

Securities Identification Code: 6430  
June 12, 2018

To All Shareholders

Hiroshi Nemoto  
President & Representative Director  
Daikoku Denki Co., Ltd.

1-43-5 Nagono, Nakamura-ku, Nagoya City, Aichi, Japan

## Convocation Notice of the 45th Ordinary General Meeting of Shareholders

Dear Shareholders:

We express our deep appreciation to each of you for your continuous support for us.

Please be advised that you are cordially invited to attend the 45th Ordinary General Meeting of Shareholders of Daikoku Denki Co., Ltd. (“the Company”). The meeting will be held as described below.

If you are unable to attend the meeting in person on the day of the meeting, you are entitled to vote in writing or via the internet. In this case, we cordially request you to kindly review the attached Reference Document for the Ordinary General Meeting of Shareholders, indicate “for” or “against” for each of the proposals in the enclosed Voting Right Exercise Form, and return the form to us no later than 6:00 p.m., Wednesday, June 27, 2018 (Japan Standard Time).

Thank you very much for your cooperation.

### Details of the 45th Ordinary General Meeting of Shareholder

1. Date and Time June 28, 2018 (Thursday) at 10:00 a.m.
2. Place Hotel Castle Plaza , 4th floor, “HOUOU”  
4-3-25, Meieki 4-chome, Nakamura-ku, Nagoya City, Aichi, Japan
3. Agenda:
  - Matters for Reporting:
    1. The 45th Business Term (from April 1, 2017 to March 31, 2018)  
Report on the Business Report, the Consolidated Financial Statements, the Results on the Audits of Consolidated Financial Statements by the Accounting Auditor and the Board of Auditors
    2. The 45th Business Term (from April 1, 2017 to March 31, 2018)  
Report on the Non-Consolidated Financial Statements
  - Matters for Resolution
    - Proposal 1 Election of 11 Directors
    - Proposal 2 Election of 2 Auditors
    - Proposal 3 Payment of bonuses to Directors and Auditors for the 45th Business Term

#### 4. Information on Exercising the Right to Vote

(1) Exercising the right to vote in writing

Please indicate your approval or disapproval of each agenda item on the enclosed Form for Exercising the Right to Vote and send it back so that it reaches us by no later than 6:00 p.m. on Wednesday, June 27, 2018.

(2) Exercising the right to vote via the Internet

When exercising your right to vote via the Internet, please read through the “Information on Exercising the Right to Vote via the Internet” described on page 3, then place your vote by 6:00 p.m. on Wednesday, June 27, 2018.

(3) When shareholders exercise the right to vote twice, in writing and on the Internet, the vote cast via the Internet will have precedence and be treated as the valid exercise of the voting right. Moreover, when shareholders exercise their right to vote more than once via the Internet, previous votes will be overridden, making the final vote the valid vote.

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- \* When you attend the meeting in person, please submit the enclosed Voting Right Exercise Form at the reception counter.
  - \* Any revisions in the Reference Document for the Ordinary General Meeting of Shareholders or attached document, will be disclosed on the Company’s website (<http://www.daikoku.co.jp>).
  - \* The information in this notice of the general meeting of shareholders was posted on the website of the company before this notice was sent out by postal mail, for the sake of early provision of information.

## Information on Exercising the Right to Vote via the Internet

Please understand the following matters in advance, when exercising your right to vote via the Internet.

### 1. Website Where You May Exercise the Right to Vote

Exercising your right to vote via the Internet is only possible by accessing the following website for exercising your vote designated by the company.

Website address for exercising the right to vote <https://www.web54.net>

### 2. Handling of Exercising the Right to Vote

- (1) Please exercise your right to vote early, as the deadline is set at 6:00 p.m. on Wednesday, June 27, 2018.
- (2) When you exercise your right to vote via the Internet, please use the “Code for Exercising the Right to Vote” and the “Password” listed on the enclosed Form for Exercising the Right to Vote, and then select yes or no in accordance with the instructions on the screen.
- (3) When shareholders exercise the right to vote twice, in writing and on the Internet, the vote cast via the Internet will have precedence and be treated as the valid exercise of the voting right. Moreover, when shareholders exercise their rights to vote more than once via the Internet, previous votes will be overridden, making the final vote the valid vote.
- (4) Charges from service providers and communications carriers (i.e., connection fees, etc.) incurred by use of the website to exercise shareholders’ rights to vote will be borne by the individual shareholder.
- (5) Shareholders may not be able to use the website to exercise their rights to vote due to incompatibility with their personal computer’s environment for the Internet use.

### 3. Handling Your Password and Code for Exercising the Right to Vote

- (1) The password is critical information to verify whether the person voting is a legitimate shareholder or not. Please handle the password as strictly confidential in the same manner as a registered seal or a personal identification number.
- (2) If you mistype your password more than a certain number of times, it will become invalid. If you wish to have your password reissued, please use the guidance on the screen and follow the procedures.
- (3) The code printed on the Form for Exercising the Right to Vote is only valid for this general meeting for shareholders.

### 4. Inquiries concerning Operation of Personal Computers, etc.

- (1) In case you need assistance operating your personal computer, etc. to exercise your right to vote via the Internet site, please contact the following support desk:  
Securities Agent Web Support Hotline, Sumitomo Mitsui Trust Bank, Limited  
[Toll-free number] 0120-652-031 (Hours of operation: 9:00 a.m. - 9:00 p.m.)
- (2) Please contact the following for any other inquiry.
  - (i) Shareholders who have accounts at securities companies  
Please contact your brokerage firm.
  - (ii) Shareholders who do not have accounts at securities companies (Shareholders with exclusive accounts)  
Stock Transfer Agency Business Planning Department, Sumitomo Mitsui Trust Bank, Limited  
[Toll-free number] 0120-782-031 (Hours of operation: 9:00 a.m. - 5:00 p.m.)  
Services are not available on Saturdays, Sundays and national holidays.)

## Business Report

( from April 1, 2017  
to March 31, 2018 )

### I. Current Status of the Company Group

#### 1. Progress and results of operations

The Japanese economy in general remained on the track of moderate recovery during this consolidated fiscal year against a backdrop of improved employment and income environments, and corporate earnings, although there were concerns over uncertainties in the overseas situation.

The pachinko industry, in which the Daikoku Denki Group (“the Group”) is engaged, faced a severe business environment with a continuing cautious stance for capital investment due to uncertainty about the impact on pachinko hall business caused by “Regulations on the Partial Revision of Regulations Regarding the Enforcement of the Act on Control and Improvement of Amusement Business, etc. and Regulations Regarding the Certification of Game Machines and Examination of Model” (hereinafter referred to as “new regulations”) enforced on February 1, 2018 as part of responses to the problem of addiction at pachinko parlors.

