

June 6, 2014

Dear Shareholders,

**Hakuto Co., Ltd.**

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

**Notice of the 62nd Annual General Meeting of Shareholders**

You are cordially invited to attend the 62nd 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 41 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 Wednesday, June 25, 2014, using one of the methods outlined below.**

**[Exercising your voting rights by mail]**

Please indicate “for” or “against” for each agenda item shown on the enclosed Form for Exercising Voting Rights, apply the enclosed protective seal, and mail it in time for delivery by the deadline mentioned above.

**[Exercising your voting rights electronically (Internet voting etc.)]**

Use a personal computer, smartphone or cell phone to access the Voting Right Exercise Site: <http://www.evotage.jp/>. 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 each agenda item by the deadline mentioned above.

If you intend to exercise your voting rights via the Internet, etc., please refer to page 42 and 43 of the “Procedures for Exercising Voting Rights via the Internet, etc.”

Sincerely,

Ryusaburo Sugimoto  
President

**Details**

- 1. Date & Time:** Thursday, June 26, 2014 at 10:00 a.m.
- 2. Venue:** Conference Room, 8th Floor, Head Office Building, 1-13, Shinjuku 1-chome, Shinjuku-ku, Tokyo

- 
1. If you are attending the Meeting in person, please bring the enclosed Form for Exercising Voting Rights and present it at the reception desk.
  2. 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 (<http://www.hakuto.co.jp>).

### **3. Meeting Agenda**

#### **(1) Items to be reported:**

1. Business Report and consolidated financial statements for the Company's 62nd fiscal year (from April 1, 2013 to March 31, 2014), and the audit reports of consolidated financial statements by the Accounting Auditors (CPAs) and the Company's Audit & Supervisory Board
2. Non-consolidated financial statements for the Company's 62nd fiscal year (from April 1, 2013 to March 31, 2014)

#### **(2) Items to be resolved:**

**Item 1:** Appointment of Nine (9) Directors

**Item 2:** Appointment of One (1) Audit & Supervisory Board Member

### **4. Matters concerning convocation**

- (1) The "Notes to the Consolidated Financial Statements" 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 62nd 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.
- (2) In the event that no indication of "for" or "against" has been made, this shall be treated as the intent of approval.
- (3) If you exercise your voting rights both by mail and electronic means (Internet voting etc.), the electronic voting (Internet etc.) shall prevail regardless of the arrival date of the mailed vote.
- (4) In the case of multiple voting via the Internet, etc., the last voting shall prevail.
- (5) If split votes are cast, a written notice of the diverse exercise of voting rights and the reasons thereof must be provided by three (3) days in advance of the Annual General Meeting of Shareholders.

## Business Report

(From April 1, 2013 to March 31, 2014)

### 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 ended March 31, 2014, concerns about the financial crisis in Europe gradually moved toward resolution while economic indicators in the U.S. reflected signs of a recovery trend. China, however, continued to experience a slowdown in real economic growth and, in manufacturing industries in coastal areas, there were heightened concerns about significant earnings deterioration due to dramatic increases in labor costs.

In Japan, meanwhile, the economy performed steadily on the whole, mainly reflecting signs of recovery trend centered on export industries on the back of further correction in the yen's appreciation from the effects of government financial and economic measures aimed at shaking off deflation. There was also a beneficial effect from a rush in demand at the end of the fiscal year ahead of the consumption tax hike.

Under these conditions, in the electronics industry, the Group's mainstay area of business, smartphones and tablet devices maintained their strong popularity, but severity in conditions continued for flat-panel TVs and digital cameras. Nevertheless, investment pertaining to communications infrastructure continued to show strength, as did the in-car products-related business, particularly in North America. Furthermore, in the industrial chemicals market in the chemicals business, while the operation rate in the domestic petroleum-related sector fell short of making a full recovery, the paper and pulp sector saw a shift in part from imported paper to domestically produced paper due to the weaker yen.

Under such circumstances, the Group's sales performance increased from a year earlier in all business segments. The consolidated net sales for the fiscal year under review amounted to ¥132,619 million, an 18.6% year-on-year increase. Regarding profit and loss, gross profit increased 10.1% year on year to ¥19,095 million. Selling, general, and administrative expenses increased 5.7% to ¥15,052 million, operating income climbed 30.4% to ¥4,043 million, ordinary income increased 22.8% to ¥4,218 million, and net income amounted to ¥2,336 million, a 16.5% year-on-year increase.

