested for the payment of compensation to the Subject Directors for the new granting of shares with restrictions on transfer, outside of the compensation limit described above.

Furthermore, in the event of the introduction of this system being approved at this Ordinary Shareholders' Meeting, it is planned to cancel the new issuance of the existing stock compensation-type stock options, and to no longer issue stock acquisition rights as stock compensation-type stock options.

The total amount of monetary compensation to be paid for the granting of shares with restrictions on transfer to the Subject Directors based on this agenda item shall be up to 50 million yen per year, at an amount deemed suitable based on the objectives described above.

In addition, the Subject Directors, based on the resolution of the Board of Directors of the Company, shall transfer the full amount of the monetary compensation claims arising from this agenda item as property contributed in kind, and shall receive the issuance or disposal of common shares of the Company in return. The total number of ordinary shares issued or disposed through this shall be no greater than 50,000 shares per year (however, after the date of the resolution on this agenda item, in the event of a stock split [includes allotments of shares without contribution] or stock consolidation being performed on the ordinary shares of the Company, or similar such action, and the maximum number of shares needing to be adjusted in conjunction with this, this maximum number of shares may be adjusted within a reasonable range), and the paid-in amount per share shall be closing price of ordinary shares of the Company on the Tokyo Stock Exchange on the business day prior to the date of the respective resolution of the Board of Directors (if no transactions were executed on that day, the closing price on the most recent trading day prior to this). The specific timing of payment and allocation for each Subject Director shall be determined by the Board of Directors. Furthermore, as of the time of this Ordinary Shareholders' Meeting, there are six Subject Directors.

At the time of the issuance or disposal of common shares of the Company through the above, a contract on the allotment of shares with restrictions on transfer shall be executed between the Company and the Subject Directors, which shall include the content summarized below (hereinafter referred to as "the Allotment Agreement").

##### **(1) Transfer Restriction Period**

The Subject Directors will not be permitted to transfer, pledge as collateral, or dispose in any other matter (hereinafter referred to as "Transfer Restrictions") of the ordinary shares of the Company received through an allotment under the Allotment Agreement (hereinafter referred to as "the Allotted Shares"), for a period of 30 years (hereinafter referred to as "Transfer Restriction Period").

**(2) Release of the Transfer Restrictions**

The Company, on the condition that the Subject Directors have remained in a position as director or executive officer of the Company throughout the Transfer Restriction Period, shall release the Transfer Restrictions for all of the Allotted Shares upon the expiration of the Transfer Restriction Period. However, the number of the Allotted Shares for which the Transfer Restrictions are to be released, as well as the timing of the release of the Transfer Restrictions, in cases where a director has lost their position as director or executive officer prior to the expiration of the Transfer Restriction Period due to valid reason, shall be determined pursuant to the provisions separately prescribed in the Allotment Agreement.

**(3) Acquisition of the Allotted Shares Without Charge**

In the event of a certain ground prescribed in the Allotment Agreement being applicable, such as if a Subject Director has left their position prior to the expiration of the Transfer Restriction Period due to any reason not constituting a valid reason, the Company shall acquire the Allotted Shares without charge as a matter of course.

In addition, the Company, at the time the Transfer Restriction Period has expired, shall acquire the Allotted Shares for which the Transfer Restrictions have not been released pursuant to the provisions of (2) above without charge and as a matter of course.

**(4) Handling in the Case of Organizational Restructuring, Etc.**

Notwithstanding the provisions of (1) above, the Company, during the Transfer Restriction Period, in the event of a Shareholders' Meeting of the Company having approved a merger agreement in which the Company will be the absorbed company, a share exchange agreement in which the Company will become a wholly owned subsidiary, share transfer plan, or other matter relating to organizational restructuring, etc. (however, in the case of such an organizational restructuring, etc. not requiring approval by a shareholders' meeting, the Board of Directors of the Company), by resolution of the Board of Directors of the Company, prior to the effective date of such an organizational restructuring, etc. shall release the Transfer Restrictions for the Allotted Shares to a number reasonably prescribed based on the period from the start date of the Transfer Restriction Period until the effective date of the organizational restructuring, etc. In addition, in such a case, immediately after the release of the Transfer Restrictions, the Company shall acquire free of charge, and as a matter of course, the Allotted Shares for which the Transfer Restrictions have not been released.

**(5) Other Matters to be Prescribed by the Board of Directors**

In addition to the above, the method of manifestations of intent and notifications in the Allotment Agreement, the method for amending the Allotment Agreement, as well as other matters to be prescribed by the Board of Directors, shall be set forth in the Allotment Agreement.

Furthermore, the shares to be allotted to the Subject Directors under this System, in order to ensure that these cannot be transferred, pledged as collateral, or disposed of by other means during the Transfer Restriction Period, are planned to be deposited in a dedicated account opened by the Subject Directors with Nomura Securities Co., Ltd., and to be maintained in said account for the entirety of the Transfer Restriction Period.

**Agenda No. 5: Continuation of Policy on Countermeasures to Large-scale Purchases of the Company's Shares, etc.**

The Company established the policy related to countermeasures in response to a large-scale purchases of the Company's shares, etc. (\*3) by specific shareholding groups (\*1) with the aim of obtaining an over-20% share of voting rights (\*2), or any purchases which would effectively give a specific shareholding group more than a 20% share of voting rights (this policy does not distinguish between methods of obtaining such shares, whether it be through market transactions, public tenders and offerings, or other methods, but excludes acquisitions by a party that has been approved beforehand by the Board of Directors of the Company. In the following paragraphs, share purchases which meet the definition above are referred to as "Large-Scale Purchases" and the parties engaging in the activity are referred to as "Large-Scale Purchasers.")). The aforementioned policy (hereinafter, the "Existing Policy") were approved, and remain in effect until the conclusion of this Annual Ordinary Shareholders' Meeting.

In Agenda No. 5, the Company would propose for shareholders' approach that it extend Existing Policy to address such large-scale purchases, albeit with some changes in the content of the countermeasures (hereinafter referred to as the "Policy"), based on Article 40 of the Company's Articles of Incorporation.

The proposed changes include the addition of "in the event of the Board of Directors of the Company deeming the required information received from the Large-Scale Purchaser to be insufficient, upon setting a maximum deadline of 60 days when requesting the provision of additional information," as well as the introduction of some essential corrections and revisions to the wording of the Existing Policy.

Please note that the names and abbreviated CV of members of the Corporate Value Evaluation Committee at the time of the continuation of the Policy are provided separately, in "Attachment 1."