According to the “2017 White Paper on Adult Entertainment Business and Moral Offense Control” issued by the Community Safety Bureau of the National Police Agency, the number of installed game machines totaled 4,436,841 units, with a decrease of 83,601 units in pachinko game machines and a decrease of 4,792 units in pachislot game machines; thus the number of installed game machines per parlor increased by 6.8 units to 418.7 units.

In this market environment, new products, the information publication terminal “BiGMO PREMIUM II,” and the call lamp “IL-X3”, were launched in the market in December 2017 in the Information System Segment, and the Group focused on suggesting mainly that flagship stores replace old products.

The Group also tried to strengthen the proposal of the industry's first fan trend data publication service “Fan-SIS,” and worked hard for the spread of MIRAIGATE service.

In the Control Systems Segment, the Group tried to collect the latest trend of pachinko machine manufacturers, while reviewing the model development schedule and sales plan accordingly. The Group also made efforts to create new gaming properties while curbing the passion for gambling, and focused on the acquisition and proposal of new technology and content.

As a result, during the consolidated fiscal year, the net sales amounted to 34.093 billion yen (down 16.3% year-on-year). The operating income was 1.192 billion yen (up 13.8% year-on-year), and the ordinary income was 1.390 billion yen (up 1.2% year-on-year). The net income attributable to parent company

shareholders amounted to 785 million yen (up 56.2% year-on-year).

Business results by segment are as follows.

### **Information System Segment**

The effect of new products, the information publication terminal “BiGMO PREMIUM II” and “IL-X3” boosted demand during the consolidated fiscal year, and the number of units sold of the said series exceeded that for the previous consolidated fiscal year. However, the number of the sold CR unit consisting mainly of a new product, “VEGASIA III,” which was launched in the market in June 2017, and the number of hall computer/prize customer systems sold fell below those for the previous consolidated fiscal year, since their sales were largely affected by a decrease in new parlor openings and large-scale renovation.

As a result, the net sales in this segment were 24.827 billion yen (down 8.9% year-on-year) and the segment income was 2.435 billion yen (down 19.1% year-on-year).

### **Control System Segment**

Amidst sluggish sales of new machines in the overall game machine market during the consolidated fiscal year, the number of display units and control units sold fell below that for the previous consolidated fiscal year due to postponement of the development schedule and launch date because of a specification change by game machine manufacturers in light of new regulations. Approximately 5,500 pachislot game machines (approximately 12,300 units for the previous year) were launched in the market in July 2017.

In terms of expenses, selling, general and administrative expenses were down compared to the previous consolidated fiscal year due to a decrease in R&D costs resulting from a review of the sales strategy for the said segment, and the reversal of an allowance for doubtful accounts resulting from a termination decision made in July 2017 for bankruptcy proceedings that commenced in April 2015 of a game machine manufacturer who was a business partner.

As a result, the net sales in this segment were 9.322 billion yen (down 31.0% year-on-year) and the segment income was 433 million yen (previous year’s segment loss of 306 million yen).

(Note) Business segment sales and income figures include intersegment transactions.

## 2. Net sales by segment

(Unit: Millions of Yen)

Segment	Previous Consolidated Fiscal Year		Consolidated Fiscal Year Under Review		Year-on-Year Comparison (%)
	Amount	Composition (%)	Amount	Composition (%)	
Information System Segment	27,260	67.0	24,826	72.8	91.1
Control System Segment	13,453	33.0	9,266	27.2	68.9
Total	40,714	100.0	34,093	100.0	83.7

(Note) The figures above do not include intersegment transactions.

## 3. Status of capital investment, etc.

Capital investment for the consolidated fiscal year under review amounted to ¥1,950 million. Major activities included equipment improvement in accordance with the development of new products and maintenance of in-house server facilities.

## 4. Status of financing

There are no particular matters to note in this regard.

## 5. Issues to be addressed by the Group

In order to accomplish the projected net sales for the next consolidated fiscal year amid the tough market situation, the Group will seek to deal with the following challenges as “matters to be addressed” by segment for further enhancement of business results.

### **Information System Segment**

1. Establish systems to support management methods and utilize methods in accordance with gaming machines that comply with new rules and develop products to meet the perspectives of gaming fans.
2. Provide the systems under the theme of streamlining management of pachinko halls, and labor-saving operations.

### **Control System Segment**

1. Quickly and accurately gather information on market changes and the latest customer trends, make proposals in a timely manner, and acquire hardware.
2. Accelerate creation of new play characteristics complying with new rules and project proposals by incorporating new technologies.

## 6. Changes in the status of assets and profits and losses

### (1) Changes in assets and profit/loss of the Group

Item		42nd Term	43rd Term	44th Term	45th Term
		(FY Ended March 2015)	(FY Ended March 2016)	(FY Ended March 2017)	(the Consolidated Fiscal Year under Review) (FY Ended March 2018)
Net sales	(million ¥)	54,043	47,004	40,714	34,093
Ordinary income	(million ¥)	1,566	-749	1,374	1,390
Net income attributable to equities of parent	(million ¥)	874	-1,676	502	785
Net income per share	(¥)	59.19	-113.41	34.01	53.11
Total Assets	(million ¥)	53,528	47,139	46,828	43,564
Net Assets	(million ¥)	32,138	29,291	29,151	29,251

(Note) Net income per share is computed based on the weighted average number of common shares (excluding treasury stock) outstanding during each term.

### (2) Changes in assets and profit/loss of the Company

Item		42nd Term	43rd Term	44th Term	45th Term
					(the Current Fiscal Year)
Net sales	(million ¥)	53,353	46,428	39,727	32,583
Ordinary income	(million ¥)	3,193	1,936	2,574	1,082
Net income	(million ¥)	226	-2,213	1,665	1,330
Net income per share	(¥)	15.32	-149.71	112.63	90.01
Total Assets	(million ¥)	51,729	44,220	45,545	42,562
Net Assets	(million ¥)	30,397	27,135	28,103	28,716

(Note) Net income per share is computed based on the weighted average number of common shares (excluding treasury stock) outstanding during each term.

## 7. Status of significant subsidiaries (as of March 31, 2018)

### (1) Status of significant subsidiaries

Name of subsidiary	Capital	Ratio of voting rights held by the Company	Main business lines
Genki Co., Ltd	¥100 million	100.0%	Planning, development and distribution of amusement software
Daxel Co., Ltd.	¥40 million	100.0%	Planning, development, manufacturing and distribution of pachislot game machines
Daikoku Sangyo Co., Ltd	¥35 million	100.0%	Planning and sales of pachinko hall support service
Aloft Co., Ltd.	¥50 million	100.0%	Planning and development of software for pachinko game machines

(2) Status of specific wholly owned subsidiaries

No relevant items exist.