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

#### *Electronic Components Business*

In the electronic components segment, there was growing demand for base stations to accommodate the demand for increasing communication capacity associated with the further penetration of smartphones. In addition, photovoltaic power generation-related businesses showed a substantial increase in sales on the back of robust demand for related products for use in business as well as private homes. In-vehicle components and amusement-related business also showed steady performances. As a result, net sales in the electronic components segment for the fiscal year under review increased 20.2% year-on-year to ¥100,940 million, and segment income jumped 54.8% to ¥2,642 million.

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

In the electronic and electric equipment segment, although there was a slump in sales at foreign bases of PCB (Printed Circuit Board) related equipment, the Group's mainstay, this was offset by domestic sales of large-sized equipment such as medical-use cyclotrons, pelletron accelerators and laser oscillators. As a result, net sales for the fiscal year under review increased 15.2% year on year to ¥21,089 million. However, segment income decreased 19.8% year on year to ¥846 million, due mainly to the rise in costs of imported products caused by the weak yen.

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

In the industrial chemicals segment, sales of catalysts and anti-polymerization agents expanded in the petroleum and petrochemical-related field. Net sales for the fiscal year under review increased 10.7% year on year to ¥10,566 million, and segment income climbed 49.6% year on year to ¥513 million.

### ***Others Business***

This segment consists mainly of general operation and logistics management tasks of the Company on a consignment basis, as well as agency business for insurance companies. The Others Divisions reported sales of ¥727 million, a 4.5% year-on-year increase, and segment income of ¥17 million, a 21.7% year-on-year increase for the consolidated fiscal year under review.

## Sales by segment

	FY 2012 (term ended March 2013)		FY 2013 (term ended March 2014)	
	Sales (¥ million)	Ratio to total (%)	Sales (¥ million)	Ratio to total (%)
Electronic Components	83,951	74.6	100,940	75.7
Electronic and Electric Equipment	18,308	16.3	21,089	15.8
Industrial Chemicals	9,545	8.5	10,566	7.9
Others	696	0.6	727	0.6
Sub-total	112,501	100.0	133,324	100.0
Internal Transaction	(678)	–	(705)	–
Total	111,823	100.0	132,619	100.0

Note: Figures are exclusive of consumption tax.

### *Outlook of the Next Fiscal Year*

In the fiscal year ending March 2015, although there are concerning factors that must be monitored, such as the effects of the consumption tax increase and weakening growth in the Chinese economy, the economic environment is expected to be steady, on the back of growth strategies implemented by the Japanese government, the fixed weak yen trend and the stable growth of the U.S. economy, among others.

The Group will focus efforts toward introduction of equipment into scientific technology fields, strengthening of businesses related to the communications infrastructure market and in-car products, enhancing product range for smart phones and tablets, and expanding sales of power semiconductors for white goods such as air conditioners, as well as continuing growth in solar-related and other energy solution business activities.

In consideration of such business conditions, the Company forecasts the consolidated net sales to increase 7.1% year on year to ¥142.0 billion, consolidated operating income to increase 3.9% to ¥4.2 billion, consolidated ordinary income to increase 1.9% to ¥4.3 billion, and consolidated net income to increase 19.8% to ¥2.8 billion for the fiscal year ending March 2015.

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

The total investment in plant and equipment for the consolidated fiscal year under review was ¥2,930 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 items to report.

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

There are no items to report.

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

There are no items to report.

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

(¥ million)

	FY2010	FY2011	FY2012	FY2013 (reporting term)
Sales	110,909	116,147	111,823	132,619
Ordinary profit	4,022	4,186	3,435	4,218
Net income	2,200	2,243	2,005	2,336
EPS (yen)	99.94	102.64	91.74	106.86
Total assets	73,364	72,380	74,176	82,808
Net assets	40,210	41,260	43,553	46,528
BPS (yen)	1,829.59	1,880.69	1,992.53	2,128.62

Notes:

1. EPS (Earnings Per Share) 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 for FY2013 include the shares of the Company held by the ESOP Trust Account (please refer to “6) Other important matters concerning shares” on page 10).

**(3) Principal subsidiaries**

	Capital stock	Ratio of voting rights held by the Company (%)	Principal lines of business
Microtek Inc.	300 million yen	100	Import/export of electronic equipment and components
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

**(4) Issues facing the Company**

Encouraged by the effects of Abenomics, the Japanese economy continued to be relatively favorable during FY2013, as reflected in the fixed weak yen trend, rising stock prices, a faltering deflationary trend and other factors, and the Group was able to attain higher income and greater revenue.

