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Securities code: 8093
June 6, 2022

To Shareholders with Voting Rights:

Yoshiya Okada
Representative Director
President and Chief Executive Officer
Kyokuto Boeki Kaisha, Ltd.
2-1, Otemachi 2-chome, Chiyoda-ku,
Tokyo, Japan

**CONVOCAATION NOTICE
FOR THE 102ND ANNUAL GENERAL MEETING OF SHAREHOLDERS**

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

Please be informed that the 102nd Annual General Meeting of Shareholders of Kyokuto Boeki Kaisha, Ltd. (the “Company”) will be held as set forth below.

Considering the situation where the spread of the novel coronavirus disease (COVID-19) still remains, in order to prevent the infection, this year’s General Meeting of Shareholders will be held with wider space provided between seats and decreased number of seats available at the venue.

For this year’s General Meeting of Shareholders, in view of the risk of infection at the venue of the Meeting, we strongly encourage you to refrain from attending the Meeting in person, regardless of your health conditions on the day of the Meeting. If you will attend the Meeting, we ask you to visit the venue of the Meeting while taking measures to prevent infection such as wearing a mask.

If you do not attend the meeting, you can exercise your voting rights in advance in either of the following ways. Please review the attached Reference Documents for the General Meeting of Shareholders and exercise your voting rights by close of business (5:40 p.m. JST) on Wednesday, June 22, 2022.

[Exercise of voting rights by postal mail (in writing)]

Please indicate your votes for or against the proposals on the enclosed Voting Rights Exercise Form and send it back to us so that it reaches us by the exercise deadline stated above.

[Exercise of voting rights via the Internet]

Please refer to “Instructions for Exercising Voting Rights via the Internet” on page 5 (available only in the Japanese version) and enter your votes for or against the proposals by the exercise deadline stated above.

- 1. Date and Time:** Thursday, June 23, 2022 at 10:00 a.m. JST
- 2. Place:** 6-1, Otemachi 2-chome, Chiyoda-ku, Tokyo
Conference Room H, 5F, Fukuracia, Asahi Seimei Otemachi Building
*The venue has changed from last year. Please refer to the venue map at the end of this Convocation Notice (available only in the Japanese version).
- 3. Meeting Agenda:**
Matters to be reported: 1. The Business Report, Consolidated Financial Statements for the Company’s 102nd Term (April 1, 2021 - March 31, 2022) and results of audits by the Accounting Auditor and the Audit and Supervisory Committee of the Consolidated Financial Statements

2. Non-consolidated Financial Statements for the Company's 102nd Term (April 1, 2021 - March 31, 2022)

Proposals to be resolved:

<Company Proposals (Proposals 1 to 3)>

- Proposal 1:** Appropriation of Surplus
- Proposal 2:** Partial Amendments to the Articles of Incorporation
- Proposal 3:** Election of Five Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

<Shareholder Proposals (Proposals 4 to 9)>

- Proposal 4:** Election of One Director Not Serving as an Audit and Supervisory Committee Member
- Proposal 5:** Amendment to the Articles of Incorporation with Regard to Disclosure of Cost of Capital
- Proposal 6:** Amendment to the Articles of Incorporation with Regard to Cross-shareholdings
- Proposal 7:** Partial Amendment to the Articles of Incorporation to Add the Holding and Management of Investment Shares of Which Purpose is Purely for Investment Purposes to the Agenda of Articles
- Proposal 8:** Amendment to the Articles of Incorporation with Regard to Cancellation of Treasury Shares
- Proposal 9:** Cancellation of Treasury Shares

When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk. Of the documents required to be appended to this Convocation Notice as attachments, the Notes to the Consolidated Financial Statements and the Notes to the Non-consolidated Financial Statements have been posted on the Company's corporate site (<https://www.kbk.co.jp>) in accordance with laws and regulations and Article 16 of the Articles of Incorporation of the Company.

Any revisions to the Reference Documents for the General Meeting of Shareholders, the Business Report, the Non-consolidated Financial Statements or Consolidated Financial Statements will be posted on the Company's corporate site (<https://www.kbk.co.jp>).

<Requests to Shareholders>

Please note that the number of seats available this year will be significantly smaller than usual years, as the space between seats will be expanded to prevent the spread of infection.

The above measures may be updated in response to the status of the spread of infection and the content of announcements by the government up to the day of the General Meeting of Shareholders. Please check the information we provide on our corporate site (<https://www.kbk.co.jp>).

We ask shareholders attending the Meeting to bring and wear a mask. Our staff will work wearing a face mask at the Meeting after they check their physical conditions, including their body temperatures.

If it turns out that you have a fever or feel unwell as a result of the temperature measurement near the entrance of the venue, you may be asked not to enter the venue.