8. Main business lines (as of March 31, 2018)

Segment	Main products
Information System Segment	Development, manufacturing and distribution of computing systems for pachinko halls
Control System Segment	Development, manufacturing and distribution of units for pachinko game machines, and planning, development, manufacturing and distribution of pachinko game machines.

9. Main business locations and plants (as of March 31, 2018)

Daikoku Denki Co., Ltd.	Head Office	1-43-5 Nagono, Nakamura-ku, Nagoya City, Aichi, Japan
	Division offices	Sakashita (Aichi) , Kasugai (Aichi) , and Tokyo Design Studio (Tokyo)
	Branches	Higashi-Nihon (Tokyo), Chubu (Aichi), Nishi-Nihon (Osaka), and Kyushu (Fukuoka)
	Sales offices	Sapporo (Hokkaido), Morioka (Iwate), Sendai (Miyagi), Ibaraki (Ibaraki), Kita-Kanto (Saitama), Niigata (Niigata), Kanazawa (Ishikawa), Matsumoto (Nagano), Shizuoka (Shizuoka), Okayama (Okayama), Takamatsu (Kagawa), Hiroshima (Hiroshima), and Miyazaki (Miyazaki)
Genki Co., Ltd.	Head Office	Nakano-ku, Tokyo
Daxel Co., Ltd.	Head Office	Nagoya City
Daikoku Sangyo Co., Ltd.	Head Office	Nagoya City
Aloft Co., Ltd.	Head Office	Chiyoda-ku, Tokyo

10. Status of employees (as of March 31, 2018)

(1) Status of employees of the Group

Number of employees	Change from the previous consolidated fiscal year
635 persons	Decreased by 33 persons

(Note) The number of employees does not include the number of temporary employees of 21 persons.

(2) Status of employees of the Company

Number of employees	Change from the previous fiscal year	Average age of employees	Average length of service per employee
440 persons	Decreased by 36 persons	44.5 years old	16.8 years

(Note) The number of employees does not include the number of employees under contract of 18 persons.



## 11. Main lenders (as of March 31, 2018)

Lender	Balance of borrowings outstanding
Mizuho Bank, Ltd.	¥800 million
Sumitomo Mitsui Banking Corporation	¥500 million
The Bank of Mitsubishi UFJ, Ltd.	¥500 million
Sumitomo Mitsui Trust Bank, Limited	¥500 million
The Aichi Bank, Ltd.	¥500 million
The Bank of Nagoya, Ltd.	¥500 million

## II. Matters Regarding the Shares of the Company

1. Number of Shares Authorized 66,747,000 shares
2. Number of Shares Outstanding 14,783,105 shares
3. Number of Shareholders 9,759
4. Major Shareholders (Top 10 Shareholders)

Name of Shareholder	Number of Shares Owned	Investment Ratio
Ken Kayamori	1,772,200	11.98%
Masakatsu Kayamori	1,031,650	6.97%
Hideyuki Kayamori	961,000	6.50%
Michiko Kayamori	926,000	6.26%
Hisae Kayamori	887,000	6.00%
Kazuyo Kayamori	773,000	5.22%
Kayamori Foundation of Informational Science Advancement	750,000	5.07%
Shinji Kayamori	443,450	2.99%
BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1	359,700	2.43%
Japan Trustee Services Bank, Ltd. (Trust Account)	255,600	1.72%

(Note) Investment ratios are calculated excluding treasury stock (795 shares)

## III. Matters regarding Stock Acquisition Rights, etc. of the Company

No relevant items exist.

#### IV. Matters Regarding Corporate Officers

##### 1. Names and other information regarding Directors and Auditors (as of March 31, 2018)

Position	Name	Responsibilities in the Company and significant concurrent positions	
Chairman and * Representative Director	Masakatsu Kayamori	Genki Co., Ltd. Daxel Co., Ltd. Daikoku Sangyo Co., Ltd.	Director Director Representative Director
President and * Representative Director	Hiroshi Nemoto	Genki Co., Ltd. Daxel Co., Ltd.	Director Director
Senior Managing * Director and Representative Director	Ken Kayamori	Legal Department Intellectual Property Department Daxel Co., Ltd. Daikoku Sangyo Co., Ltd.	Director in charge Director in charge Director Director
Managing Director	Tokishige Niwa	Corporate Planning Department Executive Room Production Division Management Control Division	Director in charge Director in charge Director in charge Director in charge
Managing Director	Seiichiro Oue	Control System Division Frontier Department Information System Division Genki Co., Ltd. Daikoku Sangyo Co., Ltd. Aloft Co., Ltd.	Divisional Head General Manager Director in charge Director Director Director
Director	Akira Kayamori	Management Control Division	Divisional Head
Director	Yasuhiro Fujimaki	Production Division	Divisional Head
Director	Manabu Matsubara	Corporate Planning Department Daikoku Sangyo Co., Ltd.	General Manager Director
Director	Toshifumi Oonari	Information System Division	Divisional Head
Director	Yoshihiro Adachi	ENERES Co., Ltd. The Japan Research and development Center for Metals	Director Auditor
Director	Kunihiko Takeda	Nippon RAD Inc.	Director
Full-time Auditor	Koji Yoshikawa	Genki Co., Ltd. Daxel Co., Ltd. Daikoku Sangyo Co., Ltd. Aloft Co., Ltd.	Auditor Auditor Auditor Auditor
Auditor	Hiroshi Murahashi	Attorney at law Aoki Super Co., Ltd. General Packer Co., Ltd. Aisan Technology Co., Ltd. The Aichi Residents' Congress for Violence Expulsion	(Representative of Ayunokaze Law Firm) Director Director(Audit and supervisory committee) Auditor President
Auditor	Kazunori Tajima	Certified public accountant Toyota Tsusho Corporation Nihon Decoluxe Co., Ltd. SHINWA Co., Ltd.	(Representative of Tajima CPA Firm) Auditor Director(Audit and supervisory committee) Director(Audit and supervisory committee)
Auditor	Yoshihiro Chinen	-	-

(Notes) 1. An asterisk mark (\*) indicates Representative Director.

