

Dear Shareholders,

**Hakuto Co., Ltd.**

1-13, Shinjuku 1-chome, Shinjuku-ku, Tokyo

**Notice of the 65th Annual General Meeting of Shareholders**

You are cordially invited to attend the 65th Annual General Meeting of Shareholders of Hakuto Co., Ltd. (the “Company”), which will be held as per the schedule below.

If you are unable to attend the Meeting in person, please first review on pages 33 to 39 of the Reference Materials for the General Meeting of Shareholders presented hereinafter, and exercise your voting rights no later than 5:30 p.m. on Tuesday, June 27, 2017, using one of the methods outlined on page 40.

Sincerely,

Ryusaburo Sugimoto  
President

**Details**

- 1. Date & Time:** Wednesday, June 28, 2017 at 10:00 a.m.  
(Reception commences at 9:00 a.m.)
- 2. Venue:** Conference Room, 8th Floor, Head Office Building,  
1-13, Shinjuku 1-chome, Shinjuku-ku, Tokyo
- 3. Meeting Agenda**
  - (1) Item to be reported:**
    1. Business Report and Consolidated Financial Statements of the Company’s 65th fiscal year (from April 1, 2016 to March 31, 2017), and the audit reports on Consolidated Financial Statements by the Accounting Auditors (CPAs) and the Company’s Audit & Supervisory Board
    2. Non-Consolidated Financial Statements of the Company’s 65th fiscal year (from April 1, 2016 to March 31, 2017)
  - (2) Items to be resolved:**  
**Item:** Appointment of Nine (9) Directors
- 4. Information on Exercise the Voting Rights**

Please refer to “Information on Exercise the Voting Rights” on page 40.
- 5. Matters concerning internet disclosure information**

The “Consolidated Statement of Changes in Net Assets,” the “Notes to the Consolidated Financial Statements,” the “Non-Consolidated Statement of Changes in Net Assets” and the “Notes to the Non-Consolidated Financial Statements” have been posted on the Company’s website (<http://www.hakuto.co.jp>) in accordance

with the relevant laws and regulations and Article 15 of the Articles of Incorporation of the Company. Hence, they are not included in the attached documents to the Notice of the 65th Annual General Meeting of Shareholders as part of the set of documents to be provided. For this reason, the “Consolidated Financial Statements” and “Non-Consolidated Financial Statements” indicated in the attached documents to this Notice are part of the consolidated financial statements and non-consolidated financial statements that were audited by Audit & Supervisory Board Members for preparing the audit report and the Accounting Auditors (CPAs) for preparing the independent auditor’s report respectively.

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- If you are attending the Meeting in person, please bring the enclosed Form for Exercising Voting Rights and present it at the reception desk.
  - Revisions to the Reference Materials for the General Meeting of Shareholders, Business Report, Non-Consolidated Financial Statements, and Consolidated Financial Statements shall be posted on the Company’s website.
  - If you make a diverse exercise of your voting rights, please notify the Company in writing of your intention and the reasons thereof not later than three days prior to the General Meeting of Shareholders.

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**The Company’s website: (<http://www.hakuto.co.jp>)**

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[Submitted Documents]

## **Business Report**

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

### **1. Corporate Group's Business Environment**

#### **(1) Business conditions during the fiscal year under review**

##### **1) Business developments and results**

Looking back on the global economy during the fiscal year under review, while the trend of the U.S. economic policy drew attention as the presidential election fell in this period, the U.S. economy itself was relatively stable, and interest rates were raised as well. In Europe, while the economy decelerated significantly in the first half of the fiscal year due to the Brexit shock, it recovered gradually in the second half of the year owing to rapid responses by central banks of major countries. There has still been a risk of an economic downturn, however, under the backdrop of the deterioration in public order due to terrorism and other states of affairs. In Asia, while a slowdown in growth of the Chinese economy is observed, the Asian economy has managed to avoid a downturn owing to supports by governmental programs.

On the other hand, in Japan, while the profitability of export industries deteriorated due to the impact of the sharp appreciation of the yen from the beginning of the year, the yen turned around and started depreciating after the U.S. presidential election, resulting in an improvement in corporate earnings and the moderate recovery trend of the Japanese economy under the backdrop of improvements in employment and income environment.

Under such conditions, with regard to the electronics industry, the mainstay area of business of the "Group, while the economic slowdown in China resulted in a decrease in demand for electronic components for housing-related products, such as household appliances, vehicle-mounted products for the automobile industry showed steady growth in demand. A recovery was observed in the demand for tablet PCs and LCD TVs in the second half of the fiscal year. On the other hand, with regard to industrial chemicals, while the shrinkage of the domestic market and the movement of industry reorganization continue both in the petroleum refining industry and the paper and pulp industry, our chemical business remained strong and grew in terms of earnings owing to a decrease in the purchasing cost of imported merchandise and raw materials thanks to the benefit of the yen appreciation primarily in the first half of the fiscal year.

Under such circumstances, consolidated net sales for the fiscal year under review amounted to ¥127,599 million, a 9.7% year-on-year increase. Regarding profit and loss, gross profit decreased 4.2% to ¥16,495 million. Selling, general and administrative expenses increased 0.8% to ¥14,426 million, operating income decreased 28.8% to ¥2,069 million, ordinary profit decreased 30.8% to ¥1,989 million and net income attributable to owners of parent decreased 6.5% to ¥1,903 million.

The following is a breakdown of business performance by segment for the fiscal year.

### ***Electronic Components Business***

In the electronic components segment, the sale of vehicle-mounted products remained robust as automotive sales itself also continued to be so in the U.S. and China from the beginning of the year. The demand for tablet PCs and LCD TVs also recovered in the second half of the year, and their sales remained favorable. On the other hand, the profitability of foreign currency denominated export transactions remained low due to the impact of the yen appreciation up to the first half of the fiscal year.

As a result, sales in this segment for the fiscal year under review increased 11.9% year-on-year to ¥98,554 million, and segment income decreased 61.2% year-on-year to ¥447 million.

### ***Electronic and Electric Equipment Business***

In the electronic and electric equipment segment, while the sales of large accelerator grew in the domestic market, investment in semiconductor manufacturing equipment was low. In addition, investment in next-generation smartphones did not increase as expected, and the sales of PCB equipment remained sluggish. On the other hand, vacuum pumps for analysis markets showed steady growth, and the sales of coating and vapor deposition equipment for smartphones grew in the Chinese market.

As a result, sales in this segment for the fiscal year under review increased 3.9% year-on-year to ¥19,191 million, and segment income decreased 21.0% year-on-year to ¥804 million.

### ***Industrial Chemicals Business***

In the industrial chemicals segment, while the amount of chemicals carried by the Company is on a declining trend due to the general decreasing trend in oil demand and the production reduction implemented by major paper manufacturers, the sales of catalysts for petroleum and petrochemicals, polymerization inhibitors, amines for acid gas adsorption, etc. remained steady. Furthermore, although the sales of colorants and fixative agents for paper somewhat decreased, the sales of cosmetics raw material stayed steady in the cosmetics subsegment.

As a result, sales in this segment for the fiscal year under review increased 1.4% year-on-year to ¥9,828 million, and segment income increased 47.6% year-on-year to ¥867 million.

### ***Others Business***

Other business segment consists mainly of general operation and logistics management operations of the Company on a consignment basis, as well as agency business for insurance companies. Sales in this segment for the fiscal year under review decreased 4.3% year-on-year to ¥676 million, and segment income decreased 27.4% year-on-year to ¥19 million.

## Sales by segment

	FY 2015 (fiscal year ended March 2016)		FY2016 (fiscal year ended March 2017)	
	Sales (¥ million)	Ratio to total (%)	Sales (¥ million)	Ratio to total (%)
Electronic Components	88,098	75.3	98,554	76.8
Electronic and Electric Equipment	18,477	15.8	19,191	15.0
Industrial Chemicals	9,694	8.3	9,828	7.7
Others	707	0.6	676	0.5
Sub-total	116,978	100.0	128,251	100.0
Internal Transaction	(682)	—	(652)	—
Total	116,296	100.0	127,599	100.0

Note: Figures are exclusive of consumption tax.

### ***Outlook of the Next Fiscal Year***

In the next fiscal year, while the world economy grows moderately driven by the steady U.S. economy, a basic recovery trend is expected to continue domestically against the backdrop of export rally, increasing capital investment, and rising corporate performance. On the other hand, however, policies by President Trump and a downturn in the Chinese economy are conceived as risk factors.

In the electronic components business, the Group intends to achieve further growth in the area of vehicle-mounted products, where a significant progress is being made in self-driving and environment technologies. In the electronic and electric equipment business, the Group intends an early entry into a new market other than semiconductor and PCB markets while promoting the expansion of the sales of next-generation steppers for semiconductor packages. Furthermore, in the industrial chemicals business, the Group intends to focus on expanding the sales of its own products and launching house-brand cosmetics in overseas markets.

In consideration of such business conditions, the Company forecasts consolidated results of operations for the fiscal year ending March 31, 2018 as follows: net sales to increase 5.0% year-on-year to ¥134,000 million, operating income to increase 54.6% to ¥3,200 million, ordinary profit to increase 65.9% to ¥3,300 million, and net income attributable to owners of parent to increase 26.1% to ¥2,400 million.