Notes:

1. The specific shareholding groups covered by this policy are defined as follows:
  - (i) A holder (includes the parties included as holders under Article 27-23, Paragraph 3 of the Financial Instruments and Exchange Act; hereinafter the same shall apply) of share certificates, etc., of the Company (as defined in Article 27-23, Paragraph 1 of the Act), as well as any joint holders (as defined in Article 27-23, Paragraph 5 of the Act, including those deemed to be joint holders pursuant to Paragraph 6 of the same Article; hereinafter the same shall apply); or
  - (ii) A party who purchases, etc. (refers to purchases, etc. as defined in Article 27-2 Paragraph 1 of the Financial Instruments and Exchange Act, on a securities exchange, regardless of whether by public auction or other means), share certificates, etc. of the Company (refers to share certificates, etc. as defined in Article 27-2, Paragraph 1 of the Act), as well as any specially related parties (as defined in Article 27-2, Paragraph 7 of the Act).
2. Percentage of voting rights is defined as follows:
  - (i) When the "specific shareholding group" falls under the definition outlined in Note 1, section (i) above, the percentage of shares (as defined in Article 27-23, Paragraph 4 of the Financial Instruments and Exchange Act) that is held by the specific shareholding group. The number of shares held by joint holders (as defined in said Paragraph, above) shall be added.
  - (ii) When the "specific shareholding group" falls under the definition outlined in Note 1, section (ii) above, the percentage of the sum of shares, etc. held by the large-scale purchaser and shares, etc. held by any specially related parties (as defined in Article 27-2, Paragraph 8 of the Financial Instruments and Exchange Act).

In calculating the shareholding ratio, the most recent issue of the Company's annual securities report, quarterly business report, or treasury stock purchase report (whichever was published most recently) shall be used to determine the total number of voting rights (as defined in Article 27-2, Paragraph 8 of the Financial Instruments and Exchange Act) or the total number of outstanding shares (as defined in Article 27-23, Paragraph 4 of the Act).
3. "Shares, etc." is defined in Article 27-23, Paragraph 1 of the Financial Instruments and Exchange Act.

**I Reasons for the Proposal**  
**1. The Source of Corporate Value**

Since the Company was founded, in 1922, its underlying business philosophy has been the “Contribution to dentistry through innovative business activities.” The Company has worked on the development of materials and machines used in dental treatments and techniques, and has expanded its business areas under the motto of providing products that are ahead of their time and contributing to the improvement of dental care. The Company and its corporate group (hereinafter, “the Shofu Group”) have strived to ensure and enhance the Shofu Group’s value as well as the common interests of shareholders.

The source of corporate value at the Shofu Group is based on: (1) R&D capabilities and new product development skills, (2) a business network and infrastructure that supports R&D efforts, (3) production technology and quality assurance that can cover a vast assortment of individual products in relatively small production runs, (4) top-quality, highly motivated employees, and (5) the Shofu Group dedication to supporting medical care as a part of everyday life.

In addition to preserving the safety and effectiveness of dentistry materials and dental equipment as medical equipment, the Company is required to achieve a balance in which its products have enhanced clinical functionality in order to reduce the burden on patients, while maintaining aesthetics that are closest to nature, as well as to consider economic factors due to the fact that a large percentage of Company products are approved for use by the National Health Insurance program.

In order to research and develop such products, it is essential for the Company to not only pursue developments on its own, but also to effectively integrate a broad network of relationships with dentistry stakeholders, including dentists, dental technicians, and dental hygienists, as well as research facilities, that can inform the Company’s own member organizations of training facilities that have introduced the highest level of research equipment in the dental industry, product information, and information on medical technology, etc. and through this, will be able to demonstrate creativity. These research and development capabilities and new product development capabilities, which have been accumulated since the foundation of the Company through research in partnership with researchers and educational institutions, as well as the network and infrastructure to support research and development, are the wellspring of all corporate value for the Shofu Group.

The products and equipment used in the dental industry need to be customized to the exact needs of each individual patient. This means that quality control is extremely important for each individual product that is created from the vast assortment of items. In addition, at the same time, as a company that deals in medical equipment, the Company is responsible for meeting a variety of regulations and ensuring the safety and effectiveness of all its products, as well as quality. The Shofu Group has accumulated a great deal of knowhow since its establishment, and its exceptional employees have an insatiable thirst for the pursuit of the latest equipment and preserving the effectiveness and beauty of people’s own natural teeth. This experienced work force is one of the Shofu Group’s most valuable assets, allowing us to provide people worldwide with the most effective, safe, and high-quality products possible.

As a major contributor to the dental profession, which helps to maintain the “gateway to health” for people around the world, the Shofu Group takes its social responsibility very seriously, and the need to earn the reliance and trust of the public is a constant management concern. The Shofu brand is as highly respected as any listed company in the sector, having established a track record for results in the dental industry over a period of many decades. The Shofu Group believes that through this, it has built an unshakeable relationship of trust with shareholders, business associates in Japan and overseas, and all of its other stakeholders as well. This foundation of trust underlies every licensed outlet the Shofu Group operates in Japan and every office in our overseas network. As one of the leading companies in the industry, the Shofu Group has established a solid distribution network that provides the most advanced dental materials and equipment to customers in Japan and abroad. Furthermore, using the technological base it has developed in the dental sector, the Shofu Group has also expanded aggressively into related fields such as nail care materials and industrial abrasives.

To help people around the world maintain their beautiful smiles with healthy white teeth, the Shofu Group will continue to contribute a wide range of products to support the dental health care and dentistry industries, while maintaining and improving a solid operational base that can continue to win the trust of society. In this way, the Shofu Group aims to increase its corporate value and deliver the maximum value to the common interests of shareholders.

## **2. Basic Policies Regarding the Parties Controlling Decisions on the Company's Financial and Business Policies**

The Board of Directors of the Company believes that, as a publicly listed company, the Company's shares must be subject to free buying and selling activity, and that it is the shareholders themselves who are ultimately responsible for deciding whether or not to agree to a large-scale purchase of shares by a specific party.

Nevertheless, as an international manufacturer of dental materials, a contributor to dental health not only in Japan but worldwide, and a company that contributes to the health and appearance of countless individuals, the Company has a certain social responsibility which demands that the Company manage its material and virtual resources in a responsible manner, and consider the possible future impact of all management decisions. It is essential that management keep in mind the importance of preserving and continuously enhancing all elements of corporate value. This implies the need for a medium to long-term perspective, which considers the effect of all activities that could have an impact on the resources that underlie the Shofu Group's corporate value. If the people who are entrusted with the role of determining financial and business policies do not maintain such a comprehensive, mid- to long-term perspective, there is a danger that they might make decisions that could weaken corporate value, and thus damage the interests of all those who are stakeholders in the Shofu Group companies.