2. Directors, Messrs. Kunihiro Takeda and Yoshihiro Adachi are both External Directors specified in Article 2, Item 15 of the Companies Act. In addition, the Company has designated Messrs. Kunihiro Takeda and Yoshihiro Adachi as an independent Director as defined by the Tokyo Stock Exchange (TSE), and notified the TSE to that effect.
3. Auditors, Messrs. Hiroshi Murahashi, Kazunori Tajima and Yoshihiro Chinen are both External Auditors specified in Article 2, Item 16 of the Companies Act.
4. Auditor Mr. Kazunori Tajima is qualified as a certified public accountant and has deep insight into financial affairs and accounting.
5. At the 44th annual meeting of shareholders held June 28, 2017, Messrs. Tokishige Niwa, Yasuhiro Fujimaki, Manabu Matsubara and Toshifumi Oonari were newly chosen as Directors and assumed their respective offices.
6. At the 44th annual meeting of shareholders held June 28, 2017, Mr. Koji Yoshikawa was newly chosen as Auditors and assumed his respective offices.
7. Mr. Hideyuki Kayamori retired as Directors due to the expiration of their terms of office at the close of the 44th General Meeting of Shareholders held on June 28, 2017.
8. Mr. Mikio Ito retired as Auditors due to the expiration of their terms of office at the close of the 44th General Meeting of Shareholders held on June 28, 2017.

## 2. Outline of the liability limitation agreement

The Company entered into an agreement with all External Directors and Auditors to limit their liability provided for in Article 427, Paragraph 1 of the Companies Act. The limit of liability under the said agreement is the amount stipulated by laws and regulations.

## 3. The total amount of remuneration, etc. for Directors and Auditors for the fiscal year ended March 31, 2018

Directors	12persons	¥243,135,000 (of which amount for External Directors)	2 persons	¥5,280,000
Auditors	5persons	¥29,507,000 (of which amount for External Auditors)	3 persons	¥12,900,000
Total	17persons	¥272,643,000 (of which amount for External Directors and Auditors)	5 persons	¥18,180,000

(Notes) 1. The amount of payment to Directors does not include the compensation that they receive for being employees, if they are employees as well as Directors.

2. The above total amount of remuneration, etc. for Directors and Auditors includes provision of reserve for directors and auditors' bonuses of ¥62,780 thousand (consisting of ¥56,680 thousand for 11 Directors and ¥6,100 thousand for 4 Auditors), directors and auditors' retirement benefits of ¥42,901 thousand (consisting of ¥42,775 thousand for 1 Director and ¥145 thousand for 1 Auditor) and provision of reserve for directors and auditors' retirement benefits of ¥27,975 thousand (consisting of ¥26,850 thousand for 5 Directors and ¥1,125 thousand for 1 Auditor) that were provided in the fiscal year ended March 31, 2018.

## 4. Matters regarding External Directors and Auditors

### (1) Relationship between significant office(s) concurrently held and the Company

Director Mr. Yoshihiro Adachi is an External Director of ENERES Co., Ltd., however there is no significant business nor other relation between our company and ENERES Co., Ltd. In addition, there is no significant business nor other relation between our company and the Japan Research and Development Center for Metals, where Mr. Adachi serves as Auditor.

Director Mr. Kunihiro Takeda serves as External Director of Nippon RAD Inc., but there are no

significant transactions or relationships between Nippon RAD Inc. and the Company.

There are no significant transactions or relationships between the Company and the Ayunokaze Law Firm for which Auditor Mr. Hiroshi Murahashi serves as Representative. He also serves as External Director of Aoki Super Co., Ltd., and as External Director (Audit and supervisory committee) of General Packer Co., Ltd., and as External Auditor of Aisan Technology Co., Ltd., but the Company has no significant transactions or relationships with any of them. The Company pays membership fees to the Aichi Residents' Congress for Violence Expulsion as President, as part of initiatives against anti-social forces and social contribution activities supporting sports for persons with a disability, but the fees paid are minimal.

There are no significant transactions or relationships between the Company and Tajima CPA Firm for which Auditor Mr. Kazunori Tajima serves as Representative. He also serves as External Director of Nihon Decoluxe Co., Ltd., and as External Auditor of Toyota Tsusho Corporation, SHINWA Co., Ltd., but the Company has no significant transactions or relationships with any of them.

(2) Main activities during the fiscal year ended March 31, 2018

Category	Name	Attendance and opinions
Director	Yoshihiro Adachi	Mr. Yoshihiro Adachi attended 15 out of 15 Board of Directors meetings held during the current fiscal year, and expressed opinions needed to promote sound and efficient management, where appropriate, from an objective standpoint and based on a high level of expert insight and knowledge.
Director	Kunihiko Takeda	Mr. Kunihiko Takeda attended 12 out of 15 Board of Directors meetings held after the assumption of his position during the current fiscal year, and expressed opinions needed to promote sound and efficient management, where appropriate, from an objective standpoint and based on a high level of expert insight and knowledge.
Auditor	Hiroshi Murahashi	Mr. Hiroshi Murahashi attended 15 out of 15 Board of Directors meetings and 13 out of 13 Board of Auditors meetings held during the current fiscal year, and expressed opinions, where appropriate, mainly from the expert viewpoint of an attorney at law.
Auditor	Kazunori Tajima	Mr. Kazunori Tajima attended 14 out of 15 Board of Directors meetings and 13 out of 13 Board of Auditors meetings held during the current fiscal year, and expressed opinions, where appropriate, mainly from the expert viewpoint of a certified public accountant.
Auditor	Yoshihiro Chinen	Mr. Yoshihiro Chinen attended 15 out of 15 Board of Directors meetings and 13 out of 13 Board of Auditors meetings held during the current fiscal year, and expressed opinions, where appropriate, mainly based on his ample experience and views at the National Police Agency of Japan.

(Note) In addition to the above-mentioned number of the Board of Directors meetings held during the fiscal year under review, there were 6 resolutions in writing deemed to be passed at a Board of Directors meeting pursuant to the provision set forth in Article 370 of the Companies Act and Article 23 of the Articles of Association of the Company.

## V. Status of Accounting Auditor

1. Name of Accounting Auditor: KPMG AZSA LLC

2. Amount of remuneration for Accounting Auditor

	Amount paid
Amount of remuneration, etc., to be paid by the Company to the Accounting Auditor pertaining to the fiscal year under review	¥40 million
Sum of money and other financial profits to be paid by the Company and its subsidiaries to the Accounting Auditor	¥40 million

(Note) 1. The Board of Auditors of the Company complies with the provisions on compensation as defined in Article 399 (1) of the Companies Act, as a result of examining the details of the audit plan performed by the accounting Auditor, the execution of duties in the past fiscal years, and the computation basis for remuneration estimates, as well as fully understanding the situations of the Board of Directors and the internal departments.