### **2) Investment in plant & equipment**

The total investment in plant and equipment for the fiscal year under review was ¥387 million.

### **3) Fund procurement**

There are no material facts to report.

**4) Business segment transfers, absorption-type splits, and incorporation-type splits**

There are no items to report.

**5) Business segments transferred from other companies**

There are no material facts to report.

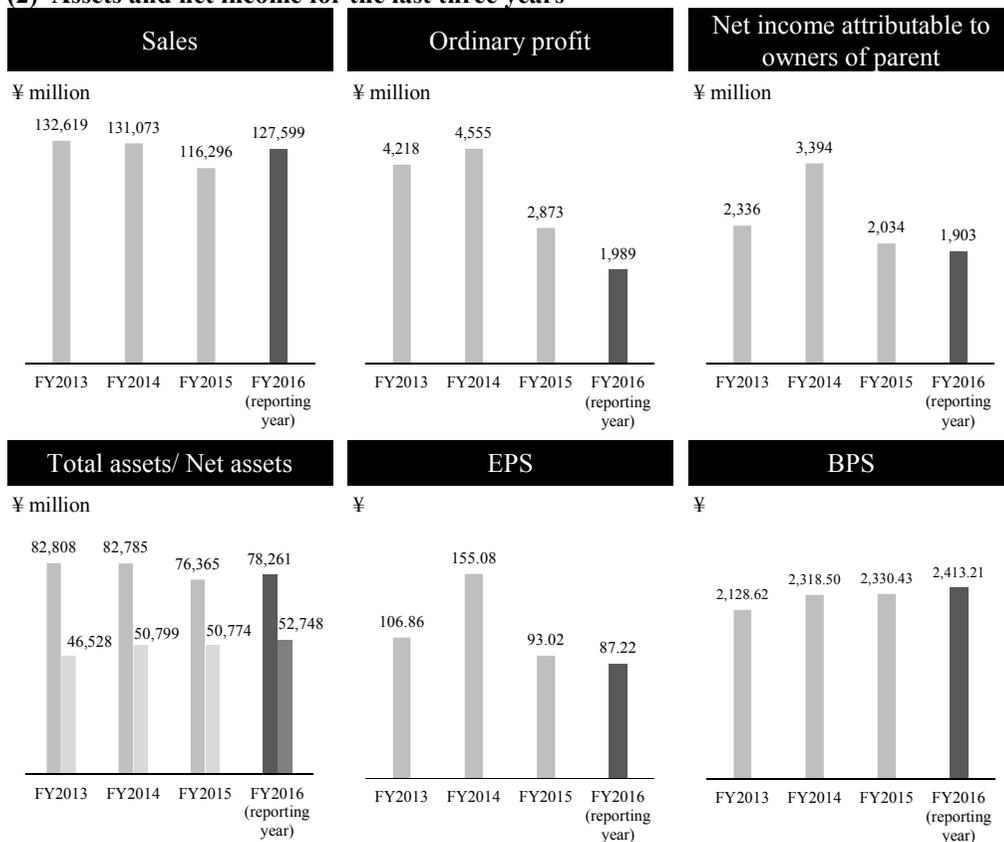
**6) Succession to rights and responsibilities related to the businesses of other juridical persons through absorption-type mergers and splits**

The Company executed an absorption-type merger, effective on January 1, 2017, with the Company as the surviving company and Microtek Inc., its wholly owned consolidated subsidiary, as the absorbed company. The Company thereby succeeded to all rights and obligations of Microtek Inc. and survived, and Microtek Inc. was dissolved.

**7) Acquisitions and disposals of shares, ownership interests, or share subscription rights, etc. in other companies**

Pursuant to the capital and business alliance agreement with Hosoda Corporation (JASDAQ) entered into on July 29, 2016, the Company subscribed for 2,800,000 shares newly issued by the said company through third party allotment on September 30, 2016 (total amount of the issue price: 362 million yen) to own 14.72% of the total issued shares of the said company.

## (2) Assets and net income for the last three years



(¥ million)

	FY2013	FY2014	FY2015	FY2016 (reporting year)
Sales	132,619	131,073	116,296	127,599
Ordinary profit	4,218	4,555	2,873	1,989
Net income attributable to owners of parent	2,336	3,394	2,034	1,903
EPS (yen)	106.86	155.08	93.02	87.22
Total assets	82,808	82,785	76,365	78,261
Net assets	46,528	50,799	50,774	52,748
BPS (yen)	2,128.62	2,318.50	2,330.43	2,413.21

### Notes:

1. EPS (Earnings Per Shares) is calculated based on the average number of outstanding shares during the fiscal year. BPS (Book Value Per Share) is calculated based on the number of shares outstanding as of the end of the fiscal year. The total number of outstanding shares excludes treasury shares.
2. The treasury shares excluded from calculating EPS and BPS include the shares of the Company held by the ESOP Trust Account (please refer to “(6) Other important matters concerning shares” on page 12).

### (3) Principal subsidiaries

	Capital stock	Ratio of voting rights held by the Company (%)	Principal lines of business
Hakuto Enterprises Ltd.	HK\$22,025 thd.	100	Import/export of electronic equipment and components
Hakuto Singapore Pte. Ltd.	S\$5,000 thd.	100	Import/export of electronic equipment and components
Hakuto Taiwan Ltd.	NT\$70,000 thd.	100	Import/export of electronic equipment and components
Hakuto Enterprises (Shanghai) Ltd.	US\$8,000 thd.	100	Import/export of electronic equipment and components

Note: Effective on January 1, 2017, Microtek Inc., a consolidated subsidiary, was absorbed by the Company as the surviving company through an absorption-type merger and was dissolved.

### (4) Issues facing the Company

The Group established the 5-year medium-term management plan “E&C +2020” in the beginning of FY2016 and started to address management issues such as the enhancement of earnings base and active challenges into new markets and new business opportunities in the first year of the medium-term plan, aiming to achieve sustainable growth and improvement of medium- to long-term corporate value. As a result, while the sales target planned in the beginning of the fiscal year under review was almost achieved, the profit decreased unavoidably due to the rapid progression of the yen appreciation in the first half of the fiscal year.

Under such conditions, the Group intends to continue to address the issues stated below in FY2017, the second year of the medium-term plan, in order to realize both the sustained growth of the sales and the secure stability of the profit.

#### 1) Strengthening sales strategies for each business segment

The Group will try to implement product strategies which enable securing stable profit even under the rapid fluctuation of exchange rates while promoting the balanced growth of all business segments, which is the strength of the Group.

Specifically, it is intended to expand and improve products for growth markets such as vehicle-mounted products markets in the electronic component business. At the same time, in the electronic and electric equipment business and industrial chemicals business, it is intended to make growth compatible with stability by focusing on expanding the sales of house brand products and in-house products which are less susceptible to exchange rate fluctuation.

#### 2) Accelerating the development of new business

Against the backdrop of the overseas transfer of manufacturing bases and population decline, a slowing or shrinking trend in growth continued in the domestic markets. As a decline in profitability due to a further intensification of competition is expected in existing business areas, it has become imperative to develop new business.

Accordingly, it is intended to embark on business in new areas proactively without being constrained by existing business areas and aim at early commercialization, for instance, housing related areas such as smart house business and medical device areas in the electronics business and environment related areas such as cleaning of

petroleum storage tank and cosmetics areas in the industrial chemicals business.

**3) Strengthening overseas business**

A slowdown in the economic growth rate of China, customers' shift to Southeast Asia, moves for constructing a global supply chain in vehicle-mounted products and other areas, etc. have a great impact on the Group's overseas business.

Accordingly, in Asia, it is intended to reinforce overseas operations further by implementing product strategies specific to growth areas in each region in Asia and constructing the support system responding to the globalization of customers in Europe and the U.S.

**4) Promoting management that contributes to growth**

With regard to business management, first of all, in terms of risk management, it is intended to promote visualizing management risks including inventory and exchange rate risks and making relevant responses faster on a consolidated basis by making use of the core system, which is in the final phase of construction at overseas operation bases.

In terms of the human resources policy, based on the recognition that the realization of work-life balance is indispensable for enhancing corporate vitality to enable sustained growth, the Group will endeavor to maintain the mental and physical health of employees and promote a work style reform, for instance, by introducing various working forms.

**(5) Main business lines** (as of March 31, 2017)

The Group is principally engaged in the sale, export and import of electronic components and electronic and electric equipment, and the manufacture and sale of industrial chemicals.

Main products in each segment are as follows.