Under such circumstances, the Group celebrated the 60th anniversary of the Company's foundation last fiscal period. It was a year when all employees shared an even stronger sense of motivation to achieve new progress as a Group.

In an aim to more firmly secure this growth trend in FY2014, the Group will address the issues stated below.

**1) Strengthening sales strategies to demonstrate growth potential**

The Group will strive to optimize the balance in product categories to secure stable growth potential and profitability.

Specifically, in the electronic and electric equipment segment, the Group's mainstay, the Group will work to make a solid launch of the compound semiconductor equipment business of U.S. Veeco Instruments Inc., which is a major commercial right acquired in the previous fiscal year, and to reinforce sales of equipment for PCBs, for which the conversion to next-generation technology must be done quickly, in the Asian region.

In the photovoltaic power generation-related business, which was introduced as a new business and showed significant growth in the fiscal year under review, the Group expects to secure stable earnings through full-year operation of the power selling business in FY2014.

Meanwhile, in the industrial chemicals segment, the Group will shift its focus away from the shrinking domestic market and initiate full-fledged entries into overseas markets from FY2014.

**2) Allocating management resources to overseas subsidiaries and reinforcing relationships with them**

Given the growth of the overseas transfer business, sales from the Company to its Asian subsidiaries exceeded ¥20 billion in the fiscal year under review. As such, business ties between the head office and Asian subsidiaries have been strengthening quickly in the last few years.

In order to solidify the management foundation of Asian subsidiaries, the Group will further allocate management resources to the subsidiaries in FY2014 and reinforce relationships between the head office and the subsidiaries. As part of this effort, the Group will deploy new core systems that were introduced in FY2013 to Asian subsidiaries.

**3) Structural reforms of domestic subsidiaries**

Although the Group attained higher income and greater revenue on a consolidated basis for the fiscal year under review, the three domestic subsidiaries (Microtek Inc., Fuyo Chemical Industries Co., Ltd. and MOLDEC Co., Ltd.) generally slumped due to the shrinking of the domestic market and intensifying price competition, etc.

In order to maintain a certain level of profitability in FY2014 even under such a market environment, the Group will implement structural reforms in terms of the earnings structure as well as the cost structure.

**4) Strengthening consolidated risk management**

While the presence of Asian subsidiaries in the Group's consolidated performance has been heightening year after year as previously mentioned, this in turn suggests that should any management risk become evident in these subsidiaries, it could have a larger impact than before on the Group.

Therefore, the Company will further upgrade its present consolidated management, and take the lead in strengthening the ways it conducts risk management from a consolidated standpoint.

**(5) Main business lines** (as of March 31, 2014)

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, 2014)

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

Name	Location
Head Office	Shinjuku-ku, Tokyo
Kansai Branch	Itami, Hyogo
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
Microtek Inc.	Shinjuku-ku, Tokyo
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, 2014)****1) Employees of the Group**

Business segment	Number of employees	Change from end of previous term
Electronic Components	638	(52)
Electronic and Electric Equipment	276	(2)
Industrial Chemicals	191	(9)
Others	100	(2)
Common in the Group	174	10
Total	1,379	(55)

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
620	Decrease by 5	42.3	13.7

Note: The above figures exclude 22 employees currently dispatched to subsidiaries.

**(8) Principal sources of borrowings (as of March 31, 2014)**

(¥ million)

Sources	Balance of borrowings
Sumitomo Mitsui Banking Corporation	3,083
Resona Bank, Limited	2,448
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,163
Mizuho Bank, Ltd.	1,335
Mitsubishi UFJ Trust and Banking Corp.	1,032

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

There are no material facts to report.

## 2. Profile of the Company

### (1) Shares (as of March 31, 2014)

- 1) Number of shares authorized for issuance: 54,000,000 shares  
2) Number of shares issued and outstanding: 24,137,213 shares (no change from the previous fiscal year)  
Of which treasury shares: 2,043,370 shares  
3) Number of shares per trading unit (tangen): 100 shares  
4) Number of shareholders: 6,983 (decreased by 127 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	19.12
Ichiro Takayama	1,058.9	4.79
Ken Takayama	1,058.9	4.79
Ryutaro Takayama	1,058.8	4.79
Japan Trustee Services Bank, Ltd. (trust account)	1,036.7	4.69
The Master Trust Bank of Japan, Ltd. (trust account)	1,011.6	4.57
Kuroda Electric Co., Ltd.	604.2	2.73
THE BANK OF NEW YORK 133522	377.9	1.71
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	363.8	1.64
Hakuto Employee Stock Ownership	333.8	1.51

#### Notes:

1. Number of shares held is rounded down to the nearest 100 shares.
2. Ownership is calculated based on the number of shares issued and outstanding (22,093,843), which excludes treasury shares. Percentages have been rounded down to two decimal places. Therefore, 235,400 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.
3. 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, 2014 is 235,400.