The Company's IR efforts are intended to ensure that the shares of the Company are always priced appropriately and offer shareholders and investors a proper level of value. However, when a particular investor or group sets out to suddenly purchase a large stake in the Company, the provision of appropriate and sufficient information by both the purchaser and the Company's Board of Directors is essential in order for the shareholders to make an appropriate decision in a short period of time on the permissibility of the large-scale purchase by the large scale investor or group, including whether or not the purchase price for the Company's shares presented by the buyer is appropriate. Furthermore, a sudden large-scale purchase or takeover of the Company will necessarily affect those investors who intend to maintain their shares in the Company over the longer term. If a buyer intends to acquire enough of a stake to take part in the Shofu Group management decisions, it is vital that they disclose their management policies and business plans for the Company, and allow the Board of Directors of the Company to present its response, as these are important materials for helping investors decide whether or not to continue holding the Company's shares.

Based on these considerations, the Company has established a basic set of rules governing the actions of large-scale purchasers (hereinafter to be known as the "Rules on Large-Scale Purchases"; details are provided in Section II, below), which will allow all shareholders to make informed decisions on any such purchase. The proposed rules dictate that large-scale purchasers must provide the Board of Directors of the Company with necessary and sufficient information on their intentions, prior to any such purchase, and to give the Board adequate time to evaluate this information. The rules also ensure that the Board of Directors and/or the Ordinary Shareholders' Meeting would have time to decide upon countermeasures, such as the issuance of stock acquisition rights. Only after this process has been completed should the large-scale purchaser start acquiring shares of the Company.

## **II Contents of the Proposal (Measures to Prevent Company's Financial and Business Policies from Being Controlled by Parties who are Inappropriate in Light of Basic Policies on Corporate Control)**

As discussed in Section I, above, this proposal outlines a basic policy (Basic Policy on Corporate Control) for dealing with share acquisitions that would allow a given party to influence the Company's financial and/or management policies, and it lays down a coherent set of rules to govern behavior whenever a large-scale purchaser decides to acquire a stake in the Company (Rules on Large-Scale Purchases). It also lays out the actions that the Company shall take in cases where the purchaser abides by the rules, as well as in cases where the purchaser fails to abide by the rules, to ensure that an inappropriate party under the Basic Policy on Corporate Control is prevented from having any control over decisions on the Company's financial and/or management policies.

### **1. The necessity for Maintaining the Policy**

As noted in Section I, above, if a Large-Scale Purchaser intends to make a Large-Scale Purchase of the Company shares, it is our view that this "Large-Scale Purchaser" should give other shareholders in the Company a chance to make an informed decision on whether their plans are beneficial to the Company. Accordingly, as required under the Rules for Large-Scale Purchases prescribed by the Company, the purchaser should provide the Board of Directors with necessary and sufficient information to evaluate the purchaser's intentions prior to the purchase, give the Board a certain period of time to evaluate these plans, and allow the Board or a shareholders' meeting to decide whether or not to take countermeasures such as issuance of stock acquisition rights. Only after this process has been completed should the Large-Scale Purchaser proceed in acquiring shares.

For its part, after receiving such information, the Company's Board of Directors shall proceed as quickly as possible to evaluate and consider the purchaser's plans, by seeking the advice of outside experts including financial advisors, certified public accountants, lawyers and consultants (Outside Experts). The Board will ensure that their views are compiled and made public. Furthermore, if it is deemed necessary, the Board of Directors shall hold negotiations with the Large-Scale Purchaser towards the improvement of their plans, or shall provide shareholders with alternative proposals. By following this procedure, the Company can ensure that shareholders are able to consider the views of the Board of Directors, to evaluate the Large-Scale Purchaser's plans as well as the Company's alternative proposals (if any). Thus, existing shareholders will have an opportunity to make an informed decision on whether or not to allow the Large-Scale Purchaser to proceed with their Large-Scale Purchase.

The proposal lays out the basic policies governing the Board of Directors' actions depending upon whether or not the prospective purchaser complies with the Rules for Large-Scale Purchases. The Company hereby proposes continuation of the Policy as measures to deal with Large-Scale Purchase conducted by parties who are inappropriate to control the Company in light of Basic Policy on Corporate Control

### **2. Establishment of a Corporate Value Evaluation Committee**

To ensure that the Policy is applied properly, and to prevent arbitrary decisions by the Board of Directors, the Company shall establish a Corporate Value Evaluation Committee. This Committee shall consist of at least three members who shall be selected from among the Company's Outside Directors and Outside Auditors, or other knowledgeable outside experts (\*4), who are independent from the management team executing the business of the Company, in order to ensure that the Committee is able to make fair and unbiased decisions. A summary of the Corporate Value Evaluation Committee is provided in Attachment 2.



The advice of the Corporate Value Evaluation Committee shall be sought, and its opinions given the utmost consideration by the Board of Directors, whenever the Board faces key decisions relating to the invocation of the Policy. This includes:

- Decisions on whether or not the Large-Scale Purchaser has abided by the Rules on Large-Scale Purchases (see Section II, 4. (1), below);
- Decisions on whether the period of time for the Board to consider purchase plans should be extended (see Section II, 3. (2), below);
- Decisions on whether corporate value will be adversely affected, and whether or not the common interests of existing shareholders will be significantly damaged by the Large-Scale Purchase (see Section II, 4. (2) a., below); and
- Decisions on whether or not to implement, alter, or terminate countermeasures (see Section II, 4. (1) – (4), below).

In addition, if the Corporate Value Evaluation Committee deems that the Large-Scale Purchaser will not adversely affect corporate value, and will not significantly damage the common interests of existing shareholders, it may recommend that the Large-Scale Purchaser's plans do not need to be discussed by a Ordinary Shareholders' Meeting, or recommend to the Board of Directors that countermeasures such as the issuance of stock acquisition rights are not necessary (see Section II, 4. (2) b., below). The Board of Directors shall give the utmost consideration to these recommendations.

When necessary, the Corporate Value Evaluation Committee shall recommend that additional views and opinions be sought from sources, including Outside Experts, independent of both the Board and the Corporate Value Evaluation Committee. When such views are sought, the Company shall bear the expense of obtaining such views, except in extraordinary instances where the request for additional opinion is deemed inappropriate.

All meetings of the Corporate Value Evaluation Committee shall, in principle, take place only when all members are present, and shall make decisions on the basis of majority vote. However, in the event that a member of the Corporate Value Evaluation Committee is incapacitated or unavoidably prevented from taking part, meetings of the Corporate Value Evaluation Committee may be conducted with a majority of members present, and decisions may be made on the basis of that majority.

Notes:

4. "Outside experts" refers to corporate executives with extensive past management experience, those with an intimate knowledge of investment banking, lawyers, certified public accountants, academics who specialize in the Companies Act and related subjects, or individuals of equivalent standing and expertise.