Segment	Main products
Electronic Components	Semiconductor devices; connectors; optical components; photovoltaic panels
Electronic and Electric Equipment	Devices and equipment used in the manufacturing of semiconductors; equipment for PCBs; various vacuum pumps; refrigerator units for vacuum production equipment; electrostatic accelerators
Industrial Chemicals	Industrial chemicals used in the oil refining and petrochemical industries; chemicals for water treatment; chemicals for the paper & pulp industry; paint-resistant chemicals; base materials for cosmetics
Others	Outsourcing business

**(6) Principal offices and plants** (as of March 31, 2017)

**1) Principal offices and plants of the Company**

Name	Location
Head Office	Shinjuku-ku, Tokyo
Kansai Branch	Osaka, Osaka
Nagoya Branch	Nagoya, Aichi
Isehara Technical Center	Isehara, Kanagawa
Yokkaichi Factory	Yokkaichi, Mie
Yokkaichi Research Laboratory	Yokkaichi, Mie

**2) Offices of principal subsidiaries**

Name	Location
Hakuto Enterprises Ltd.	Kowloon, Hong Kong
Hakuto Singapore Pte. Ltd.	Singapore
Hakuto Taiwan Ltd.	Taipei, Taiwan
Hakuto Enterprises (Shanghai) Ltd.	Shanghai, China

**(7) Employees** (as of March 31, 2017)**1) Employees of the Group**

Business segment	Number of employees	Change from end of previous fiscal year
Electronic Components	622	(16)
Electronic and Electric Equipment	279	13
Industrial Chemicals	137	—
Others	90	(5)
Common in the Group	166	(6)
Total	1,294	(14)

Notes:

1. The number of employees is the number of those who are employed by the Group.
2. Employees working for the “Common in the Group” are attached to back-office sections that cannot be classified into particular business segments.

**2) Employees of the Company**

Number of employees	Change from end of previous fiscal year	Average age	Average number of years of service
684	Increase by 43	43.4	13.9

Notes:

1. The above figures exclude 21 employees currently dispatched to subsidiaries.
2. An increase in the number of employees relative to that at the end of the previous fiscal year is due to the Company’s absorption-type merger of Microtek Inc., its consolidated subsidiary.

**(8) Principal sources of borrowings** (as of March 31, 2017)

(¥ million)

Sources	Balance of borrowings
Sumitomo Mitsui Banking Corporation	1,072
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	817

**(9) Other important matters concerning the Group**

There are no items to report.

## 2. Profile of the Company

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

- |  |                          |  |
|--|--------------------------|--|
| 1) Number of shares authorized for issuance:   | <b>54,000,000 shares</b> |  |
| 2) Number of shares issued and outstanding:    | <b>24,137,213 shares</b> | (no change from the previous fiscal year)        |
| <b>(Of which, treasury shares:</b>             | <b>2,215,009 shares)</b> |  |
| 3) Number of shares per trading unit (tangen): | <b>100 shares</b>        |  |
| 4) Number of shareholders:                     | <b>6,131</b>             | (increased by 405 from the previous fiscal year) |

### 5) Major shareholders (top ten):

Name of shareholder	Number of shares held (thousands shares)	Ownership (%)
Takayama International Education Foundation	4,226.2	19.27
Japan Trustee Services Bank, Ltd. (trust account)	1,154.3	5.26
Ichiro Takayama	1,058.9	4.83
Ken Takayama	1,058.9	4.83
Ryutaro Takayama	1,058.8	4.83
The Master Trust Bank of Japan, Ltd. (trust account)	767.2	3.49
J.P. MORGAN BANK LUXEMBOURG S.A. 380578	678.3	3.09
Aya Nomura	485.5	2.21
Hakuto Employee Stock Ownership Plan	391.3	1.78
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	367.9	1.67

#### Notes:

- Number of shares held is rounded down to the nearest 100 shares.
- Ownership is calculated based on the number of shares issued and outstanding (21,922,204), which excludes treasury shares. Percentages have been rounded down to two decimal places. Therefore, 64,100 shares of the Company held by the ESOP Trust Account (please refer to “6) Other important matters concerning shares” below) are not added to the treasury shares.
- Treasury shares are excluded from the list of major shareholders above.

### 6) Other important matters concerning shares

The Company resolved at its meeting of the Board of Directors on February 28, 2014 to introduce an Employee Stock Ownership Plan (ESOP) Trust as an employee incentive plan with the purpose of further enhancing the welfare benefit plan for employees who support the growth of the Company and encouraging employees to raise their awareness about performance and stock value by attaching an incentive to raise the stock price, thereby promoting enhancement of corporate value on a mid-to-long-term basis.

In conjunction with the introduction of the ESOP Trust, a resolution was reached at the meeting of the Board of Directors on February 28, 2014 to dispose, by way of

third-party allotment, of 235,400 treasury shares (ratio of 0.98% against the total number of shares issued and outstanding) at a total amount of 229,985,800 yen to Mitsubishi UFJ Trust and Banking Corporation [Joint trustee: The Master Trust Bank of Japan, Ltd. (ESOP Trust Account)] and executed the disposition effective March 20, 2014.

The total number of shares held in the ESOP Trust Account as of March 31, 2017 is 64,100.

**(2) Share subscription rights**

There are no items to report.

### (3) Corporate Officers

#### 1) Directors and Audit & Supervisory Board Members (as of March 31, 2017)

Name	Positions in the Company	Responsibility and status of material holding of concurrent positions
Ryusaburo Sugimoto	President (Representative Director)	
Yoshinae Takada	Director, V.P. & Senior Executive Managing Officer	Supervisor over Corporate Administration Div. and Corporate Management Div. and Division Manager of Corporate Management Div. and in charge of Risk Management and Corporate Compliance
Ryoji Abe	Director, V.P. & Executive Managing Officer	President of Device Solution Company and Division Manager of Electronic Components Div. and in charge of Overseas Business Operation Div.
Nobuhito Shintoku	Director, V.P. & Managing Officer	Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center and in charge of Branch Office (related to Administration), President of Hakuto A&L Co., Ltd.
Kazunobu Kitano	Director, V.P. & Managing Officer	Division Manager of Electronic Equipment Div.
Akira Togo	Director, V.P. & Managing Officer	Division Manager of Chemical Business Div.
Ichiro Takayama	Director	
Keiji Kondo	External Director	Attorney at law
Masahito Kamijo	External Director	External Director of Clarion Co., Ltd.
Satoshi Nakaizumi	Full-time External Audit & Supervisory Board Member	Certified Public Accountant
Mikio Yoden	External Audit & Supervisory Board Member	Certified Tax Accountant
Hidenori Mizuno	External Audit & Supervisory Board Member	President (Representative Director) of Mitsubishi UFJ Trust Business Co., Ltd. Outside Auditor of Nippon Filcon Co., Ltd.

#### Notes:

1. Among the Directors, Messrs. Keiji Kondo and Masahito Kamijo are External Directors.
2. Messrs. Satoshi Nakaizumi, Mikio Yoden and Hidenori Mizuno are External Audit & Supervisory Board Members.
3. Messrs. Satoshi Nakaizumi, Mikio Yoden and Hidenori Mizuno, who are all Audit & Supervisory Board Members, have extraordinary insight regarding financial and accounting matters, as described below.
  - The full-time Audit & Supervisory Board Member Mr. Satoshi Nakaizumi holds license as a certified public accountant.
  - The Audit & Supervisory Board Member Mr. Mikio Yoden holds license as a certified tax accountant.

- The Audit & Supervisory Board Member Mr. Hidenori Mizuno has considerable insight with regard to general business management including financial and accounting matters, with abundant experience and knowledge as a business manager and an External Audit & Supervisory Board Member.
- 4. The Company appointed Director Messrs. Keiji Kondo and Masahito Kamijo, and Messrs. Satoshi Nakaizumi, Mikio Yoden and Hidenori Mizuno, who are Audit & Supervisory Board Members, as Independent Officers as stipulated by Tokyo Stock Exchange, and filed the relevant notification with the TSE.
- 5. Effective April 1, 2017, the Company has changed the responsibility of the following Director.

Name	Responsibility
Nobuhito Shintoku	Division Manager of Corporate Administration Div. and Manager of Human Resources Dept. and General Affairs Dept. and Chief of Isehara Technical Center and in charge of Branch Office (related to Administration)

## 2) Overview of agreements limiting liability

The Company, based on the provisions of Article 427, Paragraph 1 of the Companies Act (the “Act”), has entered into agreements that limit the liability of each of Directors (excluding executive directors) and Audit & Supervisory Board Members in the manner provided in Article 423, Paragraph 1 of the Act.

Based on these agreements, the liability of Mr. Ichiro Takayama, Mr. Keiji Kondo and Mr. Masahito Kamijo, who are all Directors, shall be limited to the higher of an amount of at least ¥3 million or an amount stipulated by the provisions of Article 425, Paragraph 1 of the Act, and the liability of Mr. Satoshi Nakaizumi, Mr. Mikio Yoden and Mr. Hidenori Mizuno, who are all Audit & Supervisory Board Members, shall be limited to the higher of an amount of at least ¥2 million or an amount stipulated by the provisions of Article 425, Paragraph 1 of the Act.