**(2) Share subscription rights**

There are no items to report.

**(3) Corporate Officers****1) Directors and Audit & Supervisory Board Members (as of March 31, 2014)**

Name	Positions in the Company	Responsibility and status of material holding of concurrent positions
Ryusaburo Sugimoto	President (Representative Director)	
Yoshinae Takada	Director & Executive Vice President	Supervisor over Corporate Administration Div. and Corporate Management Div. and Division Manager of Corporate Management Div. and Manager of Corporate Planning Dept. and in charge of Risk Management and Corporate Compliance
Noriaki Tomioka	Director & Senior Vice President	In charge of Electronic Equipment Div. and Overseas Business Operation Div.
Hitoshi Takigami	Director & Vice President	Division Manager of Chemical Business Div.
Ryoji Abe	Director & Vice President	Division Manager of Semiconductor Devices 2nd Div. and Electronic Components Div.
Jun Takagi	Director & Vice President	Division Manager of Semiconductor Devices 1st Div.
Nobuhito Shintoku	Director & 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), President of Hakuto A&L Co., Ltd.
Ichiro Takayama	Director & Vice President	
Katsuyoshi Iwashiro	External Director	
Chikao Fukuda	External Director	Attorney at law
Shinkichi Suzuki	Full-time Audit & Supervisory Board Member	
Tadao Kuwano	External Audit & Supervisory Board Member	Certified Public Accountant, Certified Tax Accountant and External Director for Okamura Corporation
Atsushi Inuzuka	External Audit & Supervisory Board Member	President, Mitsubishi UFJ Trust Hosyo Co., Ltd. and External Audit & Supervisory Board Member of Nippon Filcon Co., Ltd.

## Notes:

1. Among the Directors, Messrs. Katsuyoshi Iwashiro and Chikao Fukuda are External Directors.
2. Messrs. Tadao Kuwano and Atsushi Inuzuka are External Audit & Supervisory Board Members.
3. Messrs. Shinkichi Suzuki, Tadao Kuwano and Atsushi Inuzuka, 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. Shinkichi Suzuki has considerable insight with regard to general business management including financial and accounting matters, serving as an officer in charge of management for the Company and its subsidiary.
  - The Audit & Supervisory Board Member Mr. Tadao Kuwano holds licenses as both a certified public accountant and certified tax accountant.
  - The Audit & Supervisory Board Member Mr. Atsushi Inuzuka 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 Mr. Chikao Fukuda and Messrs. Tadao Kuwano and Atsushi Inuzuka, who are Audit & Supervisory Board Members, as Independent Officers as stipulated by Tokyo Stock Exchange, and filed the relevant notification with the TSE.

**2) Directors and Audit & Supervisory Board Members retired during the fiscal year under review**

There are no items to report.

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

Positions	Number of recipients	Amount of payment (millions of yen)
Directors (External Directors)	10 (2)	187 (12)
Audit & Supervisory Board Members (External Audit & Supervisory Board Members)	3 (2)	28 (9)
Total	13	215

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 the fiscal year ended March 31, 2014, the number of Directors is 10 (including two External Directors) and the number of Audit & Supervisory Board Members is three (including two External Audit & Supervisory Board Members).
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.

**4) 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

- Audit & Supervisory Board Member Mr. Atsushi Inuzuka is President of Mitsubishi UFJ Trust Hosyo Co., Ltd. There are no special relationships between Mitsubishi UFJ Trust Hosyo 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

- Audit & Supervisory Board Member Mr. Tadao Kuwano is an External Director for Okamura Corporation. There are no special relationships between Okamura Corporation and the Company.
- Audit & Supervisory Board Member Mr. Atsushi Inuzuka is an External Audit & Supervisory Board Member 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	Katsuyoshi Iwashiro	Mr. Iwashiro 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 abundant experience and wide-ranging insight as a former manager of a financial institution.
Director	Chikao Fukuda	Mr. Fukuda attended 10 of the 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.
Audit & Supervisory Board Member	Tadao Kuwano	Mr. Kuwano 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 and certified tax accountant. Mr. Kuwano 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.
Audit & Supervisory Board Member	Atsushi Inuzuka	Mr. Inuzuka 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 abundant experience and deep insight about management as a business manager in the other industry. Mr. Inuzuka 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.