### **3. Rules on Large-Scale Purchases**

#### **(1) Provision of Information**

The Rules on Large-Scale Purchases prescribed by the Company require that the Large-Scale Purchaser (i) provide the Board of Directors with necessary and sufficient information concerning the Large-Scale Purchase prior to such purchase; (ii) give the Board of Directors a certain period of time to evaluate the purchase plans; and (iii) allow the Board of Directors or the Ordinary Shareholders' Meeting to make a decision on countermeasures, such as the issuance of stock purchase rights, before commencing the Large-Scale Purchase.

Specifically, to comply with the Rules on Large-Scale Purchases, the Large-Scale Purchaser shall submit a "letter of intent" to the Representative Director of the Company, specifying the name and address of the purchaser, the law/jurisdiction governing the purchaser's incorporation, the name of the purchaser's Representative, the purchaser's contact address in Japan, and a summary of the Large-Scale Purchase being proposed. In addition, they shall provide necessary and sufficient information (hereinafter, "Necessary Information") for the Board of Directors to form an opinion on the purchase, and for the Company's shareholders to make an informed decision on whether to allow the purchase to proceed.

Within 10 business days after the receipt of this "letter of intent," the Board of Directors shall present the Large-Scale Purchaser with an initial list of the Necessary Information. After examining this initially provided information, if the Board of Directors deems the information provided to be insufficient to permit an informed decision, the Board shall request the Large-Scale Purchaser to present additional information, until such time as the purchaser has fully complied with the requirement to provide Necessary Information.

However, from the perspectives of expediting the provision of information by the Large-Scale Purchaser, and avoiding arbitrary imposition of the rules, such as the Board of Directors endlessly seeking the provision of information, the period during which the Large-Scale Purchaser shall respond to requests by the Board of Directors for the provision of Necessary Information (Information Provision Period) shall be set at a maximum of 60 days from the day following the day on which the list of Necessary Information was issued to the Large-Scale Purchaser. Even in the event of the Necessary Information not being sufficiently provided, if the Information Provision Period has expired, discussions with the Large-Scale Purchaser concerning the provision of information shall end at that point in time, and the Board of Directors shall begin its examination using the information provided until then.

The list below itemizes the general items required as Necessary Information. The list below is subject to change depending upon the characteristics of the Large-Scale Purchaser, and purpose or intent of the Large-Scale Purchase.

- 1) An overview of the Large-Scale Purchaser (including information on the nature of the purchaser's business, capital structure, and past experience in businesses similar to those conducted by the Shofu Group) as well as on members of the Large-Scale Purchaser's group associates (including Joint Holders and Specially Related Parties, and fund participants, etc. in the case of an investment fund).
- 2) The objectives and nature of the Large-Scale Purchase (including the intended amount, type or value of securities to be purchased, the timing of the purchase, structure of related transactions, legality of the purchase and feasibility of purchase, including related transactions, etc.).
- 3) The basis for calculating the appropriate value of the shares of the Company to be purchased, and the amount of financial resources backing the purchase (including the names of specific financial backers [particularly those providing substantial financial backing], the method of financing, and the nature of any related transactions).
- 4) The specific names of any management candidates that the purchaser intends to nominate as members of the Shofu Group's management team (including their past experience in businesses related to those engaged in by the Shofu Group), and any plans or intentions the Large-Scale Purchaser has relating to management policies, business plans, financial plans, capital policies, dividend payout policies, utilization of assets, etc.
- 5) Any plans or intentions that might alter the basic substance of the Shofu Group's relations with business partners, customers, employees or other stakeholders, after the Large-Scale Purchase is finalized.

The Board of Directors of the Company will disclose information on the Large-Scale Purchase, including the fact that a Large-Scale Purchase was proposed and that the Large-Scale Purchaser provided the Necessary Information to the Board of Directors, in full or in part, to its shareholders if the Board deems it necessary for the shareholders to make a decision on the matter, at a time that the Board deems most appropriate.

## **(2) Board of Directors Assessment Period**

Based on the difficulty of assessing the proposed Large-Scale Purchase, the Board of Directors of the Company will set a specific period of time to review and consider the Necessary Information, evaluate the intended purchase, negotiate, prepare the Board's official statement of opinion, and prepare any alternative proposals. This period (hereinafter referred to as the "Board Assessment Period") shall be set at 60 days (when the Company's shares will all be acquired via public trading on a stock exchange, and paid for at yen-denominated face value, in cash) or 90 days (in cases where the details of the planned purchase differ from those described above). Furthermore, once the provision of the Necessary Information has been completed, or once the Information Provision Period has expired, the Board shall promptly disclose this fact, as well as the date of conclusion of the Board Assessment Period.

During the Board Assessment Period, the Board of Directors shall work in consultation with the Corporate Value Evaluation Committee to thoroughly assess and consider the Necessary Information provided, and will seek advice from Outside Experts as needed. After this assessment, and giving the utmost consideration to the opinions and recommendations of the Corporate Value Evaluation Committee, the Board shall carefully formulate its opinion, and release it to the public. If necessary, the Board of Directors may negotiate terms with the Large-Scale Purchaser in order to improve the conditions of the Large-Scale Purchase, or may formulate an alternative proposal to be presented to the Company's shareholders.

Furthermore, if the Board of Directors is unable to obtain a clear recommendation from the Corporate Value Evaluation Committee within the Board Assessment Period on whether or not to introduce countermeasures, or whether or not to call a Ordinary Shareholders' Meeting, and therefore is unable to make a decision on such matters within the Board Assessment Period, the Board may extend the Period to the extent necessary, limited to 30 days, based on the recommendation of the Corporate Value Evaluation Committee. In the event that it does decide to extend the Board Assessment Period, in accordance with the pertinent laws and market regulations governing financial products, it shall immediately disclose this fact to its shareholders, providing detailed reasons for the extension, and the precise number of additional days chosen for the extension.

### **(3) Decision by the Ordinary Shareholders' Meeting**

The Corporate Value Evaluation Committee shall advise the Board of Directors whether or not to propose countermeasures including the issuance of stock acquisition rights, and submit it to a vote at a Ordinary Shareholders' Meeting. Exceptions to this procedure may be made if: (i) countermeasures are already advisable, because the Large-Scale Purchaser failed to observe the Rules on Large-Scale Purchases; (ii) countermeasures are already advisable because the Large-Scale Purchase would erode corporate value and significantly damage the common interests of existing shareholders, for the reasons outlined in Section II, 4, (2), a., (a) or (b); or (iii) the Corporate Value Evaluation Committee has evaluated the Large-Scale Purchaser's plans for a Large-Scale Purchase, and decided not to recommend the taking of such countermeasures. In such a case, the Board of Directors shall convene a shareholders' meeting and introduce the issuance of stock acquisition rights or other countermeasures as an agenda, and the item shall be dealt with at the shareholders' meeting via the process outlined below.