## 3) Directors and Audit & Supervisory Board Members retired during the fiscal year under review

Name	Date of retirement	Reason	Positions as of retirement and material concurrent positions
Atsushi Inuzuka	June 28, 2016	Expiration of term of office	External Audit & Supervisory Board Member

**4) Total compensation to Directors and Audit & Supervisory Board Members for the fiscal year under review**

Positions	Number of recipients	Amount of payment (¥ million)
Directors (External Directors)	9 (2)	175 (10)
Audit & Supervisory Board Members (External Audit & Supervisory Board Members)	4 (4)	21 (21)
Total	13	196

Notes:

1. Payments to Directors do not include the employee salaries of persons simultaneously appointed as employee and director.
2. As of the end of fiscal year ended March 31, 2017, the number of Directors is nine (including two External Directors) and the number of Audit & Supervisory Board Members is three (including three External Audit & Supervisory Board Members). The above number of recipients and payment amounts include one Audit & Supervisory Board Member retired due to the expiration of his term of office at the conclusion of the 64th Annual General Meeting of Shareholders held on June 28, 2016.
3. The upper limit on compensation for Directors was set at ¥450 million (not including employee salaries) in the 39th Annual General Meeting of Shareholders held on June 27, 1991.
4. The upper limit on compensation for Audit & Supervisory Board Members was set at ¥60 million in the 40th Annual General Meeting of Shareholders held on June 29, 1992.

**5) Matters regarding External Directors and External Audit & Supervisory Board Members**

- (A) Matters regarding status of material holding of concurrent positions (in positions with executive authority at other companies) and relationships between the Company and those other companies
- The Audit & Supervisory Board Member Mr. Hidenori Mizuno is the President (Representative Director) of Mitsubishi UFJ Trust Business Co., Ltd. There are no special relationships between Mitsubishi UFJ Trust Business Co., Ltd. and the Company.
- (B) Principal concurrent positions as other companies' External Directors or Audit & Supervisory Board Members etc. and relationships between the Company and those other companies
- Director Mr. Masahito Kamijo is an External Director of Clarion Co., Ltd. There are no special relationships between Clarion Co., Ltd. and the Company.
  - The Audit & Supervisory Board Member Mr. Hidenori Mizuno is an Outside Auditor of Nippon Filcon Co., Ltd. There are no special relationships between Nippon Filcon Co., Ltd. and the Company.

(C) Main activities during the fiscal year under review

Position	Name	Main activities
Director	Keiji Kondo	Mr. Kondo attended all 11 Board of Directors meetings held during the fiscal year under review and provided advice and recommendations that supported transparent and lawful decision-making within the Board of Directors by, for example, expressing opinions based on his expert perspective as a lawyer.
Director	Masahito Kamijo	Mr. Kamijo attended 10 out of 11 Board of Directors meetings held during the fiscal year under review and provided advice and recommendations that supported reasonable and appropriate decision-making within the Board of Directors by, for example, expressing opinions based on his abundant experience and wide-ranging insight as a former manager of a financial institution.
Audit & Supervisory Board Member	Satoshi Nakaizumi	Mr. Nakaizumi attended all 11 Board of Directors meetings held during the fiscal year under review and provided advice and recommendations that supported reasonable and appropriate decision-making within the Board of Directors by, for example, expressing opinions based on his expert perspective as a certified public accountant. Mr. Nakaizumi also attended all 11 Audit & Supervisory Board meetings where his activities included participation in exchanges of opinions and discussions of audit results and important audit-related matters. In addition to the aforementioned Board of Directors meetings and Audit & Supervisory Board meetings, Mr. Nakaizumi, as the full-time Audit & Supervisory Board Member, attended important meetings, including Board of Managing Directors meetings, and gave necessary advice and recommendations from the professional point of view.
Audit & Supervisory Board Member	Mikio Yoden	Mr. Yoden attended all 11 Board of Directors meetings held during the fiscal year under review and provided advice and recommendations that supported reasonable and appropriate decision-making within the Board of Directors by, for example, expressing opinions based on his expert perspective as a certified tax accountant. Mr. Yoden also attended all 11 Audit & Supervisory Board meetings where his activities included participation in exchanges of opinions and discussions of audit results and important audit-related matters.

Position	Name	Main activities
Audit & Supervisory Board Member	Hidenori Mizuno	Mr. Mizuno attended all 9 Board of Directors meetings held during the fiscal year under review and provided advice and recommendations that supported reasonable and appropriate decision-making within the Board of Directors by, for example, expressing opinions based on his abundant experience and deep insight about management as a business manager in the other industry. Mr. Mizuno also attended all 9 Audit & Supervisory Board meetings where his activities included participation in exchanges of opinions and discussions of audit results and important audit-related matters.

Note: Mr. Hidenori Mizuno was elected as an Audit & Supervisory Board Member at the 64th Annual General Meeting of Shareholders held on June 28, 2016. Therefore, the number of Board of Directors meetings and Audit & Supervisory Board meetings that he could attend was different from those of other Audit & Supervisory Board Members.

#### **(4) Accounting Auditor**

##### **1) Name: KPMG AZSA LLC**

##### **2) Compensation**

	Amount of Payment (¥ million)
Compensation for work related to the fiscal year under review	52
Total monetary and other assets payable to the Accounting Auditor by the Company and its subsidiaries	52

Notes:

1. Audit & Supervisory Board agreed with the amount of compensation to the Accounting Auditor, as stipulated in Article 399, Paragraph 1 of the Companies Act, based on the necessary appropriateness review regarding the details of audit plans by the Accounting Auditor, the status of statutory audit and basis of fee estimates.
2. Among the Company's principal subsidiaries, Hakuto Enterprises Ltd., Hakuto Singapore Pte. Ltd., Hakuto Taiwan Ltd. and Hakuto Enterprises (Shanghai) Ltd. have all undergone statutory audits by accounting auditors other than the one retained by the Company.
3. The audit agreement between the Company and its Accounting Auditor does not distinguish compensation paid for audit work performed in conformity with the Companies Act and compensation paid for audit work performed in conformity with the Financial Instruments and Exchange Law, and it is effectively impossible to do so. Accordingly, the amount of compensation paid for audit work related to the fiscal year under review is reported as the total of these two amounts.

##### **3) Policy regarding decisions to dismiss or not reappoint an accounting auditor**

When the Accounting Auditor meets any of the provisions of Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board shall resolve to dismiss the Accounting Auditor with the unanimous consent of Audit & Supervisory Board Members. In this instance, the Audit & Supervisory Board Member selected by the Audit & Supervisory Board shall report the fact and the reason for dismissal of the Accounting Auditor at the first General Meeting of Shareholders held after the dismissal.

Additionally, in cases when the Company's statutory audit work is severely obstructed by an event such as a business-suspension order issued to the Accounting Auditor by regulatory authorities, the Audit & Supervisory Board shall resolve a proposal to submit to the General Meeting of Shareholders regarding either dismissal or non-reappointment of the Accounting Auditor.

#### **(5) Internal control systems**

##### **1. Basic policy on establishing internal control system**

The Company resolved, at the meeting of the Board of Directors, the basic policy to establish "Systems for ensuring that execution of duties by directors complies with laws and regulations and the articles of incorporation, and other systems necessary to ensure the properness of operation of a company and its consolidated subsidiaries" (internal control system) provided for in Article 362, Paragraph 4, item 6 of the Companies Act and Article 100, Paragraph 1 and Paragraph 3 of the Enforcement Regulations of the Companies Act as follows:

**1) Systems for ensuring that actions taken by Directors and employees are in compliance with both the laws and regulations of Japan and the Company's Articles of Incorporation**

- (A) With the Hakuto Group Ethical Code and the Rules for Compliance serving as the code of conduct for the Company and its consolidated subsidiaries ("the Group"), training and other measures targeting the Group's Directors and employees shall be regularly implemented to ensure that all company activities are in compliance with the laws and regulations of Japan and consistent with social mores.
- (B) A Director shall be appointed to bear managerial responsibility for compliance activities. Working under this Director, the General Affairs Dept., which shall bear operational responsibility for compliance activities, shall prepare compliance programs and build and maintain the Group-wide compliance systems. The Internal Control Office shall audit compliance system functions and effectiveness.
- (C) Based on the Rules for Ethics, the Compliance Committee shall be established and chaired by the President of the Company. This Committee shall discuss important compliance matters for the Group as a whole and report the results of these discussions to the Board of Directors.
- (D) Based on the Group's Whistleblower Protection Rule, a channel allowing employees to directly report to the Group-wide Compliance Committee information on violations of laws and regulations or social mores shall be established and maintained.
- (E) No relationship whatsoever shall be had with anti-social factions and groups which may threaten the order or safety of the civil society, and the Company shall take a resolute stance systematically against any undue claims or sabotage attacks through close coordination with outside professionals such as the police and lawyers.

**2) Systems for preserving and managing information on Directors' performance of their duties**

- (A) Documents (including electromagnetic record) relating to Directors' performance of their duties shall be preserved and managed, together with related information, as required by the Rules for Document Management. This information shall be maintained in viewable condition for at least ten years, as necessary.
- (B) In accordance with the Information Security Policies, the Rules for Electronic Data Management and other rules for information security, protection, management and use of electronic information shall be improved and facilitated.