In order to secure social distancing at the venue, we will reduce the number of seats available. If the number of attendees exceeds the number of seats available, you may not be allowed to enter the venue in accordance with conditions.

For this year's General Meeting of Shareholders, detailed explanations of the matters to be reported (including audit reports) and the Proposals will be omitted at the venue, in order to reduce the time spent on the Meeting to prevent the spread of COVID-19. We ask you to read this Convocation Notice beforehand.

Reference Documents for the General Meeting of Shareholders

Proposals and References

<Company Proposals (Proposals 1 to 3)>

Proposal 1: Appropriation of Surplus

The Company proposes to appropriate its surplus as follows.

Matters concerning year-end dividends:

In order to continuously and positively give back to its shareholders and achieve sustained improvement in corporate value, the Company makes it a basic policy to distribute profits in consideration of future business development, financial conditions, revenue trends, and other factors, under an appropriate capital policy.

In addition, in the “KBK Plus-One 2025,” the medium-term management plan announced on May 10, 2021, the Company has set forth proactive shareholder return policies such as maintaining a dividend payout ratio of 100% for the first three years.

In accordance with the above policy, in comprehensive consideration of factors including business results for the current fiscal year, the business environment, and future business expansion, the Company proposes a year-end dividend as follows.

- (1) Type of dividend property
Money
- (2) Allocation of dividend property and total amount thereof
55 yen per share of common stock of the Company (130 yen per year combined with an interim dividend)
In this case, the total amount of dividends will be 338,333,710 yen.
- (3) Effective date of distribution of surplus
June 24, 2022

Proposal 2: Partial Amendments to the Articles of Incorporation

1. Reasons for Proposal

The system for the electronic provision of documents for general meetings of shareholders stipulated in the proviso to Article 1 of the supplementary provisions of the “Act Partially Amending the Companies Act” (Act No. 70 of 2019) will be enforced on September 1, 2022, and accordingly, the Articles of Incorporation of the Company will be amended to newly establish a provision to the effect that information contained in the reference documents for the general meeting of shareholders, etc. shall be provided electronically, and a provision to limit the scope of matters to be included in the paper copy to be sent to shareholders who have requested it.

The provisions related to the internet disclosure and deemed provision of the reference documents for the general meeting of shareholders, etc. of the current Articles of Incorporation will become unnecessary and will therefore be deleted. In line with the establishment and deletion of the provisions, supplementary provisions related to the effective date, etc. shall be established.

2. Details of amendments

The details of the amendments are as follows.

(Amended parts are underlined.)

Current Articles of Incorporation	Proposed Amendments
<p><u>(Internet Disclosure and Deemed Provision of Reference Documents for the General Meeting of Shareholders, Etc.)</u></p> <p><u>Article 16 The Company may, when convening a general meeting of shareholders, deem that it has provided information to shareholders pertaining to matters to be described or indicated in the reference documents for the general meeting of shareholders, business report, non-consolidated financial statements, and consolidated financial statements, by disclosing such information through the internet in accordance with the provisions provided in the Ministry of Justice Order.</u></p>	<p>(Deleted)</p>

Current Articles of Incorporation	Proposed Amendments
(Newly established)	<p><u>(Measures for Electronic Provision, Etc.)</u></p> <p><u>Article 16</u> The Company shall, when convening a general meeting of shareholders, provide information contained in the reference documents for the general meeting of shareholders, etc. electronically.</p> <p>2. Among the matters to be provided electronically, the Company may choose not to include all or part of the matters stipulated in the Ministry of Justice Order in the paper copy to be sent to shareholders who have requested it by the record date for voting rights.</p>
(Newly established)	<p><u>(Supplementary provisions)</u></p> <p>1. The deletion of Article 16 (Internet Disclosure and Deemed Provision of Reference Documents for the General Meeting of Shareholders, Etc.) of the . current Articles of Incorporation and the proposed Article 16 (Measures for Electronic Provision, Etc.) shall come into effect on the date of enforcement of the amended provisions stipulated in the proviso to Article 1 of the supplementary provisions of the Act Partially Amending the Companies Act (Act No. 70 of 2019) (the “Effective Date”).</p> <p>2. Notwithstanding the provisions of the preceding paragraph, Article 16 of the current Articles of Incorporation shall remain in force with respect to a general meeting of shareholders to be held on a date within six months from the Effective Date.</p> <p>3. These supplementary provisions shall be deleted after the lapse of six months from the Effective Date or the lapse of three months from the date of the general meeting of shareholders set forth in the preceding paragraph, whichever is later.</p>

Proposal 3: Election of Five Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

All five Directors (excluding Directors Serving as Audit and Supervisory Committee Members; hereinafter the same shall apply in this Proposal) will retire due to expiration of their terms of office at the conclusion of this General Meeting of Shareholders.