According to the Companies Act, the stance of shareholders in the Company is to be confirmed by resolution of a Ordinary Shareholders' Meeting (hereinafter, the "Ordinary Shareholders' Meeting"). It is the Company's intention to make a decision on the response to a Large-Scale Purchase, including the issue of whether or not to take countermeasures, on the basis of the voting results at the Ordinary Shareholders' Meeting. After receiving the Necessary Information presented by the Large-Scale Purchaser, or after the expiration of the Information Provision Period, the Board of Directors shall convene the Ordinary Shareholders' Meeting to put the issue to a vote, as necessary. The Board shall act as quickly as possible to establish a date of record (hereinafter, the "Date of Record") to govern those eligible to vote at the Ordinary Shareholders' Meeting, and shall publicize this date in accordance with the method outlined in the Company's Articles of Incorporation, at least two weeks prior to the Date of Record.

- 1) Shareholders who have the right to vote on the issue at the Ordinary Shareholders' Meeting shall be those listed on the most recent shareholders register as of the Date of Record.
- 2) The vote at the Ordinary Shareholders' Meeting shall be held in accordance with the rules laid out in the Companies Act and Article 41 of the Company's Articles of Incorporation. At least one-third of all voting rights must be represented by the shareholders present, in order for the vote to be valid, and the decision shall be based on a majority of voting rights held by the shareholders present.
- 3) Any members of the specific shareholding group shall not begin to acquire shares in the Company until after the conclusion of the Ordinary Shareholders' Meeting.

4) In the event of substantive changes to the information, etc. to be used by shareholders to make a decision at the Ordinary Shareholders' Meeting, even if the changes occur after the Date of Record has been set, the Date of Record may be changed, or the Ordinary Shareholders' Meeting may be postponed or cancelled at the discretion of the Board of Directors.

#### **4. Policy towards Large-Scale Purchases**

##### **(1) In Cases Where the Large-Scale Purchaser Fails to Comply with the Rules on Large-Scale Purchases**

If the Large-Scale Purchaser fails to observe the Rules on Large-Scale Purchases, regardless of the manner in which the shares are purchased, the Board of Directors may issue stock acquisition rights or take any other countermeasures that are permissible under the Companies Act and any related regulations as well as the Company's Articles of Incorporation, to defend against the Large-Scale Purchaser's actions, preserve the corporate value of the Company, and protect the common interests of existing shareholders. When determining whether or not the Large-Scale Purchaser has violated the Rules on Large-Scale Purchases, and whether or not to take countermeasures, the Board shall seek the advice of Outside Experts and shall give the utmost consideration to recommendations by the Corporate Value Evaluation Committee.

The Board of Directors shall select the specific countermeasures to be taken based on their informed judgment of what course of action is most appropriate, at the time. An example of countermeasures that might be taken, in the form of stock acquisition rights distributed to shareholders as a free distribution, is provided in Attachment 3. However, the Board may, if it so chooses, decide to place specific conditions on the exercise of these rights or the valid exercise period, in order to enhance their effectiveness; for example, by requiring that the shareholder demonstrate that they do not belong to a specific shareholding group that holds a substantial percentage of voting shares, before they may exercise the stock acquisition rights.

##### **(2) In Cases Where the Large-Scale Purchaser Complies with the Rules on Large-Scale Purchases**

###### **a. Principles**

So long as the Large-Scale Purchaser complies with the Rules on Large-Scale Purchases, even if it is opposed to the Large-Scale Purchase, the Board of Directors of the Company shall not, in principle, take any countermeasures against the Large-Scale Purchaser without the resolution of an Ordinary Shareholders' Meeting, and shall retain the obligation to provide an explanation so that the shareholders can make the most appropriate decision, such as by expressing dissenting opinions to the Tender Offer and presenting alternative proposals. The final decision on whether or not to implement countermeasures against the Large-Scale Purchase shall be made by the shareholders at the Ordinary Shareholders' Meeting, after duly considering the Large-Scale Purchaser's proposal, the Board of Director's opinion of the proposal, or any alternative proposals.

There are circumstances under which the Board of Directors may determine that, even though the Large-Scale Purchaser has complied with the Rules on Large-Scale Purchases, the proposed Large-Scale Purchase will erode corporate value and significantly damage the common interests of shareholders, and that it is therefore appropriate to take countermeasures in order to protect corporate value and the common interests of shareholders. Below are some examples of situations in which a Large-Scale Purchase would, in principle, erode corporate value and significantly compromise the interests of existing shareholders. If it deems that such exceptional circumstances may exist, the Board of Directors shall do its utmost to make an objective and reasonable decision on how to respond. To this end, it shall consider nature of Large-Scale Purchaser, specific substance of the Large-Scale Purchase and effect of the Large-Scale Purchase on the corporate value and common interest of shareholders, based on the Necessary Information provided by the Large-Scale Purchaser, including the proposed basic management policies after purchase, and the advice of Outside Experts. In deciding whether or not to implement countermeasures, the Board of Directors shall give utmost consideration to the recommendations of Corporate Value Evaluation Committee.

(a) If the intent of the Large-Scale Purchaser involves any of the actions stated in (1) to (4) below, it would clearly and seriously affect the corporate value of the company, and infringe the common interests of existing shareholders.

1) The purchaser intends to acquire a substantial share of Company stock and then demand that the Company repurchase the shares at a higher price.

2) The purchaser intends to use their temporary influence on the Company operations to acquire some of the Company's assets at a reduced cost, or otherwise realize a gain for the purchaser, to the detriment of the Company itself.

3) The purchaser plans to divert the assets of the Company and use them as security for, or as a means to repay, debts owed by the purchaser or the purchaser's group affiliates.

4) The purchaser intends to use their temporary influence over the Company operations to engage in activities that are not connected with core business, such as selling off valuable assets owned by the Company, in order to temporarily boost profits and then distribute the inflated profit amount as dividends, for the purpose of either profiting from the dividends, or driving up the price of the Company's shares in order to re-sell the purchaser's shares at a profit.

(b) Common interests would be infringed if the purchaser plans to conduct coercive, two-tiered tender offers (offers to acquire shares in which the conditions for the second purchase are clearly less advantageous than the first, or where the

conditions for the second purchase are not specified) or any other plans that would effectively pressure shareholders to sell their shares.