**3) Rules and other systems to manage the risk of loss**

- (A) A Director shall be appointed to be responsible for risk management. Working under this Director, the General Affairs Dept., which shall bear operation responsibility for risk management, shall construct the Group-wide risk management system.
- (B) A Director responsible for risk management decides departments in charge of each type of risk assumed by the Group. Those departments carry out various measures to make risk management more effective, and continuously monitor status of risk management.
- (C) In preparation for the possibility of the realization of the Group-wide risks, the Rules for Crisis Management including emergency measures, measures for

containing damage, recovery measures, and measures for preventing recurrences shall be formulated. When risks are realized, damage shall be minimized by responding swiftly and appropriately.

**4) Systems for ensuring Directors perform their duties effectively**

- (A) Efficient performance of duties by Directors shall be promoted by appropriately implementing management systems. These systems shall cover the formulation of management plans for the consolidated group companies by the Board of Directors, the setting of performance objectives and budgets and the management of performance on a monthly and quarterly basis for each business segment or by each subsidiary by responsible Directors based on the management plans, and the review of monthly and quarterly performance and the implementation of performance improvement measures by the Board of Directors and the Board of Managing Directors.
- (B) The speed of decision-making shall be increased through measures like simplifying the decision-making process. The Board of Managing Directors shall make a decision on important matters in a council system to ensure decisions are made with heightened caution.
- (C) To ensure the efficient performance of and establish responsibility for actions taken based on Board of Directors resolutions, responsible parties, their responsibilities and implementation details shall be determined based on the Rules for General Organization, the Rules for Segregation of Duties, the Rules for Administrative Authority and the Rules for Managing Affiliates in Japan and Overseas.

**5) Systems for ensuring the propriety of business activities pursued by the Corporate Group consisting of the Company and its subsidiaries**

- (A) With the Hakuto Group Ethical Code serving as a code of conduct for the Group, Internal Control Systems for the Hakuto Group shall be constructed by having each of Group companies adopt necessary rules based on the Group Ethical Code.
- (B) The Directors responsible for compliance and risk management shall retain authority and responsibility for the construction of compliance and risk management systems at each subsidiary. The General Affairs Dept. shall promote and manage the construction of these systems throughout the Hakuto Group.
- (C) The Department responsible for management of subsidiaries shall supervise subsidiaries' management based on the Rules for Managing Affiliates in Japan and Overseas. The responsibilities include: (i) having subsidiaries periodically report to the Company as to their operational performance, financial status and other significant management issues, (ii) holding periodical top management meetings which the Group's Directors attend and (iii) establishing the reporting system under which any significant issues in subsidiaries are reported to the management meetings.
- (D) Based on the Financial Instruments and Exchange Law, each company of the Group shall establish and implement necessary, appropriate internal controls over financial reporting in order to ensure the reliability of the financial reports of the Group. In addition, the Internal Control Office shall periodically examine the effectiveness of the internal controls, report findings to the Board of Directors and provide advice on improvement and corrective measures as per needed, as required by the Rules for Internal Control.

**6) Matters regarding employees whom Audit & Supervisory Board Members request to assist them in their duties, and matters regarding the independence of such employees from Directors**

The Rules concerning the employees appointed to support Audit & Supervisory Board Members in their duties shall be provided, and employees supporting Audit & Supervisory Board Members in their duties shall be appointed from among the Company's employees. The Audit & Supervisory Board's agreement shall be obtained in advance regarding the transfers and performance evaluations of such employees. Employees assigned to assist Audit & Supervisory Board Members shall not simultaneously bear responsibility for the Company business activities and shall not follow directions issued by Directors.

**7) Systems allowing Directors and employees to report to Audit & Supervisory Board Members, and other systems concerning reporting to Audit & Supervisory Board Members**

(A) Directors and employees shall immediately report to Audit & Supervisory Board events causing great damage to the Company, events that are likely to cause great damage to the Company or its subsidiaries should they happen, discoveries of illegal or improper activity, and other events specified as warranting a report to Audit & Supervisory Board. Audit & Supervisory Board Members may also seek reports from Directors and employees.

Reports shall be submitted in formats determined in discussions by the Directors and Audit & Supervisory Board.

(B) Audit & Supervisory Board Members shall be periodically reported to by the Internal Control Office regarding the status of the internal audits of the Group, and by the General Affairs Dept. regarding the update of the Group compliance and risk management and the status of whistle-blowing activity.

(C) It shall be prohibited to give any disadvantageous treatment to a whistle-blower who internally reports to Audit & Supervisory Board Members on the ground of such whistleblowing. Full dissemination to all Directors and employees shall be ensured about this matter.

**8) Other systems for ensuring the efficient performance of audits by Audit & Supervisory Board Members**

(A) Discussions shall be regularly held with the President to promote appropriate mutual understanding and the effective performance of audit work.

(B) Audit & Supervisory Board Members shall be able to consult with outside professionals such as lawyers or CPAs when it is necessary for them to conduct their duties, and the Company shall bear such costs.

**2. Overview of operation status of internal control system**

With regard to the aforementioned systems for ensuring the propriety of business activities, the Company endeavors to establish and properly operate such systems. The overview of the operation of systems for ensuring the propriety of business activities during the fiscal year under review is as follows:

**1) Status on compliance**

The Company has established the "Compliance Committee" headed by the president. Each responsible department of the Company periodically reports to the

Compliance Committee on the status of compliance trainings, use of whistle-blowing systems and other educational activities regarding compliance. During the fiscal year under review, the Company held compliance training for officers and executives on “corporate governance practice” by taking up recent corporate scandals.

**2) Status on the risk management of loss**

A responsible department was appointed to be in charge of each type of risk assumed by the Group. Each respective department manages its responsible risk and reports the status at the monthly risk management meeting attended by the Director responsible for risk management. Thus, cross-sectional information sharing about risks is undertaken and the status of risk management is monitored on a continuous basis. During the fiscal year under review, the Company conducted a drill to form emergency headquarters assuming a large-scale earthquake, as it did in the previous fiscal year in order to enhance the effectiveness of the BCP (Business Continuity Plan) established to prevent exacerbation of damages from natural disasters and keep any loss to a minimum.

**3) Status on ensuring the propriety of business activities of the Group**

The Company’s Audit & Supervisory Board Members and the Internal Audit Department conduct internal audits of the Group companies based on its audit plan, and perform monitoring in accordance with the Group management control.

As to the management control of subsidiaries, the Company’s Corporate Planning Department is in charge of the management control system, which was established by the Department. The Department receives periodic reports, including preliminary approval and results of operations, from subsidiaries in accordance with the Rules for Managing Affiliates in Japan and Overseas. It also monitors the overall management control by reviewing monthly management control reports submitted by subsidiaries. In addition, management meetings in the presence of the president and management persons responsible for respective overseas subsidiaries are held three times a year, and management issues realized at overseas subsidiaries are reported by each member of management in the meetings.

**4) Status on audits by Audit & Supervisory Board Members**

The Company’s Audit & Supervisory Board consists of three External Audit & Supervisory Board Members (of which one is full-time). The Audit & Supervisory Board meets 11 times, with the full-time Audit & Supervisory Board Member reporting the status of the Company and Audit & Supervisory Board Members exchanging opinions. Furthermore, Audit & Supervisory Board Members monitor the performance of duties of Directors by attending important meetings such as Board of Directors meetings, Board of Managing Directors meetings and Compliance Committee meetings, as well as periodically holding meetings with the President, the Accounting Auditor and the Internal Audit Department.

Audit & Supervisory Board Members ensure cooperation with the Internal Audit Department by receiving reports from the Internal Audit Department as to the results of internal audits performed based on the department’s audit plan.

**(6) Policies regarding the distribution of retained earnings**

The Company has positioned the enhancement of shareholder returns as an important management policy and made it a fundamental policy to distribute shareholder returns based on considerations of the Company’s performance and the

need to build internal reserves to strengthen the Company's finances and prepare for future business expansion.

Dividends shall be distributed with the basic intent of maintaining a stable payout and the goal of achieving a consolidated dividend payout ratio of at least 30%, after overall considerations of factors such as each fiscal year's performance, financial conditions and future business strategies. Internal reserves shall be actively invested in business fields with high growth and profit potential, to strengthen sales and technical capabilities and invest in areas such as capital facilities and R&D with the goal of expanding the Company's business in the future.

In order to flexibly carry out a capital policy, the Company will acquire common stocks for treasury shares in an appropriate manner, considering financial conditions and other factors.

Regarding the year-end dividend payment for the fiscal year under review, the Company resolved to pay the dividend of ¥20 per share, according to the above-mentioned policies and business performance at the Board of Directors meeting held on May 15, 2017. Added to the interim dividend of ¥20 per share paid in December 2016, the total amount of dividends paid for the fiscal year under review is ¥40 per share, and the consolidated payout ratio is 45.9%.

The Company stipulates in the Articles of Incorporation that the Company, by a resolution of the Board of Directors, pays dividends from surplus pursuant to the provision of Article 459, Paragraph 1 of the Companies Act. As a policy, the Company pays out dividends twice in each fiscal year as interim dividends and year-end dividends.

At the Board of Directors meeting held on April 24, 2017, the Company resolved as follows to acquire common stocks for treasury shares in order to reinforce shareholder returns, improve capital efficiency, and implement a flexible capital policy.