Accordingly, the Company proposes to elect five Directors.

The candidates for Directors are as follows.

With regard to this Proposal, the Audit and Supervisory Committee has determined that all candidates for Directors are appropriate.

No.		Name	Current positions and responsibilities	Attendance at Board of Directors meetings
1	<input type="checkbox"/> Reappointment	Yoshiya Okada	Representative Director President and Chief Executive Officer; General Manager, Sales Administration Office	14/14 (100%)
2	<input type="checkbox"/> Reappointment	Nobuki Tomabechi	Director and Managing Executive Officer; General Manager, Corporate Administration Office	14/14 (100%)
3	<input type="checkbox"/> Reappointment	Masaharu Sato	Director and Managing Executive Officer; Deputy General Manager, Sales Administration Office; General Manager, Industrial Materials Division	14/14 (100%)
4	<input type="checkbox"/> Reappointment	Shinji Sakuma	Director and Managing Executive Officer; Deputy General Manager, Sales Administration Office; General Manager, Mechanical Parts Division	14/14 (100%)
5	<input type="checkbox"/> Reappointment	Takashi Fujino	<input type="checkbox"/> Outside <input type="checkbox"/> Independent Director	11/11 (100%)

No.	Name (Date of birth)	Past experience, positions and responsibilities (Significant concurrent positions)	Number of shares of the Company held
1	<div data-bbox="204 633 391 667" style="border: 1px solid black; padding: 2px; display: inline-block;">Reappointment</div> Yoshiya Okada (April 25, 1957) Attendance at Board of Directors meetings: 14/14 (100%)	<p>April 1984 Joined the Company</p> <p>April 2003 General Manager, Information & Environment Systems Department</p> <p>June 2005 Managing Director, KBK Europe GmbH</p> <p>October 2009 General Manager, Industrial Systems Department, the Company</p> <p>April 2011 Executive Officer; General Manager, Industries & Resources Group; General Manager, Industrial Systems Department</p> <p>April 2012 Executive Officer; General Manager, Industries & Resources Group</p> <p>April 2013 Executive Officer; General Manager, Industries & Resources Group; General Manager, Domestic Subsidiaries Management Group</p> <p>June 2013 Director and Executive Officer; General Manager, Industries & Resources Group; General Manager, Domestic Subsidiaries Management Group</p> <p>April 2017 Director and Managing Executive Officer; General Manager, Industries & Resources Group; General Manager, Domestic Subsidiaries Management Group</p> <p>June 2017 Director and Managing Executive Officer; General Manager, Industries & Resources Group</p> <p>April 2019 President and Chief Executive Officer General Manager, Sales Administration Office (to present)</p> <p><Reason for candidacy> Since joining the Company, Mr. Okada has engaged mainly in the industry-related business and has accumulated abundant experience and considerable achievements in the Company's various business areas. He also has management experience overseas, serving as a manager of a local subsidiary of the Company in Germany. Moreover, he assumed the office of President and Chief Executive Officer of the Company in 2019 and has since accumulated a high degree of expertise concerning business management as a whole through the above experience, and also possess abundant experience and insight as a corporate executive. The Company proposes to continue to elect him as Director because it believes that he can contribute to the sustained growth of the Company and further enhancement of corporate value.</p>	17,632 shares