**b. Recommendations to Forego Countermeasures**

The Corporate Value Evaluation Committee shall review and evaluate the information provided by the Large-Scale Purchaser regarding the Large-Scale Purchase. If, after considering the matter, the Committee determines that the Large-Scale Purchase will not have an adverse effect on corporate value or the common interests of shareholders, and that the fact of this Large-Scale Purchase need not be deliberated by a Ordinary Shareholders' Meeting, the Committee shall recommend that the Board of Directors not pursue any countermeasures. This recommendation shall be provided regardless of whether or not the Board Assessment Period is complete.

On the other hand, if there are any changes in the related facts, etc. of the purchase after it has provided this recommendation to forego countermeasures, the Committee may withdraw this recommendation, and provide a different recommendation.

**(3) Resolution by the Board of Directors**

Unless there is some special and/or obvious reason why such a decision would run counter to the Board of Directors' duty to uphold due care of management, the Board shall make its decision on whether or not to implement countermeasures such as the issuance of stock acquisition rights as an organ under the Companies Act, on the basis of the vote taken at the Ordinary Shareholders' Meeting, and after giving the utmost consideration to recommendations by the Corporate Value Evaluation Committee, making the decision without delay.

After the Board has made its decision, in accordance with laws and regulations and rules of the relevant financial instruments exchanges, it shall disclose both a summary of the facts surrounding the decision and any other details that the Board views as appropriate, in a timely and appropriate manner.

**(4) Suspension or Termination of Countermeasures**

If, after the Board and/or the Ordinary Shareholders' Meeting have made a decision to implement countermeasures, the Board of Directors should determine that conditions have changed to the extent that countermeasures are no longer necessary (for example, if the Large-Scale Purchaser withdraws or alters their plan to make a Large-Scale Purchase), the Board may decide to alter or cancel the countermeasures, after giving the utmost consideration to recommendations by the Corporate Value Evaluation Committee.

For example, if the Large-Scale Purchaser withdraws or alters their plan to make a Large-Scale Purchase after the Board has approved a free distribution of stock acquisition rights, and the Board determines that the countermeasures are no longer necessary, it may cancel the free distribution, even if those shareholders who are entitled to receive a free distribution have already been identified. This suspension of countermeasures may be implemented as follows:

1) If the decision is made prior to the free allocation of the stock acquisition rights, the Board of Directors may, based on the recommendations of the Corporate Value Evaluation Committee, cease the free allocation of the rights.

2) If the decision is made after the free allocation of stock acquisition rights, but prior to their exercise date, the Board of Directors may, based on the recommendations of the Corporate Value Evaluation Committee, re-acquire the rights gratuitously.

In either case, the Board of Directors shall disclose information on the details of suspension of the countermeasures, to the extent recommended by the Corporate Value Evaluation Committee.

## **5. Influence on Shareholders and Investors**

### **(1) Influence of the Rules on Large-Scale Purchases, on Shareholders and Investors**

The objective of the Rules on Large-Scale Purchases is to ensure that, if a Large-Scale Purchaser is contemplating a Large-Scale Purchase, the existing shareholders receive sufficient information to make an informed decision on whether or not to accept the purchase. It also ensures that the shareholders are aware of the Company's Board of Directors' consensus opinion on the purchase, and are presented with any alternative plans or proposals. The Board of Directors believes that these Rules are necessary to protect the corporate value, and the common interests of its shareholders, by ensuring that the existing shareholders have sufficient information to make an appropriate decision on whether or not to accept the Large-Scale Purchase. In short, the Company believes that the Rules on Large-Scale Purchases are in the best interests of shareholders and investors, because it ensures that they are able to make informed investment decisions.

As explained in Section II, 4. above, please note that the Company's policy decisions and response to a Large-Scale Purchaser will differ depending upon whether or not the Large-Scale Purchaser complies with the Rules on Large-Scale Purchases. This fact provides shareholders and investors with necessary information on the acts of the Large-Scale Purchaser.

## **(2) Influence of Countermeasures on Shareholders and Investors**

If a Large-Scale Purchaser fails to observe the Rules on Large-Scale Purchases, the Board of Directors may take any countermeasures that are permissible under the Companies Act, the Company's Articles of Incorporation and other regulations, for the purpose of protecting corporate value and the common interests of shareholders. However, given the form and structure of the countermeasures, the Company believes that their implementation will not cause any legal or economic damage to existing shareholders (with the exception of shareholders who are themselves involved in the Large-Scale Purchase that the countermeasures are intended to address, or are members of the Large-Scale Purchaser's shareholding group). If and when the Board of Directors of the Company decides to implement any specific countermeasures, it shall disclose the information in a timely and appropriate manner, in accordance with laws and regulations, as well as the rules of the applicable financial instruments exchange.

In the event that the countermeasures adopted include the issuance of stock acquisition rights without contribution, the shareholders may be required to pay a certain sum of money within the specified period of time, in order to exercise those rights and receive their shares. If the Board of Directors decides to re-acquire those rights, it may do so without paying an amount equivalent to the exercise price, by simply issuing stock to the shareholders in exchange for the acquisition rights. The company shall provide details separately on how the procedures will be carried out, in accordance with all relevant laws and regulations, if and when an actual decision is made to issue stock acquisition rights.

Furthermore, if the Board of Directors should decide to suspend or terminate the issuance of stock acquisition rights or to gratuitously reclaim the rights, after considering the recommendations of the Corporate Value Evaluation Committee, there shall be no dilution in the shares or share price. Therefore, if any investor purchased or sold shares on or after the expiration date of the right for the gratuitous allotment of stock acquisition rights on the assumption that the rights issue would dilute the shares, said investor could suffer a valuation loss due to subsequent changes in the share price.

## **6. Period of Validity and Expiration of the Policy**

Provided the shareholders approve the Policy proposal at the current Ordinary Shareholders' Meeting, it shall take immediate effect upon approval and remain in force for a period of three years, expiring at the close of the Annual Ordinary Shareholders' Meeting for that fiscal year. The policy shall be submitted for re-approval at that same Ordinary Shareholders' Meeting (inclusive of any proposals for changes or revisions). During the period over which the Policy remains in effect, it shall be open to any revisions that serve to strengthen or enhance its ability to preserve corporate value or bolster the common interests of shareholders, or any revisions that may become necessary in light of changes in applicable laws and regulations, rules on financial products trading, or the listing requirements of applicable securities exchanges. If such changes become necessary, the Company shall promptly disclose their nature.

End

Attachment 1

**Career Summary of members of Corporate Value Evaluation Committee**

The following three persons will constitute the Corporate Value Evaluation Committee, upon the re-approval of the Policy.