- Matters pertaining to the acquisition

- Types of shares to be acquired: common shares of the Company

- Total number of shares acquirable: 1,500,000 shares (upper limit)

- Total amount of the acquisition cost of shares: 1.5 billion yen (upper limit)

- Acquisition period: from May 1, 2017 to December 29, 2017

- Acquisition method: market purchase by the trust method

## **(7) Basic policies on company control**

The Company, in a Board of Directors meeting, has resolved the following basic policies regarding those who direct the determination of the company's financial and operational policies ("the basic policies"), which are stipulated in Article 118 of the Companies Act Enforcement Regulations.

### **1) Content of the basic policies**

Under its management philosophy that Hakuto, through its sound business, is committed to contributing to the development of Japanese industries and global trading as well as the welfare and peace of human society, the Company, as an electronics trading company handling the most technologically advanced electronic and electric equipment and electronic components, and as a chemical manufacturer producing environmentally friendly industrial chemicals, has worked to stably provide products and services to meet the needs of the times and, as generating appropriate levels of profits, has practiced solid and stable management over the long term.

The Company is characterized by its status as an independent trading company with

no ties to a specific manufacturer, and the consequent independence of its management. This means that the Company, in its inventory procurement, is not limited to the offerings of specific manufacturers and can handle a wide variety of domestic and overseas products, and has allowed the Company to create a supply system perfectly suited to customers' diversifying needs and work with manufacturers to develop products that meet customer needs. As a trading company linking suppliers, who are manufacturers, and customers, our corporate culture of placing a high value on people-to-people connections has formed a tight network, binding suppliers with customers, and embodies mutual development and the creation of positive relationships since our foundation to present.

As a technical trading company and chemical manufacturer, personnel with expert knowledge in the fields of electronics and electricity, and chemistry, are indispensable for providing added value, improving customer satisfaction, and developing competitive products. Employees are necessarily the core of our management resources and the Company has consistently pursued management policies that spare no time or capital when it comes to securing outstanding personnel and providing ongoing training.

Tangible and intangible assets in the form of the Company's management philosophy, which is based on the high ambition of contributing to society, commercial rights based on sales agent agreements with suppliers, technology and know-how, and personnel who share a corporate culture and have deep knowledge of their work have increased the Company's corporate value, enhanced the soundness of its finances, and made it possible for the Company to forthrightly return profits to shareholders in forms such as dividends that have either been stable or risen on Company performance, and treasury share acquisitions.

Judging from the Company's management to date and the conduct of companies that have won generally high praise from society, those who direct the determination of the Company's financial and operational policies must develop a full understanding of, and maintain based on that understanding, the trusting relationships with the various stakeholders supporting the Company, and secure, and maximize, the Company's corporate value and the common interests of the shareholders over the medium-to-long term. It follows, therefore, that those who inappropriately purchase large quantities of the Company's stock or engage in similar activity with a high likelihood of damaging the Company's corporate value and the common interests of shareholders would be inappropriate for directing the determination of Company's financial and operational policies.

## **2) Initiatives contributing to realization of the basic policies**

### **(A) Initiatives aimed at increasing corporate value and maximizing the common interests of shareholders**

The Company seeks to enhance the collaboration between the Electronics Segment and the Chemical Segment to enjoy a synergy effect and also establish a solid management base focusing on the good balance of major Divisions.

Additionally, for further improving our corporate value, the Company plans to implement the following strategies in each segment:

#### **■ Electronics Segment**

The Company will thoroughly implement the user-oriented (customer viewpoint) sales and marketing activities and enhance the coordination function for the purpose of creating and maximizing the added value. The Company also intends to acquire and maintain the top position as a business

agent in various commercial rights by completely acquiring important customers in the target market of each product.

■ Chemicals Segment

Backed by higher awareness of environment protection measures, the Company will exploit a new demand and provide new products that can meet the needs of the society. The Company will also develop markets and customers where the Company can expect the synergy effect with the Electronics business.

(B) Initiatives for preventing parties who are inappropriate, in light of the basic policies, from directing the determination of the Company's financial and operational policies

The Company, in order to secure, and maximize, the Company's corporate value and the common interests of the shareholders, is currently discussing the positive and negative aspects of initiatives (measures defined in Article 118 Paragraph 3. b. of the Companies Act Enforcement Regulations and referred to below as "anti-takeover defenses") intended to prevent parties who are inappropriate, in light of the basic policies, from directing the determination of the Company's financial and operational policies, and has not yet resolved to implement any particular anti-takeover defenses.

Nevertheless, should the source of the Company's corporate value over the medium-to-long term come under threat by the acquisition of 20% or more of the Company's outstanding shares by a particular individual or group, or if increases in the Company's corporate value or maximization of common shareholder interests are otherwise threatened, the individual or group engaging in such a share acquisition shall be deemed inappropriate for directing the determination of the Company's financial and operation policies, and the Board of Directors, in pursuit of its fiduciary responsibility to make prudent management judgments, may take appropriate defensive measures, to the extent allowed by the laws and regulations of Japan and the Company's Articles of Incorporation, to increase the Company's corporate value and maximize the common shareholder interest.

Note: The monetary amounts included in this Business Report are rounded down to the nearest unit.

## Consolidated Balance Sheet

As of March 31, 2017

(Unit: ¥ million)

<b>Assets</b>	
<b>Current assets</b>	<b>61,081</b>
Cash and deposits	7,748
Notes and accounts receivable - trade	28,297
Electronically recorded claims - operating	4,385
Merchandise and finished goods	17,263
Work in progress	63
Raw materials and supplies	495
Deferred tax assets	897
Other current assets	1,940
Less: Allowance for doubtful accounts	(11)
<b>Noncurrent assets</b>	<b>17,179</b>
<b>Tangible fixed assets:</b>	<b>6,764</b>
Buildings and structures	991
Machinery and production equipment	2,173
Land	3,080
Other tangible fixed assets	518
<b>Intangible assets:</b>	<b>819</b>
<b>Investments and other assets:</b>	<b>9,595</b>
Investment securities	9,184
Deferred tax assets	52
Other investments	427
Less: Allowance for doubtful accounts	(68)
<b>Total assets</b>	<b>78,261</b>

## Consolidated Balance Sheet

As of March 31, 2017

(Unit: ¥ million)

<b>Liabilities</b>	
<b>Current liabilities</b>	<b>21,805</b>
Notes and accounts payable - trade	14,291
Electronically recorded obligations - operating	2,266
Short-term borrowings	2,243
Accrued income taxes	212
Allowance for bonuses to employees	831
Allowance for product warranty	8
Other current liabilities	1,952
<b>Long-term liabilities</b>	<b>3,707</b>
Long-term borrowings	1,404
Deferred tax liabilities	1,953
Allowance for directors' severance and retirement benefits	9
Net defined benefit liability	317
Other long-term liabilities	21
<b>Total liabilities</b>	<b>25,513</b>
<b>Net Assets</b>	
<b>Shareholders' Equity</b>	<b>48,131</b>
Capital stock	8,100
Capital surplus	7,289
Retained earnings	36,782
Treasury shares	(4,040)
<b>Accumulated other comprehensive income</b>	<b>4,616</b>
Other unrealized gains on available-for-sale securities	4,203
Deferred gains or losses on hedge	(2)
Foreign currency translation adjustment	824
Remeasurements of retirement benefits	(408)
<b>Total net assets</b>	<b>52,748</b>
<b>Total liabilities and net assets</b>	<b>78,261</b>

## Consolidated Statement of Income

April 1, 2016 to March 31, 2017

(Unit: ¥ million)

<b>Sales</b>		<b>127,599</b>
<b>Cost of sales</b>		<b>111,103</b>
<b>Gross profit</b>		<b>16,495</b>
<b>Selling, general and administrative expenses</b>		<b>14,426</b>
<b>Operating income</b>		<b>2,069</b>
<b>Non-operating revenue</b>		
Interest and dividend income	230	
Investment profit on equity method	18	
Other miscellaneous revenues	88	336
<b>Non-operating expenses</b>		
Interest expense	42	
Foreign exchange losses	280	
Claim management expenses	55	
Other miscellaneous expenses	39	417
<b>Ordinary profit</b>		<b>1,989</b>
<b>Extraordinary income</b>		
Gain on sale of tangible fixed assets	2	
Gain on sale of investment securities	4	
Other miscellaneous income	4	10
<b>Extraordinary losses</b>		
Loss on sales and disposal of tangible fixed assets	17	
Other miscellaneous loss	5	23
<b>Income before income taxes</b>		<b>1,976</b>
Income taxes - current	349	
Income taxes - deferred	(276)	73
Net income		1,903
<b>Net income attributable to owners of parent</b>		<b>1,903</b>

## Non-Consolidated Balance Sheet

As of March 31, 2017

(Unit: ¥ million)