No.	Name (Date of birth)	Past experience, positions and responsibilities (Significant concurrent positions)	Number of shares of the Company held
2	<p style="text-align: center;">Reappointment</p> <p>Nobuki Tomabechi (March 11, 1958)</p> <p>Attendance at Board of Directors meetings: 14/14 (100%)</p>	<p>April 1982 Joined the Company</p> <p>June 2006 General Manager, Accounting Department</p> <p>July 2006 General Manager, Accounting Department; General Manager, Affiliates Office</p> <p>April 2011 Executive Officer; General Manager, Administration and Planning Group; General Manager, Affiliates Companies</p> <p>April 2013 Executive Officer; General Manager, Administration and Planning Group; General Manager, Group Planning Office</p> <p>June 2015 Director and Executive Officer</p> <p>April 2017 Director and Managing Executive Officer; General Manager, Administration and Planning Group; General Manager, Group Planning Office</p> <p>April 2019 Director and Senior Managing Executive Officer; General Manager, Corporate Administration Office; General Manager, Administration and Planning Group; General Manager, General Overseas Business Group</p> <p>December 2019 Director and Managing Executive Officer; General Manager, Corporate Administration Office</p> <p>April 2022 Director and Managing Executive Officer; General Manager, Corporate Administration Office (to present)</p> <p><Reason for candidacy> Since joining the Company, Mr. Tomabechi has engaged in duties in the administrative division and has served as General Manager of Accounting Department, Affiliates Office, and Administration and Planning Group, accumulating abundant experience and considerable achievements in the areas of accounting, finance, and overall administrative operations. He also has a global perspective, having worked at a local subsidiary of the Company in the U.S. The Company proposes to continue to elect him as Director because it believes that he has been contributing to the sustained growth of the Company and further enhancement of corporate value through his high degree of expertise concerning business management as a whole, which he has accumulated through the above experience.</p>	12,961 shares
3	<p style="text-align: center;">Reappointment</p> <p>Masaharu Sato (January 9, 1959)</p> <p>Attendance at Board of Directors meetings: 14/14 (100%)</p>	<p>April 1983 Joined the Company</p> <p>June 2005 General Manager, Plastics Department</p> <p>June 2009 Executive Officer; General Manager, Materials Group; General Manager, Plastics Department</p> <p>July 2009 Executive Officer; General Manager, Materials Group</p> <p>June 2017 Director and Executive Officer; General Manager, Materials Group</p> <p>April 2019 Director and Managing Executive Officer; Deputy General Manager, Sales Administration Office; General Manager, Industrial Materials Division; General Manager, Mechanical Parts Division</p> <p>April 2021 Director and Managing Executive Officer; Deputy General Manager, Sales Administration Office; General Manager, Industrial Materials Division (to present)</p> <p>(Significant concurrent position) President & CEO, Sunco Spring Co., Ltd.</p> <p><Reason for candidacy> Since joining the Company, Mr. Sato has engaged in the industrial materials-related business and has served as General Manager of Plastics Department and Materials Group, accumulating abundant experience and considerable achievements in those areas. In addition to having worked abroad, he has a wealth of business experience overseas involving coordination and negotiation with customers. The Company proposes to continue to elect him as Director because it believes that he has been contributing to the sustained growth of the Company and further enhancement of corporate value through his high degree of expertise concerning business management as a whole, which he has accumulated through the above experience.</p>	9,644 shares

No.	Name (Date of birth)	Past experience, positions and responsibilities (Significant concurrent positions)	Number of shares of the Company held
4	<div style="border: 1px solid black; padding: 2px; width: fit-content; margin-bottom: 5px;">Reappointment</div> <p>Shinji Sakuma (May 22, 1963)</p> <p>Attendance at Board of Directors meetings: 14/14 (100%)</p>	<p>April 1986 Joined the Company</p> <p>July 2009 General Manager, Kyokuto Trading (Shanghai) Co., Ltd.</p> <p>May 2013 General Manager, Industrial Systems Department, the Company</p> <p>April 2019 Executive Officer; General Manager, Basic Industry Division</p> <p>June 2020 Director and Executive Officer; Deputy General Manager, Sales Administration Office; General Manager, Basic Industry Division</p> <p>April 2021 Director and Executive Officer; Deputy General Manager, Sales Administration Office; General Manager, Mechanical Parts Division</p> <p>June 2021 Director and Managing Executive Officer; Deputy General Manager, Sales Administration Office; General Manager, Mechanical Parts Division (to present)</p> <p>(Significant concurrent position) President & COO, ETO Co., Ltd.</p> <hr/> <p><Reason for candidacy> Since joining the Company, Mr. Sakuma has engaged in the industrial materials- related business and basic industry-related business, and has accumulated abundant experience and considerable achievements in the Company's various business areas. He also has management experience overseas, serving as General Manager of Kyokuto Trading (Shanghai) Co., Ltd., a local subsidiary of the Company in China. The Company proposes to continue to elect him as Director because it believes that he has been contributing to the sustained growth of the Company and further enhancement of corporate value through his high degree of expertise concerning business management as a whole, which he has accumulated through the above experience.</p>	9,207 shares
5	<div style="border: 1px solid black; padding: 2px; width: fit-content; margin-bottom: 5px;">Reappointment</div> <div style="border: 1px solid black; padding: 2px; width: fit-content; margin-bottom: 5px;">Outside</div> <div style="border: 1px solid black; padding: 2px; width: fit-content; margin-bottom: 5px;">Independent</div> <p>Takashi Fujino (February 12, 1956)</p> <p>Attendance at Board of Directors meetings: 11/11 (100%)</p>	<p>April 1979 Joined Asahi Glass Co., Ltd. (currently AGC Inc.)</p> <p>January 2009 Executive Officer; General Manager, Corporate Planning Office</p> <p>January 2010 Senior Executive Officer; CFO; General Manager, President Office</p> <p>March 2010 Director; Senior Executive Officer; CFO; General Manager, President Office</p> <p>January 2015 Director; Senior Executive Officer; Assistant to President</p> <p>January 2015 Advisor, ISE CHEMICALS CORPORATION</p> <p>March 2015 President and Chief Executive Officer</p> <p>June 2021 Director, the Company (to present)</p> <hr/> <p><Reason for candidacy and summary of expected roles> Mr. Fujino had served as Director in charge of finance, investor relations and corporate governance at Asahi Glass Co., Ltd. (currently AGC Inc.), and later as President at ISE CHEMICALS CORPORATION (listed on the second section of the Tokyo Stock Exchange). The Company has nominated him as a candidate for Outside Director in order for him to provide objective opinions on the Company's overall management from an independent perspective based on his abundant experience and wide insight as a corporate manager. The Company expects him to perform a supervisory function from a standpoint independent of the management team, based on his abundant experience in corporate management.</p>	300 shares