2. The audit agreement entered into by the Accounting Auditor and the Company does not distinguish the amount derived from the audit under the Companies Act and the one derived from the audit under the Financial Instruments and Exchange Act, and the two amounts cannot be substantially distinguished from each other. Therefore, the amount of remuneration, etc., to be paid by the Company to the Accounting Auditors pertaining to the fiscal year indicates the total of these two kinds of amounts.

3. Details of services other than auditing

The Company doesn't consign work other than the audit certification work described in Article 2, Paragraph 1 of the Certified Public Accountants Act to the accounting auditor.

4. Policy for determining the dismissal or non-reappointment of the Accounting Auditor

In cases where the Accounting Auditor is deemed to have conflicted with any of the following provisions, the Board of Auditors will determine a proposal on dismissal or non-reappointment of the Accounting Auditor. Upon determination of the proposal, the Board of Directors will submit the proposal to the General Meeting of Shareholders:

- (1) When the Accounting Auditor's behavior falls under causes for disqualification as set forth in the provisions of the Act;
- (2) When the authorities impose a significant punishment on the Accounting Auditor;
- (3) When the Accounting Auditor commits a violation of obligations in the course of its duties or neglects to perform its duties;
- (4) When the Accounting Auditor commits inappropriate behavior as an accounting Auditor; or
- (5) When the Company determines that the Accounting Auditor's behavior could damage the shareholders' interests in other aspects.

## VI. The Company's Framework and Guidelines

1. Overview of the resolution of the framework to ensure the appropriateness of business operations

Overview of the basic concepts related to the internal control system, which was resolved in the Company's Board of Directors meetings, is as follows.:

- (1) Framework to ensure compliance of the execution of duties by Directors and Employees with laws, regulations and the Articles of Association of the Company
  - (i) The Company set up the Compliance Risk Management Committee (CPR Committee) whose members include the Company's legal advisor, and requires the committee to hold a meeting periodically.
  - (ii) In promoting adherence to compliance with laws and regulations, the CPR Committee is required to play a central role in planning and implementing measures with an emphasis on improving the Directors' and Employees' awareness of adherence to compliance with laws and regulations.
  - (iii) The Company established a consultation system and an internal whistleblower hotline so as to ensure effective and prompt collection of information related to potential risks in the consideration of whistleblower protection.
  
- (2) Framework for storage and management of information related to execution of duties by Directors

Documents concerning the execution of duties of Directors (including electromagnetic records) shall be stored and managed in consideration of several features, such as confidentiality, searchability, preservability, archive attributes and availability, in accordance with the rules for the storage of documents.
  
- (3) Regulations and other frameworks concerning risk management against damages or losses incurred by the Company
  - (i) Pursuant to the Risk Management Rules, the Company shall take appropriate preventive measures against the risks and also secure proper response to the occurrence of the risks so as to minimize damages or losses incurred by the Company.
  - (ii) Under the initiative of the CPR Committee, the Company shall identify specific risks implied in each division. On that basis, the Company shall formulate rules and criteria, and examine effective measures for prevention and avoidance of these division-specific risks, with the aim of establishing a sustainable framework to cope with these risks on an ongoing basis.
  
- (4) Framework to ensure efficient execution of duties by Directors

The Company shall formulate rules and criteria about the establishment, composition, division of duties and management of committee meetings with the aim of encouraging prompt and appropriate managerial judgments based on adequate and accurate information, while ensuring appropriate collection, transmission and sharing of information.
  
- (5) Framework to ensure propriety of operations by the Company and by the Group consisting of the Company as a parent company and its subsidiaries

With regard to each Group Company's business management, the Company shall define the rules on matters to be reported and reporting methods by each Group Company to the Parent Company. On that

basis, the Company shall have meetings between each Group Company and the Company on a regular basis and also unify the internal audit framework on a group-wide basis so as to figure out business management and risk information on each Group Company.

- (6) Matters related to employees assigned to assist the Auditors in their duties in the event Auditors request such employees
  - (i) The Company shall immediately assign employees to support the auditing work as staff to the Auditors upon request from the Auditors.
  - (ii) The nomination and selection of staff supporting the auditing work shall be performed by the Personnel Department, and the appointment shall be determined by the Board of Auditors.
  
- (7) Matters related to independence of the employees prescribed in the preceding paragraph from the Directors

The Board of Auditors shall conduct a personnel review of staff supporting the auditing work. Personnel relocation of staff supporting the auditing work shall be conducted through consultation between the Auditors and the Director in charge of personnel affairs based on the decision by the Board of Auditors.
  
- (8) Framework to ensure reporting from Directors and Employees to Auditors, other framework relating to reporting to Auditors, and framework to ensure that auditing by Auditors be performed effectively
  - (i) Directors and Employees shall immediately notify the Auditors of significant matters having an impact on business operations or business results each time.
  - (ii) Auditors are entitled to have opportunities to attend the Board of Directors meeting and other important meetings (collectively called “Important Meetings, etc.”) and ask questions to any attendants. These opportunities given to Auditors shall be incorporated when the rules on running Important Meetings, etc. are formulated.
  - (iii) In cases where it is deemed necessary to carry out the duties on audit works, Auditors may require the Board of Directors to provide support staff, accept on-site investigation, disclose required documents, or cooperate or provide assistance for these requests. In cases where Auditors have any obstacle in conducting auditing works, Auditors may require the Directors to eliminate the cause of the obstacle or take remedial actions.
  - (iv) With respect to the provision set forth in the preceding paragraph, the Group Companies shall take the same measures.
  - (v) The Company shall put in place and manage appropriate and efficient rules in line with the scale and framework of each Group company so that Auditors will be able to properly collect necessary information (including information on subsidiaries) to perform their duties.
  - (vi) Given the recognition that any reports or notifications to the Auditors (hereinafter, “Reports, etc.”) meet the purposes of compliance, the Company shall provide the same protection to those who

provide Reports, etc. to the Auditors as whistleblowers as described in the Compliance Action Policy. In addition, any unjustifiable treatment against those who provide Reports, etc. shall be subject to sanctions.

- (vii) With regard to any prepayment and reimbursement of expenses arising from the execution of the duties of an Auditor, the Company shall put in place and manage rules or regulations allowing for a prompt payment procedure pursuant to a request from the Auditor.

## 2. Outline of the operational status of the framework to ensure the appropriateness of business operations

The implementation status towards the enhancement of the Company's Corporate Governance in the past year (a one-year period, from the last day of the fiscal year) is as follows.