<b>Assets</b>	
<b>Current assets</b>	<b>46,516</b>
Cash and deposits	3,345
Notes receivable - trade	906
Electronically recorded claims - operating	4,385
Accounts receivable - trade	22,940
Merchandise and finished goods	12,159
Work in progress	14
Raw materials and supplies	408
Advance payment	291
Prepaid expenses	143
Deferred tax assets	802
Accounts receivable - other	418
Other current assets	713
Less: Allowance for doubtful accounts	(14)
<b>Noncurrent assets</b>	<b>18,759</b>
<b>Tangible fixed assets:</b>	<b>6,107</b>
Buildings	802
Structures	28
Machinery and production equipment	2,029
Vehicles	5
Tools, furniture and fixtures	279
Land	2,871
Lease assets	35
Construction in progress	54
<b>Intangible assets:</b>	<b>781</b>
Goodwill	44
Leasehold rights	20
Software	695
Software in progress	0
Other intangible assets	20
<b>Investments and other assets:</b>	<b>11,870</b>
Investment securities	7,796
Investment securities in affiliates	3,230
Investments in capital of affiliates	100
Claims on obligors under rehabilitation procedure	38
Prepaid pension cost	509
Other investments	262
Less: Allowance for doubtful accounts	(68)
<b>Total assets</b>	<b>65,275</b>

## Non-Consolidated Balance Sheet

As of March 31, 2017

(Unit: ¥ million)

<b>Liabilities</b>	
<b>Current liabilities</b>	<b>18,392</b>
Electronically recorded obligations - operating	2,266
Accounts payable - trade	11,326
Short-term borrowings	1,625
Long-term borrowings due within one year	1,093
Lease obligations	35
Accounts payable - other	274
Accrued expenses	762
Accrued income taxes	21
Advances received	275
Deposits received	14
Allowance for bonuses to employees	628
Allowance for product warranty	8
Other current liabilities	59
<b>Long-term liabilities</b>	<b>3,053</b>
Long-term borrowings	1,404
Deferred tax liabilities	1,632
Allowance for directors' severance and retirement benefits	1
Long-term guarantee deposited	14
<b>Total liabilities</b>	<b>21,445</b>
<b>Net Assets</b>	
<b>Shareholders' Equity</b>	<b>39,628</b>
<b>Capital stock</b>	<b>8,100</b>
<b>Capital surplus</b>	<b>7,289</b>
Appropriation for statutory reserve	2,532
Other capital surplus	4,756
<b>Retained earnings</b>	<b>28,279</b>
Other retained earnings	28,279
Reserve for reduction entry of tangible fixed assets	0
General reserve	16,000
Balance to be carried forward	12,279
<b>Treasury shares</b>	<b>(4,040)</b>
<b>Valuation and translation adjustments</b>	<b>4,201</b>
Other unrealized gains on available-for-sale securities	4,204
Deferred gains or losses on hedge	(2)
<b>Total net assets</b>	<b>43,830</b>
<b>Total liabilities and net assets</b>	<b>65,275</b>

## Non-Consolidated Statement of Income

April 1, 2016 to March 31, 2017

(Unit: ¥ million)

<b>Sales</b>		<b>90,968</b>
<b>Cost of sales</b>		<b>79,103</b>
<b>Gross profit</b>		<b>11,865</b>
<b>Selling, general and administrative expenses</b>		<b>10,727</b>
<b>Operating income</b>		<b>1,138</b>
<b>Non-operating revenue</b>		
Interest and dividend income	389	
Other miscellaneous revenues	30	420
<b>Non-operating expenses</b>		
Interest expense	40	
Foreign exchange losses	183	
Claim management expenses	18	
Other miscellaneous expenses	31	273
<b>Ordinary profit</b>		<b>1,284</b>
<b>Extraordinary income</b>		
Gain on sale of tangible fixed assets	1	1
<b>Extraordinary losses</b>		
Loss on sales and disposal of tangible fixed assets	13	
Provision of allowance for doubtful accounts for affiliates	96	
Other miscellaneous loss	5	115
<b>Income before income taxes</b>		<b>1,171</b>
Income taxes - current	98	
Income taxes - deferred	(297)	(198)
<b>Net income</b>		<b>1,369</b>

## Reference Materials for the General Meeting of Shareholders

### Agenda item and reference materials

#### Item: Appointment of Nine (9) Directors

The term of office of all nine (9) Directors will expire at the conclusion of this General Meeting of Shareholders.

Therefore, we request for the approval of the appointment of nine (9) Directors.

Career histories of the candidates for Directors are as follows:

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate
1	Ryusaburo Sugimoto (Jun. 3, 1954)  [Reelection]	Apr. 1978    Joined the Company Jun. 2004    Director & Vice President, Division Manager of Semiconductor Devices Div. Aug. 2006    Director & Senior Vice President, Division Manager of Semiconductor Devices 1st Div. and in charge of Semiconductor Devices 2nd Div. Jun. 2007    Director & Executive Vice President, in charge of Electronics Business and Semiconductor Devices Business Apr. 2008    President (Representative Director) (present)	44,540
2	Yoshinae Takada (May 27, 1957)  [Reelection]	Apr. 1983    Joined the Company Jun. 2004    Director & Vice President, Manager of Corporate Planning Dept. and Financial & Accounting Dept., and in charge of E.D.P. Dept. Apr. 2008    Director & Vice President, Division Manager of Corporate Management Div. Jun. 2008    Director & Senior Vice President, Division Manager of Corporate Management Div. Jun. 2011    Director & Executive Vice President, Supervisor over Corporate Administration Div. and Corporate Management Div. and in charge of Risk Management and Corporate Compliance Jun. 2015    Director & Senior Executive Managing Officer, Supervisor over Corporate Administration Div. and Corporate Management Div. and Division Manager of Corporate Management Div. and in charge of Risk Management and Corporate Compliance (present)	9,900

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate
3	Ryoji Abe (Nov. 9, 1957)  [Reelection]	<p>Mar. 1983    Joined the Company</p> <p>Jun. 2008    Director &amp; Vice President, Division Manager of Semiconductor Devices 2nd Div. and Electronic Components Div.</p> <p>Jun. 2015    Director &amp; Executive Managing Officer, Division Manager of Semiconductor Devices 2nd Div. and Electronic Components Div. and in charge of Overseas Business Operation Div.</p> <p>Oct. 2016    Director, V.P. &amp; Executive Managing Officer, President of Device Solution Company and Division Manager of Electronic Components Div. and in charge of Overseas Business Operation Div. (present)</p>	7,300

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate
4	Nobuhito Shintoku (Dec. 6, 1960)  [Reelection]	<p>Apr. 1985    Joined the Company</p> <p>Apr. 2010    Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center</p> <p>Jun. 2011    Director &amp; Vice President, Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center and in charge of Branch Office (related to Administration)</p> <p>Jun. 2011    President (Representative Director) of Hakuto A&amp;L Co., Ltd. (present)</p> <p>Apr. 2013    Director &amp; Vice President, Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center and Branch Manager of Kansai Branch and in charge of Branch Office (related to Administration)</p> <p>Jun. 2015    Director &amp; Managing Officer, Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center and Branch Manager of Kansai Branch and in charge of Branch Office (related to Administration)</p> <p>Apr. 2017    Director, V.P. &amp; Managing Officer, Division Manager of Corporate Administration Div. and Manager of Human Resources Dept. and General Affairs Dept. and Chief of Isehara Technical Center and in charge of Branch Office (related to Administration) (present)</p>	8,300

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate
5	Kazunobu Kitano (Mar. 17, 1957)  [Reelection]	<p>Jan. 1982    Joined the Company</p> <p>Apr. 2008    Manager of 3rd Sales Dept., Electronic Equipment 1st Div.</p> <p>Apr. 2010    Manager of 2nd Sales Dept., Electronic Equipment Div.</p> <p>Jul. 2011    President (Representative Director) of Adixen Japan Ltd.</p> <p>Dec. 2013    Division Manager of Electronic Equipment Div.</p> <p>Jun. 2015    Director &amp; Managing Officer, Division Manager of Electronic Equipment Div. (present)</p>	4,400
6	Akira Togo (Apr. 21, 1958)  [Reelection]	<p>Oct. 1982    Joined the Company</p> <p>Dec. 2003    Manager of Sales Administration Dept., Chemical Business Div. (in charge of water treatment)</p> <p>Apr. 2008    Deputy Division Manager of Chemical Business Div.</p> <p>Apr. 2015    Division Manager of Chemical Business Div.</p> <p>Jun. 2015    Managing Officer, Division Manager of Chemical Business Div.</p> <p>Jun. 2016    Director, V.P. &amp; Managing Officer, Division Manager of Chemical Business Div. (present)</p>	4,500
7	Ichiro Takayama (Jan. 3, 1958)  [Reelection]	<p>Jun. 1986    Qualified Medical Doctor (U.S.)</p> <p>May 1990    Qualified Medical Doctor (Japan)</p> <p>Jun. 1990    Director of the Company</p> <p>Jun. 1996    Retired from Director</p> <p>Jun. 2000    Director of the Company (present)</p>	1,058,923

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate
8	Keiji Kondo (Dec. 26, 1951)  [Reelection] [External] [Independent]	Oct. 1979 Passed the Bar Examination Apr. 1984 Completed the training of a Legal Apprentice Apr. 1984 Registered as an attorney (present) Apr. 1984 Joined YUASA AND HARA Dec. 1996 Retired from YUASA AND HARA Mar. 1997 Established Fukuda and Kondo Law Firm (present) Jun. 2014 Director of the Company (present) <Significant concurrent positions outside the Company> Joint representation, Fukuda and Kondo Law Firm	—
	Reason, etc. for appointing External Directors: Reason: Although Mr. Keiji Kondo has not been directly engaged in company management, he is familiar with corporate law in his capacity as an attorney and has extraordinary insight to govern corporate management, and is deemed appropriate to carry out the duties of an External Director. Therefore, his appointment as an External Director is requested. Term of office: Mr. Keiji Kondo will have served as an External Director for three years as of the end of this General Meeting of Shareholders.		