(Notes)

1. There are no special interests between the above candidates and the Company.
2. Attendance at Board of Directors meetings of Mr. Takashi Fujino is counted for the Board of Directors meetings held after he took office as Director.
3. Mr. Takashi Fujino is a candidate for Outside Director.
4. The matters concerning candidates for Outside Directors are as follows:
 - i. The Company has entered into a liability limitation agreement with Mr. Takashi Fujino, and plans to continue the said agreement with him if his reelection is approved. The outline of the agreement is as follows:
Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the liability for damages under Article 423, Paragraph 1 of the said Act shall be limited to the higher of 7.2 million yen or the minimum amount of liability stipulated in Article 425, Paragraph 1 of the said Act.
 - ii. Mr. Takashi Fujino is currently an Outside Director of the Company and will have served in the position for one year at the conclusion of this Annual General Meeting of Shareholders.
5. The Company has registered Mr. Takashi Fujino as an independent officer stipulated by the rules of the Tokyo Stock Exchange, and plans to continue to register him as an independent officer if his reelection is approved.
6. The Company has concluded a directors and officers liability insurance contract with an insurance company, with Directors and Auditors of the Company and its subsidiaries as the insured persons. The insurance contract covers damages, litigation expenses, etc. to be borne by the insured in the event that a claim for damages is made against the insured due to an act committed by the insured in his/her capacity as an officer of the Company. The Company bears the entire premium for all the insured persons.
Each candidate will be included in the insured persons under the insurance contract. The Company plans to renew the insurance contract of the same content at the time of next renewal.

[Reference] Skills Matrix of Directors (planned) after the Annual General Meeting of Shareholders

Name	Positions	Independent and Outside	Corporate management	Finance	Legal affairs, risk management	Technology, innovation	Sales, marketing	Global experience	Environment, society	Human resource management
Yoshiya Okada	Representative Director, President and Chief Executive Officer		○			○	○	○	○	○
Nobuki Tomabechi	Director and Managing Executive Officer		○	○	○			○	○	○
Masaharu Sato	Director and Managing Executive Officer		○			○	○	○	○	
Shinji Sakuma	Director and Managing Executive Officer		○			○	○	○		
Takashi Fujino	Director	●	○	○	○			○		○
Susumu Ohuchi	Director, Audit and Supervisory Committee Member		○	○	○			○	○	
Mitsuharu Kaizuka	Director, Audit and Supervisory Committee Member	●			○					○
Mariko Hidaka	Director, Audit and Supervisory Committee Member	●		○						○

(Note) The above table represents skills and roles possessed by each Director.

<Shareholder Proposals (Proposals 4 to 9)>

Proposals 4 to 9 were raised by two shareholders (hereinafter the “Proposing Shareholders”).

Note that the proposals notified to the Company by the Proposing Shareholders and the main points of the proposals have been organized by proposal and are presented without modification.

Proposal 4: Election of One Director Not Serving as an Audit and Supervisory Committee Member

1. Content of Proposal

Appoint the candidate below as a director of the Board.

Name (Date of birth)	Past experience	Number of shares of the Company held
Tsuyoshi Maruki (July 23, 1959)	April 1982 Joined Nomura Securities Co., Ltd. August 1999 Executive vice-president, M & A Consulting Inc. May 2006 CEO, MAC Asset Management Co., Ltd. February 2010 Representative Director, TNP Strategic Capital Co., Ltd. September 2012 Representative Director (current position), Strategic Capital (Significant concurrent positions) Representative Director, Strategic Capital Co., Ltd.	0 shares
	<Reason for candidacy> As a major shareholder of the Company, we strongly wish that the shareholder value of the Company will improve through management based on the cost of capital. We believe that the candidate will be able to contribute to the improvement of the Company’s shareholder value based on his knowledge on the capital market he acquired through his work at Nomura Securities Co., Ltd. and his experience as a corporate manager and investment manager of investment management companies he gained after leaving the said company and until now. Accordingly, we newly propose Mr. Maruki as a candidate. Also, Strategic Capital, whose representative is the candidate, manages the Fund holding 17.38% of the total outstanding shares of the Company as of March 31, 2022. As the amount is greater than 10% of the total number of voting rights, the candidate is not expected to be registered as an independent director with the Tokyo Stock Exchange and will instead act as a part-time outside director.	