- (1) We held 21 Board of Directors meetings (including written resolution) and determined the material facts regarding management matters (such as matters stipulated in laws and regulations and development of budget) and reviewed analyses, measures, and evaluations of monthly business performance. We also deliberated on the performance in lights of compatibility with the laws, regulations, the Articles of Incorporation, and other rules and adequacy of business operations.
- (2) We held 13 Board of Auditors meetings and discussed and determined audit policies and plans. We also audited the status of attendance to important internal meetings, business operations and assets, Directors' execution of duties, and compliance with laws, regulations, the Articles of Incorporation, and other rules.
- (3) We held 4 Compliance Risk Management Committee (CPR Committee) meetings to promote various activities related to internal control. Specifically, we aimed to ensure smooth operation of internal control over compliance and risk management, information security management, internal and external reporting systems, and financial reporting.
- (4) Under the initiative of the CPR Committee, we identified daily risks in each division and examined the countermeasures on a semi-annual basis. Out of these initiatives, we formulated the Compliance Guidelines to summarize the basic concept and criteria of daily activities that should be shared by all employees. We disseminated the guidelines on a company-wide level to improve compliance awareness.
- (5) With regard to the storage and management of information documents relating to the Directors' execution of the duties (including electromagnetic records), we committed ourselves to strict information management and prevention of confidential information leakage, based on the document management rules and regulations.
- (6) In view of the importance of impact on the reliability of financial reporting, we held Financial Reporting Council meetings 4 times to enhance the internal control system, specifically with the aim of collecting risk information, fallacy information, and deficiencies information of internal control, and deliberate on measures and corrective actions against them.



### 3. Basic policies regarding control of the Company

The Company does not prescribe specific basic policies on the composition of persons to control decision-making over financial and business policies of the Company.

However, the Company considers it necessary to take appropriate measures against large-scale acquisition of the Company's shares that would undermine the enterprise value of the Company and damage the common interests of the shareholders. Therefore, the Company plans to organize an appropriate framework to prevent any large-scale acquisition.

### 4. Policy for deciding the dividends of surplus and other related matters

The Company identifies the return of profits to shareholders as one of the important corporate management policies while expanding its business scale. Therefore, the Company's basic policy for profit allocation is to provide stable dividends to its shareholders in consideration of a comprehensive assessment of business environments, earnings conditions and payout ratio.

Dividend amount and timing of its payment will be carefully determined at the Board of Directors' meeting.

The Company also has the policy to invest retained earnings in new business opportunities and operational efficiency purposes in a long-term perspective with the aim of improving its competitiveness in the market and profitability.

With respect to the 45th year dividend, we have decided on a payment of 40 yen per share for this fiscal year (30 yen year-end dividend plus 10 yen interim dividend) in accordance with the above policy.

# Reference Document for the Ordinary General Meeting of Shareholders

Proposals and references

## Proposal 1 Election of 11 Directors

Since the terms of office of all 11 Directors expire at the close of this general meeting, we request the election of 11 Directors.

The candidates for Director are as follows:

Candidate No.	Name (Date of birth)	Brief personal profile, position, responsibilities and significant concurrent positions	Number of Company shares held
1	Masakatsu Kayamori (December 26, 1966)	<p>July 1987 Auditor</p> <p>June 1988 Director (part-time)</p> <p>March 1995 Directors in charge of Director's Office</p> <p>June 1996 Managing Director in charge of Information Promotion Office, Sales Headquarters</p> <p>June 1998 Senior Managing Director in charge of Information Strategy Office, Information System Business</p> <p>June 2000 Executive Vice President and Representative Director</p> <p>April 2005 President and Representative Director</p> <p>March 2006 Director, Daxel Co., Ltd. (Incumbent)</p> <p>April 2012 Chairman, Representative Director and Head of Business Strategy Headquarters</p> <p>Director, Genki Co., Ltd. (Incumbent)</p> <p>April 2013 Representative Director, Daikoku Sangyo Co., Ltd. (Incumbent)</p> <p>April 2017 Chairman, Representative Director</p> <p>April 2018 Chairman, Representative Director in charge of PE Promotion Office and Business Strategy Headquarters (Incumbent)</p>	1,031,650
2	Hiroshi Nemoto (January 13, 1959)	<p>October 1983 Joined the Company</p> <p>June 2005 Director and Deputy General Manager, Information System Sector, Business Headquarters</p> <p>March 2006 Director and General Manager, Information System Sector, Business Headquarters</p> <p>April 2010 Director and General Manager, Information System Sector</p> <p>October 2011 Director and Head of Information System Division</p> <p>April 2014 Managing Director, Head of Information System Division</p> <p>April 2016 Managing Director in charge of Daikoku Denki Group sales</p> <p>March 2016 Director, Daxel Co., Ltd. (Incumbent)</p> <p>April 2017 President and Representative Director (Incumbent)</p> <p>June 2017 Director, Genki Co., Ltd. (Incumbent)</p>	2,800

No.	Name (Date of birth)	Brief personal profile, position, responsibilities and significant concurrent positions	Number of Company shares held
3	Ken Kayamori (August 29, 1970)	<p>June 1989 Auditor</p> <p>June 1990 Director (part-time)</p> <p>June 2000 Director in charge of Corporate Management Office</p> <p>April 2001 Director and General Manager of Corporate Planning Department</p> <p>June 2002 Managing Director and General Manager of Corporate Planning Office</p> <p>April 2005 Senior Managing Director and Representative Director</p> <p>March 2006 Director, Daxel Co., Ltd. (Incumbent)</p> <p>April 2007 Senior Managing Director, Representative Director and Head of Corporate Management Headquarters</p> <p>April 2012 Senior Managing Director, Representative Director and Head of Management Headquarters</p> <p>April 2013 Director, Daikoku Sangyo Co., Ltd. (Incumbent)</p> <p>April 2017 Senior Managing Director in charge of Legal Department and Intellectual Property Department (Incumbent)</p>	1,772,200
4	Tokishige Niwa (June 10, 1957)	<p>February 1994 Joined the Company</p> <p>April 2001 Manager, Information System Development Sector,</p> <p>April 2003 Group Manager, Legal and Intellectual Property Office</p> <p>June 2010 Director and Chief of General Affairs Sector, Administrative Management Division</p> <p>October 2011 Director and Manager of General Affairs Department, Administrative Management Division</p> <p>April 2012 Director and Manager of Administrative Department, Management Division</p> <p>June 2014 Advisor, Management Division</p> <p>June 2017 Managing Director in charge of Corporate Planning Department, Executive Office, Production Division, and Management Control Division (Incumbent)</p>	4,300
5	Seiichiro Oue (February 15, 1963)	<p>February 1990 Joined the Company</p> <p>April 2008 Deputy General Manager, Control System Sector</p> <p>April 2010 Head of Control System Division</p> <p>April 2014 Director and Head of Control System Division</p> <p>April 2014 Managing Director, Head of Control System Division</p> <p>April 2017 Managing Director, General Manager of Control System Division, General Manager of Frontier Department, and in charge of Information System Division (Incumbent)</p> <p>June 2017 Director, Genki Co., Ltd. (Incumbent) Director, Daikoku Sangyo Co., Ltd. (Incumbent) Director, Aloft Co., Ltd. (Incumbent)</p>	175