Candidate Number	Name (Date of Birth)	Brief History, Position, Responsibility, and Status of material holding of concurrent positions	Number of Shares of the Company Owned by the Candidate	
9	Masahito Kamijo (Jul. 12, 1954)  [Reelection] [External] [Independent]	Jun. 2006	Representative Director and Managing Executive Officer of Saitama Resona Bank, Limited	-
		Jun. 2008	Director and Senior Managing Executive Officer of Resona Bank, Limited	
		Jun. 2009	Representative Director and President of Saitama Resona Bank, Limited	
		Apr. 2014	Director and Chairman of Saitama Resona Bank, Limited	
		Apr. 2015	Chairman of Resona Research Institute Co., Ltd.	
		Jun. 2015	Director of the Company (present)	
		Jun. 2016	External Director of Clarion Co., Ltd. (present)	
Reason, etc. for appointing External Directors: Reason: Mr. Masahito Kamijo had served as Representative Director and President of Saitama Resona Bank, Limited and in other capacities that have allowed him to accumulate a wealth experience in company management. It is judged, therefore, that seeking his opinions and advice on critical management issues would help promote proper decision making, and his appointment as an External Director is requested. Term of office: Mr. Masahito Kamijo will have served as an External Director for two years as of the end of this General Meeting of Shareholders.				

Notes:

1. There are no special interests between the Company and the candidates for Directors above.
2. Mr. Keiji Kondo and Mr. Masahito Kamijo are both candidates for appointment to the position of External Director.
3. The Company appointed each of Mr. Keiji Kondo and Mr. Masahito Kamijo, a candidate of Director, as Independent Officer as stipulated by provisions of Tokyo Stock Exchange, and filed the relevant notification with the TSE. If appointed as originally proposed, the Company will appoint them as Independent Officers.
4. Special notes on the candidates for appointment as External Directors are provided below.
  - (1) Independence of External Director candidates
    - 1) Neither Mr. Keiji Kondo nor Mr. Masahito Kamijo is an executive person (as defined in Article 2, Paragraph 3, Item 6, of the Companies Act Enforcement Regulations, same applies below) or a director (excluding a company of which he is an executive person, same applies below) at the Company's designated related companies (as defined in Article 2, Paragraph 3, Item 19 of the Companies Act Enforcement Regulations, same applies below), and neither of them has served as an executive person or a director of the Company's designated related companies over the past five years.

- 2) Neither Mr. Keiji Kondo nor Mr. Masahito Kamijo has served as an executive person or a director of the Company or the Company's subsidiary in the past.
  - 3) Neither Mr. Keiji Kondo nor Mr. Masahito Kamijo has received significant sums of money or other assets from either the Company or any of its designated related companies over the past two years and no such receipts are scheduled.
  - 4) Neither Mr. Keiji Kondo nor Mr. Masahito Kamijo has any family relationships of the third degree or closer to any person working as an executive person or a director at either the Company or any of its designated related companies.
- (2) Agreements limiting the liability of External Directors

Based on Article 427, Paragraph 1 of the Companies Act ("the Act"), the Company has entered into contracts with each Director (excluding executive directors) to limit liability for damages as stipulated in the same Article 423, Paragraph 1 of the Act, to the higher of ¥3 million or the minimum liability limit amount stipulated in Article 425, Paragraph 1 of the Act. Should the reappointment of Mr. Ichiro Takayama, Mr. Keiji Kondo and Masahito Kamijo be approved, the Company will extend the above agreement with each of them.

## **[Information on Exercise the Voting Rights]**

You may exercise your voting rights by one of the following three methods.

### **By Attending the General Meeting of Shareholders**

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Please submit your Form for Exercising Voting Rights and present it at the reception desk. (A personal seal will not be required.)

**Date & Time:**           **Wednesday, June 28, 2017 at 10:00 a.m.**  
**(Reception commences at 9:00 a.m.)**

**Venue:**                   **Conference Room, 8th Floor, Head Office Building,**  
**1-13, Shinjuku 1-chome, Shinjuku-ku, Tokyo**

### **By Submitting the Form for Exercising Voting Rights by Mail**

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Please indicate “for” or “against” for each agenda item shown on the enclosed Form for Exercising Voting Rights, and post it to the Company without postage stamp.

**Exercise Due Date:**       **No later than 5:30 p.m. on Tuesday, June 27, 2017**

### **By Exercising Voting Rights via the Internet**

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Please access the Voting Rights Exercise Site: (<http://www.evote.jp/>) by a personal computer, a smartphone or a cell phone. Enter the “Login ID” and “Temporary Password” noted on the enclosed Form for Exercising Voting Rights, follow the instructions on the screen and indicate “for” or “against” for the agenda item.

**Exercise Due Date:**       **No later than 5:30 p.m. on Tuesday, June 27, 2017**

- (1) Please enter your “Login ID” and “Temporary Password,” both of which are noted on the Form for Exercising Voting Rights, in the appropriate spaces on the Voting Right Exercise Site (<http://www.evote.jp/>). Follow the instructions on your computer screen and indicate whether you are for or against each item.
- (2) To prevent unauthorized access by parties other than shareholders and the alteration of shareholder votes, shareholders voting via the Internet will be asked to change their “Temporary Password” on the Voting Rights Exercise Site.
- (3) Costs (the Internet connection fees, etc.) for accessing the Voting Rights Exercise Site shall be borne by the shareholder. For shareholders using cell phones, packet transmission fees and other cell phone usage fees will be incurred, and these, too, shall be borne by the shareholder.

## **Procedures for Exercising Voting Rights via the Internet, etc.**

Shareholders are requested to read the following items before exercising voting rights via the Internet, etc. If you plan to attend the General Meeting of Shareholders in person, it is not necessary to either mail your voting form or to exercise your voting rights via the Internet, etc.

### **Voting Rights Exercise Site**

- (1) Exercise of voting rights is possible only by using a personal computer, a smartphone or a cell phone (i-mode, EZweb, Yahoo! Keitai)\* to access the site below, which is specified by the Company. Site access, however, shall not be possible between the hours of 2:00 a.m. and 5:00 a.m.

<Voting Rights Exercise Site URL> <http://www.evote.jp/>

\* “i-mode,” “EZweb,” and “Yahoo!” are the respective trademarks or registered trademarks of NTT Docomo, Inc., KDDI Corporation, and Yahoo! Inc. of the U.S.

- (2) Firewalls, anti-virus software, proxy servers, or other aspects of the shareholder’s Internet usage environment may prevent the use of a personal computer or a smartphone to exercise of voting rights.
- (3) Please use the i-mode, EZweb, or Yahoo! Keitai services when using a cell phone to exercise voting rights. For security-related reasons, cell phones that cannot send encrypted data (SSL transmissions) and cell phone information cannot be used to exercise voting rights.

\* It is also possible to access voting rights exercise site by using a cell phone that can read barcodes to read the QR Code to the right. Please refer to your cell phone owner’s manual for detailed instructions on how to read barcodes.



- (4) Voting rights may be exercised until 5:30 p.m. on June 27, 2017 (Tuesday), but shareholders are requested to do so as early as possible. A help desk has been established to answer questions and help shareholders exercise their voting rights.

### **Treatment of voting rights exercised multiple times**

- (1) If you exercise your voting rights both by mail and via the Internet, etc., the voting via the Internet, etc. shall prevail regardless of the arrival date of the mailed vote.
- (2) In the case of multiple voting via the Internet, etc., the last voting shall prevail.

### **For more information**

Questions regarding the system for voting via the Internet:

**Mitsubishi UFJ Trust and Banking Corporation, Corporate Agency Department (Helpdesk)**  
Tel: 0120-173-027 (only in Japan, toll free)  
Hours: 9:00–21: 00

Other questions:

**Mitsubishi UFJ Trust and Banking Corporation, Corporate Agency Department**  
Tel: 0120-232-711 (only in Japan, toll free)  
Hours: 9:00–17: 00 (excluding weekends and national holidays)

### **e-Voting platform for institutional investors**

Institutional investors who have applied in advance to use the e-Voting Platform for institutional investors (also referred to as the “TSE Platform”) run by ICJ, Inc. can cast their votes via this system instead of the Company’s system for voting via the Internet, which is described above.

**The English translation is an abridged version of the original invitation notice in Japanese. In the event of discrepancy, the Japanese version shall prevail.**