(Notes)

1. There is no particular interest between the candidate and the Company.
2. Strategic Capital, whose representative is the candidate, holds 200 shares of the Company's shares as of March 31, 2022. Strategic Capital is under a discretionary investment contract with INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP (the Fund) and the Fund holds 1,129,200 shares of the Company's shares as of the same day.

2. Reasons for Proposal

The candidate is a representative of Strategic Capital Co., Ltd. (hereinafter “SC Co., Ltd.”), the joint proposer of this shareholder proposal. SC Co., Ltd., to date, has a track record of submitting various proposals and approaching many listed companies from the standpoint of the shareholder, and actually increasing shareholder value.

If any of Proposals 2. to 6. (Note), described below, is approved, the candidate can be expected to promote these initiatives as a member of the Board of Directors. Meanwhile, even if none of these proposals are approved, the candidate will be able to play a role in continuous discussions by proposing measures to increase the Company’s shareholder value to the Board of Directors.

SC Co., Ltd. is a signatory of the UNPRI, United Nations Principles for Responsible Investment, and incorporates the so-called ESG perspective in the investment process. If the candidate is appointed as Director, he is expected to accelerate the policy of optimizing the environmentally-friendly business portfolio, by revitalizing the discussions of the Board from the standpoint of the environment (“E” of ESG) and further

restructure the business portfolio.

The Company expressed its opposition to the proposal of election of a Director, whose contents were the same as those of this proposal, saying that “The candidate for Director (Mr. Maruki) gives rise to the risk of intervention in specific management decisions through the prioritization of specific major shareholders, which, in turn, will make it difficult to realize the above measures (Note: Medium-Term Management Plan),” in the Annual General Meeting of Shareholders last year.

However, SC Co., Ltd. has never behaved as if it “prioritized specific major shareholders,” and will not “intervene in specific management decisions through the prioritization of specific major shareholders.” SC Co., Ltd. has made proposals that are beneficial to the whole shareholders of the Company to the Company. For example, SC Co., Ltd. continuously encouraged the Company to modify the mid-term management plan, and the Company responded to the suggestion and announced a new mid-term management plan which included a shareholder return policy of a dividend payout ratio of 100% in May 2021, which was proposed by SC Co., Ltd. Therefore, the aforementioned opposition the Company expressed in the Annual General Meeting of Shareholders last year is different from what actually happened.

Note) “Proposals 2. to 6.” should be read as “Proposals 5. to 9.”

○ The Board of Directors’ Opinion on the Proposal

The Board of Directors of the Company is opposed to this Proposal from the following reasons.

- 1) The five candidates for Director excluding Directors serving as Audit and Supervisory Committee Members proposed by the Company have well-balanced adequacy and qualification that are deemed desirable for shareholders, and a highly effective and transparent corporate governance is expected.
- 2) The Company has regularly exchanged opinions with the candidate for Director of the Shareholder Proposal over the long term and the Company intends to continue these dialogues with him and examine measures to enhance corporate value including shareholder value properly, considering opinions expressed by him.
- 3) With 1) and 2) above, the Company’s Board of Directors sufficiently functions from the perspective of enhancing the Company’s corporate value and establishing a highly effective corporate governance structure if the candidates proposed by the Company are elected.
- 4) The above opinion is a result of the careful examination and deliberation by the Board of Directors based on the recommendations of the independent Nomination Committee, a discretionary advisory body under the Board of Directors.

Proposal 5: Amendment to the Articles of Incorporation with Regard to Disclosure of Cost of Capital

1. Content of Proposal

Add the following Chapter and Article to the current Articles of Incorporation.

CHAPTER VII. COST OF CAPITAL

(Disclosure of Cost of Capital)

Article 37.

The Company shall disclose, in the Corporate Governance Report which it submits to the Tokyo Stock Exchange, its Weighted Average Cost of Capital and its basis of calculation which it comprehends at the point of within 1 month before the submittal of the report.

2. Reasons for Proposal

The Corporate Governance Code, Principle 5-2 requires that the management have a full and accurate understanding of the capital costs of their company. It should also be a requirement for the management of the Company to draft and examine business plans and capital policy after a full appraisal of its weighted average capital cost (hereinafter “WACC”) that reflects the Company’s cost of equity.

However, the Company’s stock price has been evaluated to be significantly below its liquidation value over the long term. This indicates that the Company’s ROE does not exceed the level sought by investors (cost of equity).

The Company should disclose its WACC, engage in dialogue with investors including shareholders, and establish business strategies and business plans after correctly identifying its capital cost. The Proposing Shareholders believe that by doing so, the lackluster reputation of the Company’s stock in the market will be improved.