Masatoshi Ohara

[Brief profile]

Born in 1951	
March 1976	Graduated from Faculty of Law, Waseda University
April 1979	Registered as an attorney at law Joined Kikkawa Sogo [General] Law Offices (now Kikkawa Law Offices) (to present)
August 1986	Passed the bar exam in the State of New York, USA Registered as a practicing attorney in New York
April 2004	Specially appointed lecturer at Osaka City University's School of Law (retired in March 2010)
June 2005	Substitute Auditor of the Company (to present)
April 2010	Part-time lecturer at the Osaka City University's School of Law (to present)
April 2017	Chair of the Osaka Bar Association (retired in March 2018)
January 2018	(Outside) Director of Teijin Frontier Co., Ltd. (to present)

Mr. Masatoshi Ohara is a Substitute Auditor of the Company. There are no special interest between Mr. Ohara and the Company.

Kenji Nishida

[Brief profile]

Born in 1947	
March 1971	Graduated from Faculty of Business Administration, Kobe University
July 1972	Joined Chuo Accounting Firm (retired in May 1982)
December 1975	Registered as a Certified Public Accountant
May 1982	Left Chuo Accounting Firm Opened Kenji Nishida Certified Public Accountant Office (to present)
June 2001	Auditor of the Company
June 2015	Director of the Company (to present)

Mr. Kenji Nishida is an Outside Director as defined in Article 2, Paragraph 15 of the Companies Act. There are no special interest between Mr. Nishida and the Company.



Yasushi Sakemi

[Brief profile]

Born in 1958

March 1982                      Graduated from School of Law, Meiji University

April 1991                      Registered as a practicing attorney

April 1993                      Joined Tetsuro Sakemi Law Office (now Sakemi Law Office) (to present)

June 2004                      Auditor of the Company (to present)

October 2009                   Outside Director of CCS Inc.

August 2016                   Outside Director (Audit Committee Member) of CCS Inc.

July 2018                      Auditor of CCS Inc. (to present)

March 2019                   Outside Director of OPTEX Group Co., Ltd. (to present)

Mr. Yasushi Sakemi is an Outside Auditor as defined in Article 2, Paragraph 16 of the Companies Act. There are no special interest between Mr. Sakemi and the Company.

End

## **Overview of the Corporate Value Evaluation Committee**

### **1. Establishment**

The Corporate Value Evaluation Committee was established by resolution of the Board of Directors of the Company.

### **2. Members**

The Committee shall consist of at least three members, chosen from Outside Directors of the Company, Outside Auditors of the Company, executives of other companies with extensive management experience, individuals with investment banking experience, lawyers, certified public accountants, academics who specialize in the Companies Act or related subjects, or other individuals with equivalent experience, who are independent of influence from the management members of the Company.

### **3. Period of Appointment**

Members of the Corporate Value Evaluation Committee shall be appointed to terms of no more than three years, with the term commencing at the conclusion of this Ordinary Shareholders' Meeting, and ending on the date of the Annual Ordinary Shareholders' Meeting for the fiscal year ended three years hence; the same shall apply thereafter. The length and conclusion date of these terms may be altered by resolution of the Board of Directors. In the case of Committee members who are also Outside Directors of the Company or Outside Auditors of the Company, the term of appointment to the Corporate Value Evaluation Committee shall end on the same date that their term of office as Directors or Auditors concludes (except in cases where they are re-elected as Outside Directors or Outside Auditors).

If any member of the Corporate Value Evaluation Committee should resign, or for some reason be unable to complete their term, a replacement shall be appointed by resolution of the Board of Directors, from among the persons listed in section 2, above. The newly appointed member's term shall end on the date specified for the Committee member they have replaced.

### **4. Requirements for Resolutions**

In principle, resolutions of the Corporate Value Evaluation Committee shall be passed by a majority vote, at a meeting in which all Committee members are present. If for some unavoidable reason, such as an accident, a member is absent from a meeting, resolutions may be adopted on the basis of a majority vote of all members present, provided that more than half of the Committee members are present and voting.

If a resolution of the Corporate Value Evaluation Committee receives an equal number of "votes, the Committee shall inform the Board of Directors that it is unable to make a decision on the resolution.

### **5. Items for Deliberation**

The Corporate Value Evaluation Committee shall, in principle, consider issues that fall into one of the categories listed below, when asked to do so by the Board of Directors of the Company. The recommendations they present to the Board shall include both their decision on the issue, and the reasons for the decision. In making their decisions, the members of the Corporate Value Evaluation Committee shall consider only whether or not there is likely to be an adverse impact on corporate value, or on the common interests of shareholders. They shall not give any consideration to potential merits or demerits for themselves, or for Directors of the Company.

- 1) Decisions relating to whether the Rules on Large-Scale Purchases apply to a given Large-Scale Purchase
- 2) Decisions on what specific information the Large-Scale Purchaser should provide to the Board of Directors, as part of the Necessary Information
- 3) Examination and evaluation of the content of the Large-Scale Purchaser's Large-Scale Purchase
- 4) Decisions on whether or not the Large-Scale Purchase could potentially damage corporate value or infringe the common interests of existing shareholders
- 5) Decisions on whether or not the Large-Scale Purchaser has complied with the Rules on Large-Scale Purchases
- 6) Decisions on whether or not to extend the Board Assessment Period
- 7) Decisions on whether or not to convene a Ordinary Shareholders' Meeting to consider the possible implementation of countermeasures
- 8) Decisions on whether or not to implement, forego, change, or terminate countermeasures
- 9) Decisions on whether or not to continue, alter, or eliminate the Rules on Large-Scale Purchases
- 10) Any other issues presented to the Corporate Value Evaluation Committee for consideration, by the Board of Directors.

In order to make an appropriate decision on the matters listed above, the Corporate Value Evaluation Committee shall endeavor to collect all necessary and sufficient information. Therefore, if the Committee should require advice from Outside Experts (financial advisors, certified public accountants, lawyers, management consultants, etc.), it shall be provided at Company expense.

End

### **Summary of Stock Acquisition Rights**

**1. Eligibility for receiving the stock acquisition rights and conditions for issuance**

Those shareholders who are listed on the most recent shareholders record as of the Date of Record designated by the Board of Directors of the Company shall receive one stock acquisition right for every one share of the Company's common stock that they hold (this distribution shall not apply to treasury stock held by the Company) without payment.

**2. Number and type of new shares subject to the stock acquisition rights**

The stock acquisition rights entitle the bearer to acquire newly issued shares of the Company's common stock. The maximum number of new shares to be issued will be determined by taking the maximum number of shares that the Company is authorized to issue, and subtracting the number of shares issued and outstanding as of the Date of Record designated by the Board of Directors (i.e. not including treasury stock held by the Company). The Board will then separately designate the number of new shares that apply to each right issued (hereinafter, the "Pertaining Number of Shares"). Should the Company conduct a stock split or reverse stock split, this number shall be adjusted accordingly.