No.	Name (Date of birth)	Brief personal profile, position, responsibilities and significant concurrent positions	Number of Company shares held
6	Akira Kayamori (February 26, 1964)	<p>October 1992    Joined the Company</p> <p>April 2007    Deputy General Manager, Control System Sector, Business Headquarters</p> <p>April 2010    Deputy General Manager, Control System Sector</p> <p>October 2011   Deputy General Manager, Information System Division</p> <p>June 2012    Director and Deputy General Manager, Information System Division</p> <p>April 2013    Director and Deputy General Manager, Management Control Division, Management Headquarters</p> <p>April 2014    Director and General Manager, Management Control Division, Management Headquarters</p> <p>April 2017    Director and General Manager, Management Control Division (Incumbent)</p>	189,000
7	Yasuhiro Fujimaki (October 18, 1964)	<p>April 1987    Joined the Company</p> <p>April 2008    Production Group Manager, Information System Sector</p> <p>April 2013    General Manager of Production Division</p> <p>April 2014    General Manager of Technology and Procurement Management Department and Director of Production Division</p> <p>April 2017    General Manager, Production Division</p> <p>June 2017    Director and General Manager, Production Division (Incumbent)</p>	700
8	Manabu Matsubara (February 7, 1965)	<p>January 1995    Joined the Company</p> <p>April 2005    Planning Group Manager, Information System Sector, Business Division</p> <p>April 2008    Planning Group Assistant Manager, Control System Sector</p> <p>April 2010    Group Manager of President's Office</p> <p>April 2012    General Manager of President's Office</p> <p>April 2014    General Manager of Corporate Planning Department</p> <p>June 2017    Director and General Manager of Corporate Planning Department (Incumbent)</p> <p>Director, Daikoku Sangyo Co., Ltd. (Incumbent)</p>	700
9	Toshifumi Oonari (February 5, 1966)	<p>April 1995    Joined the Company</p> <p>April 2010    Branch Manager of Kyushu Branch, Sales Center, Information System Sector</p> <p>April 2012    Branch Manager of Kyushu Branch, Sales Division, Information System Division</p> <p>April 2015    Head of Information System Division and Manager of Sales Planning Department, Sales Headquarters, Information System Division</p> <p>April 2016    Head of Information System Division</p> <p>June 2017    Director and Head of Information System Division (Incumbent)</p>	2,200

No.	Name (Date of birth)	Brief personal profile, position, responsibilities and significant concurrent positions	Number of Company shares held
10	Yoshihiro Adachi (April 29, 1947)	<p>April 1970      Joined the Ministry of International Trade and Industry</p> <p>June 1996      Deputy Director-General for Technology Affairs, Agency of Industrial Science and Technology, the Ministry of International Trade and Industry</p> <p>October 1998    Visiting Professor, Graduate School of Engineering, The University of Tokyo</p> <p>June 2010      Director (Incumbent)</p> <p>March 2016     Director, ENERES Co., Ltd., (Incumbent)</p> <p>April 2017      Auditor, The Japan Research and development Center for Metals (Incumbent)</p>	2,500
11	Kunihiko Takeda (June 3, 1943)	<p>April 1966      Joined Asahi Kasei Corporation</p> <p>July 1986      Head of Uranium Enrichment Laboratory, Asahi Kasei Corporation</p> <p>October 1993    Professor, Faculty of Engineering, Shibaura Institute of Technology</p> <p>May 2002      Professor, Graduate School, Nagoya University</p> <p>January 2007    Professor, Chubu University</p> <p>June 2010      Director, Nippon RAD Inc. (Incumbent)</p> <p>April 2014      Specially Appointed Professor, Institute of Science and Technology Research, Chubu University (Incumbent)</p> <p>June 2015      Director (Incumbent)</p>	0

- (Notes) 1. No specific conflict of interest exists between the Company and each candidate for Directors.
2. Messrs. Yoshihiro Adachi and Kunihiko Takeda are candidates for External Directors.
3. Reasons for the election of candidates for External Directors, independence as an External Director, and a limited liability agreement with External Directors
- (1) Reasons for the election of candidates for External Directors
- (i) Mr. Yoshihiro Adachi is nominated as a candidate for External Director, because the Company believes he would be in a position to express opinions independently from the executive management team and oversee the management of the Company from a global perspective, by capitalizing on his academic expertise, including research on global environmental problems, study a new style of international cooperation and other new academic fields that serve as a bridge between engineering and corporate management. Mr. Yoshihiro Adachi has not previously been involved in the management of any company other than by becoming an External Director. However, for the above reasons, the Company determined that he would be able to adequately perform the duties as an External Director.
- (ii) Mr. Kunihiko Takeda is nominated as a candidate for External Director because of his expertise in resource materials engineering as well as his experience engaged as a nuclear researcher using physical chemical methodology for a long period of time. In addition, he has been engaged actively in presenting his insights on global environmental issues, etc. through his many literary works, lectures, speeches and TV shows. Note that he does not have the experience of being involved in corporate management other than as an External Director. For the reasons stated above, the Company made a judgment that he is capable of performing his duties as an External Director.
- (2) Reasons for the independence as an External Director
- (i) The candidate for External Director has never executed operations at the Company or its specified business operations in the past 5 years. In addition, the candidate for External Director has never executed operations at any joint stock company or companies whose rights and obligations have been transferred to the Company as a result of a merger, absorption-type split, or business transfer, immediately prior to such merger, etc. in the past 2 years.
- (ii) The candidate for External Director has no intention of receiving a large amount of money or other assets (excluding remuneration as a Director) from the Company or its specified related business operations in the future, nor has he done so in the past 2 years.
- (iii) The candidate for External Director is not a relative within the third degree of kinship to executive members of the Company or its specified related business operations.
- (iv) The Company has designated Messrs. Kunihiko Takeda and Yoshihiro Adachi as an independent director as defined by the Tokyo Stock Exchange (TSE), and notified the TSE to that effect.

(v) When the candidates for External Directors are approved and passed at the Ordinary General Meeting of Shareholders, the Company intends to continuously designate Messrs. Kunihiko Takeda and Yoshihiro Adachi as independent Directors.

(3) Term of office as an External Director of the Company

(i) The term of office of Mr. Yoshihiro Adachi as an External Director of the Company will have been 8 years as of the conclusion of this Ordinary General Meeting of Shareholders.