- The Board of Directors' Opinion on the Proposal
The Board of Directors of the Company is opposed to this Proposal from the following reasons.
 - 1) The Board of Directors does not believe that this Shareholder Proposal is a matter that should be included in the Company's Articles of Incorporation.
 - 2) The Company already disclosed its capital costs in the financial results briefing on May 26, 2022.

Proposal 6: Amendment to the Articles of Incorporation with Regard to Cross-Shareholdings

1. Content of Proposal

Add the following Chapter and Article to the current Articles of Incorporation.

CHAPTER VIII. DISSOLUTION OF SHARES HELD BY THE COMPANY

(Verification of Purpose of Cross-Shareholdings and Disclosure of Results)

Article 38.

(1) The Company shall notify companies issuing shares for cross-shareholdings held by the Company that the Company requests dissolution of the said shares at least once a year in order to verify that the purpose of the said cross-shareholdings of "fostering stable long-term trading relations and business partnerships and ensuring stronger and smoother cooperation in business development with transaction partners" is actually accomplished by cross-shareholdings.

(2) The Company shall disclose responses from the issuing companies obtained following the request of dissolution of shares to the said companies in the preceding paragraph, by classifying information by company, on the Corporate Governance Report which the Company submits to the Tokyo Stock Exchange.

2. Reasons for Proposal

At the end of March 2021, the Company holds cross-shareholdings in three companies in the total of 1,426 million yen on the (non-consolidated) balance sheet.

In its securities report for the fiscal year ending March 2021, the Company discloses that the purpose of these cross-shareholdings is "to foster stable long-term trading relations and business partnerships and to ensure stronger and smoother cooperation in business development with transaction partners." But it is hard to understand the causal relationship between holding shares and fostering stronger trade relations.

One of such companies actually complies with the Corporate Governance Code, Supplementary Principle 1-4-1. Accordingly, it seems that there is no possibility that the issuing companies will reduce trades or take other actions if the Company sells off its shares.

The Proposing Shareholders believe that the Company should not hold any cross-shareholdings, and this Shareholder Proposal requests that the Company re-verify whether the purpose of cross-shareholdings disclosed by the Company is actually accomplished. The cross-shareholdings whose purpose is not accomplished should be reduced pursuant to the Corporate Governance Code since such shareholdings are not deemed reasonable.

- The Board of Directors' Opinion on the Proposal
The Board of Directors of the Company is opposed to this Proposal from the following reasons.
 - 1) The Board of Directors does not believe that this Shareholder Proposal is a matter that should be included in the Articles of Incorporation.
 - 2) The Company's cross-shareholdings are subject to annual monitoring by the Board of Directors. In light of the de facto relationships with transaction partners and based on certain standards, the Board of Directors reviews the viability of continuing such cross-shareholdings from a medium- to long-term perspective, and adjusts the number of such shares held to verify the appropriateness of cross-shareholdings.

Proposal 7: Partial Amendment to the Articles of Incorporation to Add the Holding and Management of Investment Shares of Which Purpose is Purely for Investment Purposes to Agenda of Articles

1. Content of Proposal

Add a new paragraph of 12 to Article 2 of the current Articles of Incorporation and increment the numbers of paragraphs following Article 2, paragraph 12.

(Purposes)

Article 2.

12. Holding and management of investment shares of which purpose is purely for investment purposes

2. Reasons for Proposal

The Company continuously holds and manages investment shares to be held purely for investment purposes (hereinafter the “Shares Held for Pure Investment Purposes”), which is not provided as a purpose in the current Articles of Incorporation. This proposal is to discontinue holding and managing the Shares Held for Pure Investment Purposes after having shareholders reject the proposal.

The Company’s shareholders should hold its shares because they expect earnings growth from the main business of the Company, not from the management of Shares Held for Pure Investment Purposes which are not provided as a purpose in the Company’s Articles of Incorporation. Nevertheless, at the end of March 2021, the Company held the Shares Held for Pure Investment Purposes in 69 companies, totaling as many as 3,460 million yen on the (non-consolidated) balance sheet. The Company’s total market capitalization is 14,271 million yen at the end of March 2022, and the Shares Held for Pure Investment Purposes account for approx. 24% of the total market capitalization. Therefore, it is impossible to ignore the impact of the Shares Held for Pure Investment Purposes on the Company’s shareholder value.

Furthermore, the total dividend income and loss (gain) on sale related to the Shares Held for Pure Investment Purposes for the fiscal year ending March 2021 was 189 million yen, and the loss (gain) on valuation amounted to 1,928 million yen in total, which only includes listed stocks. Given the operating loss of Basic Industry Division of 14 million yen, operating profit of Electronics and Control Systems Division of 128 million yen, operating profit of Industrial Materials Division of 135 million yen and operating profit of Mechanical Parts Division of 109 million yen in the same period, the scale of a business of holding and managing the Shares Held for Pure Investment Purposes is equivalent to or larger than that of each segmented business.