(D) Overview of agreements limiting liability

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

Based on these agreements, the liability of Mr. Katsuyoshi Iwashiro and Mr. Chikao Fukuda, who are both Directors, shall be limited to the higher of an amount of at least ¥3 million or an amount stipulated by laws and regulations, and the liability of Mr. Tadao Kuwano and Mr. Atsushi Inuzuka, who are both Audit & Supervisory Board Members, shall be limited to the higher of an amount of at least

¥2 million or an amount stipulated by laws and regulations.

**(4) Accounting Auditor**

1) **Name:** KPMG AZSA LLC

**2) Compensation**

	Amount of Payment
Compensation for work related to the fiscal year under review	¥49 million
Total monetary and other assets payable to the Accounting Auditor by the Company and its subsidiaries	¥52 million

Notes:

1. Among the Company's principal subsidiaries, Hakuto Enterprises Ltd., Hakuto Singapore Pte. Ltd. and Hakuto Taiwan Ltd. have all undergone statutory audits by accounting auditors other than the one retained by the Company.
2. 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) Non-audit Work**

The Company pays a fee to its Accounting Auditor for advisory duties regarding internal controls to examine adoption of new core system and financial reporting, which are professional duties other than those stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Law.

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

Should Audit & Supervisory Board resolve to dismiss an Accounting Auditor under the provisions of Article 340 of the Companies Act, or if the Company's audit work is obstructed by an event like a business cessation order issued to an Accounting Auditor by regulatory authorities, the Company, with the agreement of Audit & Supervisory Board or at the behest of Audit & Supervisory Board, shall submit to the General Meeting of Shareholders a resolution to either dismiss or not reappoint the Accounting Auditor.

**(5) Basic policy for construction of internal control systems**

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" (internal control system) provided for in Article 362, Paragraph 5 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 Hakuto's code of conduct, training and other measures targeting 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 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 and report the results of these discussions to the Board of Directors.
- (D) A channel allowing employees to directly report to the 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 a company-wide risk management system.
- (B) A director responsible for risk management decides departments in charge of each type of risk. 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 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 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 by responsible Directors based on management plans, and the review of monthly and quarterly performance and the implementation of performance improvement measures by the Board of Directors and 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 and the Rules for Administrative Authority.

**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 group companies, Internal Control Systems for the Hakuto Group shall be constructed by having each individual group company adopt necessary rules based on the Hakuto 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 Corporate Planning Department shall adopt the Rules for Managing Subsidiaries and implement management measures as dictated by conditions at subsidiaries.
- (D) Based on the Financial Instruments and Exchange Law, each Group company shall establish and implement necessary, appropriate internal controls over financial reporting in order to ensure the reliability of the financial reports of the Hakuto 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 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**

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 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.

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

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

**(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 20%, 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, we 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, we resolved to pay the dividend of ¥20 per share according to the above-mentioned policies at the Board of Directors meeting held on May 15, 2014. Added to the interim dividend of ¥15 per share paid in December 2013, the total amount of dividends paid for the fiscal year under review is ¥35 per share, and the consolidated payout ratio is 32.8%.

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

The Company, in a Board of Directors meeting, has resolved the following concerning the 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

We seek 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, we plan to implement the following strategies in each segment:

### ■ Electronics Segment

We 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. We also intend 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, we will exploit a new demand and provide new products that can meet the needs of the society. We will also develop markets and customers where we can expect the synergy effect with the Electronics Division.