**3. Total number of stock acquisition rights to be issued**

The number of rights issued shall be determined separately by the Board of Directors. The Board may conduct additional rights distributions.

**4. Value of assets to be contributed upon exercise of each stock acquisition right (exercise price)**

The value of asset to be contributed upon exercise of each stock acquisition right (exercise price) shall be determined by the Board of Directors, and shall be set at no less than 1 yen per share.

**5. Restrictions on transfer of stock acquisition rights**

Any transfer or receipt of stock acquisition rights must be approved by the Board of Directors.

**6. Conditions for exercising the stock acquisition rights**

In principle, shareholders who belong to a "specific shareholding group" that controls 20% or more of voting rights in the Company may not exercise the stock acquisition rights. In addition, as a general rule, nonresidents of Japan who are required to follow certain procedures under foreign laws or ordinances in order to exercise stock acquisition rights, may not exercise these rights (on the other hand, certain persons, such as those who are able to use an exemption to application under applicable laws and ordinances of the applicable foreign country, may exercise the rights, and in addition, the Company may re-acquire the rights from such persons in return for shares of the Company stock, as set out below in section 8). In addition, all shareholders who exercise their rights must provide written representation, in the form prescribed by the Company, confirming that they do not belong to the "specific shareholding group," and meet other requirements (unless the Company itself chooses not to require such representation). Those who fail to submit the required written document may not exercise the stock acquisition rights. Details of this requirement shall be determined separately, by the Board of Directors of the Company.

**7. Exercise period for the stock acquisition rights**

In allotment of share options without contribution resolution, the starting date of that period (hereinafter, the first day of the exercise period is the “exercise period commencement date”) shall be set separately, by the Board of Directors, and the exercise period shall be from one to three months in length. If the final day of the exercise period is a non-business day for the financial institution charged with collecting the exercise payments, the exercise period shall end on the business day immediately preceding that day.

**8. Repurchase of stock acquisition rights by the Company**

1) If, at any time prior to the exercise period commencement date, the Board of Directors should determine that it is advisable for the Company to reacquire the stock acquisition rights, the Company may gratuitously reacquire all of the rights, on a date determined separately by the Board.

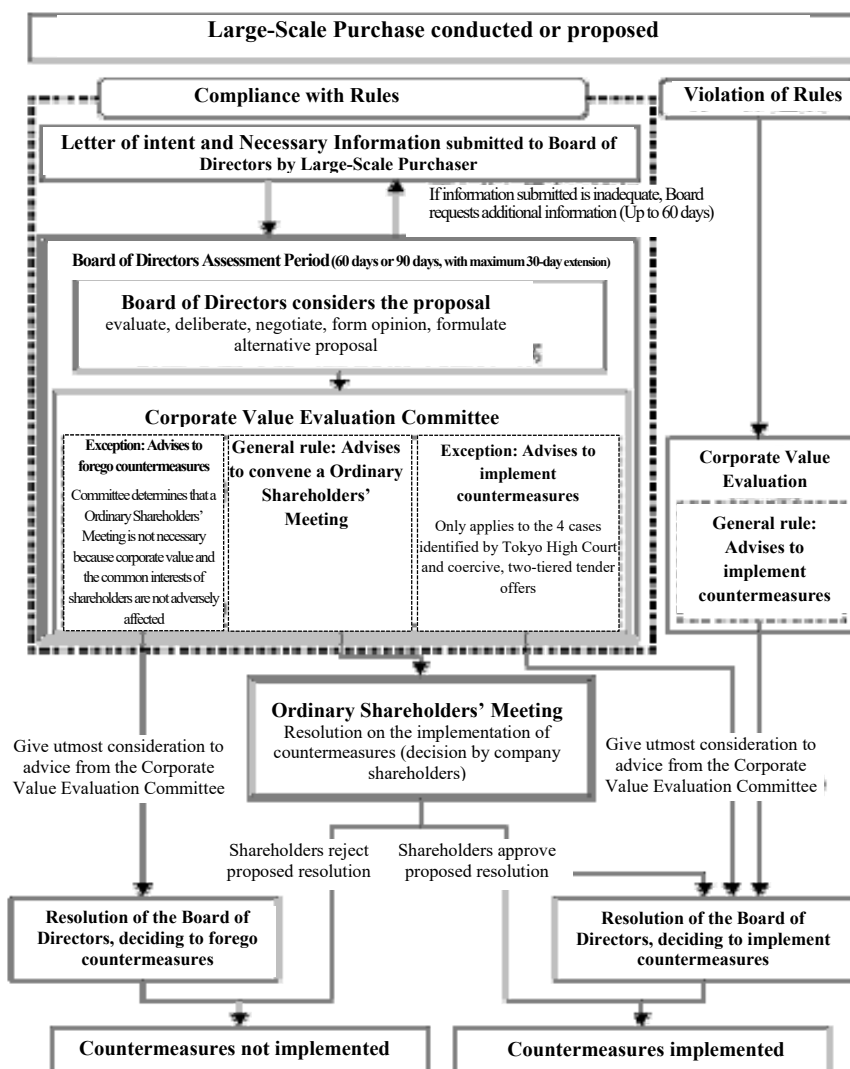
2) On a date determined separately by the Board of Directors, the Company may reacquire all rights that have not yet been exercised by the day prior to that date, excluding those held by parties that are not qualified to exercise the rights because they belong to a specified shareholding group, or because they have not provided written representation of that fact, in the form requested by the Company (some shareholders may be excluded from this requirement, at the Company’s discretion). Any rights that have not been exercised by the day prior to the date designated by the Board shall be reacquired, in exchange for shares of the Company’s stock. The number of shares exchanged upon reacquisition of the rights shall be equal to the number of shares covered by the acquisition rights.

If, on or after the date on which the Company reacquires the shares, the Board of Directors recognizes the existence of any individual shareholder who is still in the possession of share acquisition rights, who is qualified to exercise the rights, and who does not belong to a specified shareholding group (provided they are prepared to make written submission to the Company, as outlined in the first sentence section 8., (2), at the request of the Board of Directors), the Board of Directors may decide, at its discretion and on a date determined by the Board, to reacquire the shares even though the original date of reacquisition has passed, and the same shall apply thereafter. The number of shares exchanged upon reacquisition of the rights shall be equal to the number of shares covered by the acquisition rights.

End

(Reference Material)

## Flowchart Showing Implementation of the Policy on Large-Scale Purchases of Company Shares, Etc. (Countermeasures Against Hostile Purchaser)



Note: The above flowchart is only for informational purposes, to summarize the Policy. For precise details on the policy, please refer to the Notice of Convocation of Ordinary Shareholders' Meeting, pages 13 - 29, and our press release (Japanese) dated May 9, 2019.

End