It is difficult to acknowledge that managing investment whose scale is equivalent to that of segmented businesses without adding the purpose to business purposes of the Articles of Incorporation is within the scope of incidental services of businesses provided in the Articles of Incorporation. The Proposing Shareholders believe that leaving the state of violation of the Articles of Incorporation unchanged is against the duty of care of a good manager taken on by the Company’s Directors.

In this proposal, therefore, the Proposing Shareholders propose the addition of holding and managing the Shares Held for Pure Investment Purposes to the business purposes of the Articles of Incorporation. If this proposal is rejected, the Company’s management should correctly recognize the fact that the Company’s shareholders do not desire the management of the Shares Held for Pure Investment Purposes at all, and should immediately sell all the Shares Held for Pure Investment Purposes that are held at the moment and use the proceeds from the sale for return of profit to shareholders and other purposes to enhance shareholder value.

Of course, the Proposing Shareholders are opposed to this Proposal.

○ The Board of Directors’ Opinion on the Proposal

The Board of Directors of the Company is opposed to this Proposal from the following reasons.

- 1) Management of surplus funds at business companies is undertaken without purposes stipulated in the Articles of Incorporations in general, and the Company does not carry out equity investment itself as a business.
- 2) The Board of Directors therefore does not believe that this Shareholder Proposal is a matter that should be included in the Articles of Incorporation.
- 3) The Company has been gradually selling the Shares Held for Pure Investment Purposes, which has been reduced year after year, and will not purchase shares in the form of Shares Held for Pure Investment Purposes.

Proposal 8: Amendment to the Articles of Incorporation with Regard to Cancellation of Treasury Shares

1. Content of Proposal

Add the following Chapter and Article to the current Articles of Incorporation.

CHAPTER X. CANCELLATION OF TREASURY SHARES

(Cancellation of Treasury Shares)

Article 13.

The Company may cancel its treasury shares (including determination of the types of treasury shares and the number of shares per type) at an ordinary resolution of a general meeting of shareholders provided in Article 309, Paragraph 1 of the Companies Act.

2. Reasons for Proposal

The Company holds as many as roughly 340 thousand treasury shares at the end of December 2021, which account for approx. 5.3% of the total number of outstanding shares. The Company may assume the use of treasury shares as an exchange for M&A transactions of the Company. However, considering the Company's financial status, it seems that utilizing interest-bearing debts instead of treasury shares would enhance shareholder value. The Company may also assume the use of treasury shares as stock-based compensation. However, it would be more beneficial to shareholders' profit if the Company buys back shares and uses treasury shares it purchased, considering the Company's financial status and stock price level.

Additionally, the Company's holding of a large amount of treasury shares means to shareholders that dilution of the Company's shares may take place at any time.

Based on the above, the Proposing Shareholders propose the revision of the provisions of Articles so that the Company could cancel its treasury shares at the resolution of a general meeting of shareholders, as the Company's Board of Directors has not determined the cancellation of the said shares, which would contribute to the enhancement of the Company's shareholder value.

○ The Board of Directors' Opinion on the Proposal

The Board of Directors of the Company is opposed to this Proposal from the following reasons.

- 1) The Board of Directors does not believe that this Shareholder Proposal is a matter that should be included in the Articles of Incorporation.
- 2) The treasury shares are currently utilized as stock-based compensation of Directors, and the Board of Directors assumes that they will also be used flexibly as an exchange for M&A transactions.
- 3) Cancellation of treasury shares is the matter to be considered as part of the Company's capital policy from a mid- and long-term perspective. The Board of Directors believes that the resolution by the Board of Directors instead of the General Meeting of Shareholders at an appropriate time under the provision of the Companies Act will lead to the utilization of treasury shares in a flexible capital policy.

Proposal 9: Cancellation of Treasury Shares

1. Content of Proposal

Cancel all the treasury shares held by the Company on condition that Proposal 5 is approved and passed.

2. Reasons for Proposal

As stated in the reasons in Proposal 5, the cancellation of treasury shares will contribute to the enhancement of the Company's shareholder value. The Proposing Shareholders therefore propose the cancellation of all the treasury shares held by the Company in the case where an amendment to the Articles of Incorporation proposed in Proposal 5 is passed.

Note) "Proposal 5" should be read as "Proposal 8."

○ The Board of Directors' Opinion on the Proposal

The Board of Directors of the Company is opposed to this Proposal from the following reasons.

- 1) Same as 2) and 3) in Proposal 8 above.