(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, 2014

(Unit: Million yen)

<b>Assets</b>	
<b>Current assets</b>	<b>65,259</b>
Cash and deposits	11,417
Notes and accounts receivable - trade	34,749
Merchandise and finished goods	16,041
Work in progress	55
Raw materials and supplies	441
Deferred tax assets	713
Other current assets	1,939
Less: Allowance for doubtful accounts	(98)
<b>Noncurrent assets</b>	<b>17,548</b>
<b>Tangible fixed assets:</b>	<b>8,015</b>
Buildings and structures	1,209
Machinery and production equipment	2,926
Land	3,237
Other tangible fixed assets	642
<b>Intangible assets:</b>	<b>1,367</b>
<b>Investments and other assets:</b>	<b>8,166</b>
Investment securities	7,600
Deferred tax assets	212
Other investments	388
Less: Allowance for doubtful accounts	(35)
<b>Total assets</b>	<b>82,808</b>

## Consolidated Balance Sheet

As of March 31, 2014

(Unit: Million yen)

<b>Liabilities</b>	
<b>Current liabilities</b>	<b>28,196</b>
Notes and accounts payable - trade	15,164
Electronically recorded obligations - operating	2,267
Short-term borrowings	6,367
Accrued income taxes	915
Allowance for bonuses to employees	891
Allowance for product warranty	3
Other current liabilities	2,586
<b>Long-term liabilities</b>	<b>8,083</b>
Long-term borrowings	5,480
Deferred tax liabilities	1,829
Allowance for directors' severance and retirement benefits	45
Liabilities for retirement benefits	555
Other long-term liabilities	172
<b>Total liabilities</b>	<b>36,280</b>
<b>Net Assets</b>	
<b>Shareholders' Equity</b>	<b>43,183</b>
Capital stock	8,100
Capital surplus	7,289
Retained earnings	31,777
Less: Treasury shares	(3,982)
<b>Accumulated other comprehensive income</b>	<b>3,344</b>
Other unrealized gains on available-for-sale securities	3,280
Gains or losses on deferred hedge	63
Foreign currency transaction adjustment	306
Less: Remeasurements of retirement benefits	(306)
<b>Total net assets</b>	<b>46,528</b>
<b>Total liabilities and net assets</b>	<b>82,808</b>

## Consolidated Statement of Income

April 1, 2013 to March 31, 2014

(Unit: Million yen)

<b>Sales</b>		<b>132,619</b>
<b>Cost of sales</b>		<b>113,523</b>
<b>Gross profit</b>		<b>19,095</b>
<b>Selling, general and administrative expenses</b>		<b>15,052</b>
<b>Operating income</b>		<b>4,043</b>
<b>Non-operating revenue</b>		
Interest and dividend income	221	
Investment profit on equity method	57	
Other miscellaneous revenues	82	361
<b>Non-operating expenses</b>		
Interest expense	103	
Foreign exchange losses	45	
Other miscellaneous expenses	37	186
<b>Ordinary profit</b>		<b>4,218</b>
<b>Extraordinary income</b>		
Gain on sale of tangible fixed assets	3	
Gain on sale of investment securities	15	
Subsidy income	124	
Other miscellaneous income	4	147
<b>Extraordinary losses</b>		
Loss on sales and disposal of tangible fixed assets	16	
Asset impairment loss	516	
Loss on reduction of tangible fixed assets	97	
Special retirement expenses	35	666
<b>Income before income taxes and minority interest</b>		<b>3,699</b>
Income taxes - current	1,394	
Less: Income taxes - deferred	(31)	1,362
Income before minority interests		2,336
<b>Net income</b>		<b>2,336</b>



## Consolidated Statement of Changes in Net Assets

April 1, 2013 to March 31, 2014

(Unit: Million yen)

<b>Shareholders' Equity</b>	
<b>Capital stock</b>	
Balance at beginning of the term	8,100
Changes during the term	
Total changes during the term	-
Balance at end of the term	8,100
<b>Capital surplus</b>	
Balance at beginning of the term	7,491
Changes during the term	
Disposal of treasury shares	(202)
Total changes during the term	(202)
Balance at end of the term	7,289
<b>Retained earnings</b>	
Balance at beginning of the term	30,205
Changes during the term	
Cash dividends	(765)
Net income	2,336
Total changes during the term	1,571
Balance at end of the term	31,777
<b>Treasury shares</b>	
Balance at beginning of the term	(4,184)
Changes during the term	
Disposal of treasury shares	432
Acquisition of treasury shares	(230)
Total changes during the term	202
Balance at end of the term	(3,982)
<b>Total shareholders' equity</b>	
Balance at beginning of the term	41,612
Changes during the term	
Cash dividends	(765)
Net income	2,336
Disposal of treasury shares	230
Acquisition of treasury shares	(230)
Total changes during the term	1,571
Balance at end of the term	43,183

(Unit: Million yen)