(ii) The term of office of Mr. Kunihiko Takeda as an External Director of the Company will have been 3 year as of the conclusion of this Ordinary General Meeting of Shareholders.

(4) Liability limitation agreement with External Directors

The Company stipulates in the current Articles of Incorporation to the effect that an agreement that limits the liability for damages to the Company to a certain scope can be entered with External Directors in order to make possible the recruitment of qualified human resources as External Directors possible. As a result, the Company has entered into a liability limitation agreement with all current External Directors pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act and Article 26 of the Company's Articles of Incorporation, and the limit of liability is the amount stipulated in laws and regulations.

If the reappointments of Messrs. Yoshihiro Adachi and Kunihiko Takeda are approved, the Company plans on continuing the above-mentioned agreement with both individuals.

## Proposal2 Election of 2 Auditors

Of the incumbent Auditors, the term of Kazunori Tajima and Yoshihiro Chinen will expire at the close of this general meeting, therefore it is the Company's request to election of 2 Auditors.

The Company has obtained the consent of the Board of Auditors with respect to this proposal.

The candidates for Auditors are as follows:

Candidate No.	Name (Date of birth)	Brief personal profile, position, responsibilities and significant concurrent positions	Number of Company shares held
1	Kazunori Tajima (December 18, 1946)	<p>October 1971    Joined Ito Audit Corporation</p> <p>June 1988      Appointed as senior partner of Ito Audit Corporation</p> <p>July 2000       Appointed as Director of Ito Audit Corporation</p> <p>January 2001   Appointed as Director of Chuo Aoyama Audit Corporation, Nagoya Office</p> <p>August 2007   Appointed as Director of KPMG AZSA LLC, Nagoya Office</p> <p>June 2009      Resigned from KPMG AZSA LLC, Nagoya Office</p> <p>July 2009       Director of Tajima Kazunori CPA Office (Incumbent)</p> <p>June 2010       Appointed as a company Auditor of Toyota Tsusho Corporation (Incumbent)</p> <p>                    Auditor (Incumbent)</p> <p>June 2015       Appointed as a Director(Audit and supervisory committee) of Nihon Decoluxe Co., Ltd. (Incumbent)</p> <p>November 2016 Appointed as a Director (Audit and supervisory committee) of SHINWA Co., Ltd. (Incumbent)</p>	0

Candidate No.	Name (Date of birth)	Brief personal profile, position, responsibilities and significant concurrent positions	Number of Company shares held
2	Yoshihiro Chinen (August 23, 1950)	<p>April 1974      Joined the National Police Agency</p> <p>January 1992    Chief of Criminal Investigations Division, Kanagawa Prefectural Police</p> <p>February 1994   Chief of Headquarters, Saga Prefectural Police</p> <p>February 1995   Chief of Criminal Investigations Division, Osaka Prefectural Police</p> <p>March 1997      Regional Chief, National Police Agency</p> <p>August 2000     Chief of Headquarters, Shizuoka Prefectural Police</p> <p>August 2002     Deputy Director-General, National Police Agency (Criminal Investigation Bureau) and Director of Special Investigation Executive Training</p> <p>May 2004        Chief of Organized Crime Division, National Police Agency</p> <p>May 2005        Chief of Police, Tohoku Regional Police Bureau</p> <p>July 2006        Retired from the National Police Agency</p> <p>August 2006     West Japan Railway Company, Special Advisor</p> <p>June 2014        Auditor (Incumbent)</p>	0

(Notes) 1. No specific conflict of interest exists between the Company and each candidate for Auditor.

2. Each candidate is a candidate for External Auditor.

3. Reasons for the election of candidate for External Auditor, Independence as an External Auditor and Liability limitation agreement

(1) Reasons for the election of candidate for External Auditor

(i) As Kazunori Tajima has engaged for a long time in audit work as a certified public accountant and possesses rich expertise in corporate accounting and the like, the Company requests to have him appointed so that he can make good use of his experience in its auditing. In addition, although he has never been involved in corporate management in a manner other than by serving as an External Auditor, it is figured that he is capable of properly performing the duties as an External Auditor due to the reasons above.

(ii) As Yoshihiro Chinen possesses a wealth of experience and a wide range of insight serving in key positions in the National Police Agency, the Company requests to have him appointed so that he can transfer his experience to the Company's auditing. In addition, although he has never been involved in corporate management in a manner other than by serving as an External Auditor, it is figured that he is capable of properly performing the duties as an External Auditor due to the reasons above.

(2) Independence as an External Auditor

(i) The candidate for External Auditor has never executed operations at the Company or its specified business operations in the past 5 years. In addition, the candidate for External Auditor has never executed operations at any joint stock company or companies whose rights and obligations have been transferred to the Company as a result of a merger, absorption-type split, or business transfer, immediately prior to such merger, etc. in the past 2 years.

(ii) The candidate for External Auditor has no intention of receiving a large amount of money or other assets (excluding remuneration as an Auditor) from the Company or its specified related business operations in the future, nor has he done so in the past 2 years.

(iii) Each candidate for External Auditor is not a relative within the third degree of kinship to executive members of the Company or its specified related business operations.

(3) Term of office as an External Auditor of the Company

(i) The period through which Mr. Kazunori Tajima has been appointed as the company's External Auditor will be 8 years by the close of this general meeting.

(ii) The period through which Mr. Yoshihiro Chinen has been appointed as the company's External Auditor will be 4 by the close of this general meeting.

(4) Liability limitation agreement with External Auditor

In order to enable the Company to include competent External Auditors, the Company provides in the current Articles of Incorporation that the Company may enter into agreements with External Auditors to limit their liability to the Company. As a result, the Company has entered into a liability limitation agreement with all current External Auditors pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act and Article 33 of the Company's Articles of Incorporation, and the limit of liability is the amount stipulated in laws and regulations.

If the reappointment of Messrs. Kazunori Tajima and Yoshihiro Chinen are approved, the Company plans on continuing the above-mentioned agreement, and entering into the agreement with Mr. Koji Yoshikawa.

**Proposal3 Payment of bonuses to Directors and Auditors for the 45th Business Term**

The Company proposes to pay bonuses to 11 Directors and 4 Auditors who were in office at the end of the fiscal year ended March 31, 2018 in the total amount of ¥62,780,000 (consisting of ¥56,200,000 for 9 Directors, ¥480,000 for 2 External Directors and ¥6,100,000 for 4 Auditors), taking into account the business performance for the fiscal year.

The Company proposes that the decision as to the allocation of the amount to each Director and each Auditor be entrusted to the Board of Directors with regard to Directors and to the Board of Auditors with regard to Auditors, respectively.

End