<b>Accumulated other comprehensive income</b>	
<b>Other unrealized gains on available-for-sale securities</b>	
Balance at beginning of the term	2,166
Changes during the term	
Net changes in items other than shareholders' equity during the term	1,114
Total changes during the term	1,114
Balance at end of the term	3,280
<b>Gains or losses on deferred hedge</b>	
Balance at beginning of the term	77
Changes during the term	
Net changes in items other than shareholders' equity during the term	(14)
Total changes during the term	(14)
Balance at end of the term	63
<b>Foreign currency transaction adjustment</b>	
Balance at beginning of the term	(303)
Changes during the term	
Net changes of items other than shareholders' equity during the term	610
Total changes during the term	610
Balance at end of the term	306
<b>Remeasurements of retirement benefits</b>	
Balance at beginning of the term	-
Changes during the term	
Net changes in items other than shareholders' equity during the term	(306)
Total changes during the term	(306)
Balance at end of the term	(306)
<b>Total accumulated other comprehensive income</b>	
Balance at beginning of the term	1,940
Changes during the term	
Net changes in items other than shareholders' equity during the term	1,403
Total changes during the term	1,403
Balance at end of the term	3,344
<b>Total net assets</b>	
Balance at beginning of the term	43,553
Changes during the term	
Cash dividends	(765)
Net income	2,336
Disposal of treasury shares	230
Acquisition of treasury shares	(230)
Net changes in items other than shareholders' equity during the term	1,403
Total changes during the term	2,974
Balance at end of the term	46,528

## Non-Consolidated Balance Sheet

As of March 31, 2014

(Unit: Million yen)

<b>Assets</b>	
<b>Current assets</b>	<b>48,552</b>
Cash and deposits	6,054
Notes receivable - trade	3,607
Accounts receivable - trade	25,213
Merchandise and finished goods	11,229
Work in progress	14
Raw materials and supplies	407
Advance payment	445
Prepaid expenses	147
Deferred tax assets	605
Accounts receivable-other	574
Other current assets	256
Less: Allowance for doubtful accounts	(3)
<b>Noncurrent assets</b>	<b>20,574</b>
<b>Tangible fixed assets:</b>	<b>6,710</b>
Buildings	872
Structures	38
Machinery and production equipment	2,710
Vehicles	1
Tools, furniture and fixtures	226
Land	2,718
Lease assets	142
<b>Intangible assets:</b>	<b>1,345</b>
Goodwill	13
Leasehold rights	20
Software	1,266
Software in progress	25
Other intangible assets	20
<b>Investments and other assets:</b>	<b>12,518</b>
Investment securities	6,565
Investment securities in affiliates	3,051
Long-term loans to affiliates	3,369
Claims on obligors under rehabilitation procedure	4
Prepaid pension cost	264
Other investments	227
Less: Allowance for doubtful accounts	(964)
<b>Total assets</b>	<b>69,127</b>

## Non-Consolidated Balance Sheet

As of March 31, 2014

(Unit: Million yen)

<b>Liabilities</b>	
<b>Current liabilities</b>	<b>23,171</b>
Electronically recorded obligations - operating	2,293
Accounts payable - trade	11,720
Short-term borrowings	3,291
Long-term borrowings due within one year	2,524
Lease obligations	51
Accounts payable - other	295
Accrued expenses	743
Accrued income taxes	657
Advances received	835
Deposits received	46
Allowance for bonuses to employees	692
Allowance for product warranty	3
Other current liabilities	16
<b>Long-term liabilities</b>	<b>6,798</b>
Long-term borrowings	5,421
Lease obligations	88
Deferred tax liabilities	1,256
Allowance for Directors' severance and retirement benefits	2
Long-term guarantee deposited	29
<b>Total liabilities</b>	<b>29,970</b>
<b>Net Assets</b>	
<b>Shareholders' Equity</b>	<b>35,821</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>24,414</b>
Other retained earnings	24,414
Reserve for reduction entry of tangible fixed assets	0
General reserve	16,000
Balance to be carried forward	8,414
<b>Less: Treasury shares</b>	<b>(3,982)</b>
<b>Valuation and exchange differences</b>	<b>3,335</b>
Other unrealized gains on available-for-sale securities	3,272
Gains or losses on deferred hedge	63
<b>Total net assets</b>	<b>39,156</b>
<b>Total liabilities and net assets</b>	<b>69,127</b>

## Non-Consolidated Statement of Income

April 1, 2013 to March 31, 2014

(Unit: Million yen)

<b>Sales</b>		<b>99,188</b>
<b>Cost of sales</b>		<b>86,010</b>
<b>Gross profit</b>		<b>13,178</b>
<b>Selling, general and administrative expenses</b>		<b>10,491</b>
<b>Operating income</b>		<b>2,686</b>
<b>Non-operating revenue</b>		
Interest and dividend income	1,011	
Other miscellaneous revenues	70	1,082
<b>Non-operating expenses</b>		
Interest expense	82	
Foreign exchange losses	35	
Claim management expenses	5	
Other miscellaneous expenses	30	153
<b>Ordinary profit</b>		<b>3,614</b>
<b>Extraordinary income</b>		
Gain on sales of tangible fixed assets	0	0
<b>Extraordinary losses</b>		
Loss on sales and disposal of tangible fixed assets	5	
Asset impairment loss	345	
Provision of allowance for doubtful accounts for subsidiaries and affiliates	279	630
<b>Income before income taxes</b>		<b>2,985</b>
Income taxes - current	1,086	
Less: Income taxes - deferred	(148)	938
<b>Net income</b>		<b>2,047</b>

## Non-Consolidated Statement of Changes in Net Assets

April 1, 2013 to March 31, 2014

(Unit: Million yen)

<b>Shareholders' Equity</b>	
<b>Capital stock</b>	
Balance at beginning of the term	8,100
Changes during the term	
Total changes during the term	-
Balance at end of the term	8,100
<b>Capital surplus</b>	
<b>Appropriation for statutory reserve</b>	
Balance at beginning of the term	2,532
Changes during the term	
Total changes during the term	-
Balance at end of the term	2,532
<b>Other capital surplus</b>	
Balance at beginning of the term	4,959
Changes during the term	
Disposal of treasury shares	(202)
Total changes during the term	(202)
Balance at end of the term	4,756
<b>Total capital surplus</b>	
Balance at beginning of the term	7,491
Changes during the term	
Disposal of treasury shares	(202)
Total changes during the term	(202)
Balance at end of the term	7,289
<b>Retained earnings</b>	
<b>Other retained earnings</b>	
<b>Reserve for reduction entry of tangible fixed assets</b>	
Balance at beginning of the term	0
Changes during the term	
Reversal of reserve for reduction entry of tangible fixed assets	(0)
Total changes during the term	(0)
Balance at end of the term	0
<b>General reserve</b>	
Balance at beginning of the term	16,000
Changes during the term	
Total changes during the term	-
Balance at end of the term	16,000
<b>Balance to be carried forward</b>	
Balance at beginning of the term	7,131
Changes during the term	

(Unit: Million yen)

Reversal of reserve for reduction entry of tangible fixed assets	0
Cash dividends	(765)
Net income	2,047
Total changes during the term	1,282
Balance at end of the term	8,414
<b>Total retained earnings</b>	
Balance at beginning of the term	23,131
Changes during the term	
Cash dividends	(765)
Net income	2,047
Total changes during the term	1,282
Balance at end of the term	24,414
<b>Treasury shares</b>	
Balance at beginning of the term	(4,184)
Changes during the term	
Disposal of treasury shares	432
Acquisition of treasury shares	(230)
Total changes during the term	202
Balance at end of the term	(3,982)
<b>Total shareholders' equity</b>	
Balance at beginning of the term	34,538
Changes during the term	
Cash dividends	(765)
Net income	2,047
Disposal of treasury shares	230
Acquisition of treasury shares	(230)
Total changes during the term	1,282
Balance at end of the term	35,821
<b>Valuation and exchange differences</b>	
<b>Other unrealized gains on available-for-sale securities</b>	
Balance at beginning of the term	2,160
Changes during the term	
Net changes in items other than shareholders' equity during the term	1,111
Total changes during the term	1,111
Balance at end of the term	3,272
<b>Gains or losses on deferred hedge</b>	
Balance at beginning of the term	77
Changes during the term	
Net changes in items other than shareholders' equity during the term	(14)
Total changes during the term	(14)
Balance at end of the term	63
<b>Total valuation and exchange differences</b>	
Balance at beginning of the term	2,238

(Unit: Million yen)

Changes during the term	
Net changes in items other than shareholders' equity during the term	1,097
Total changes during the term	1,097
Balance at end of the term	3,335
<b>Total net assets</b>	
Balance at beginning of the term	36,776
Changes during the term	
Cash dividends	(765)
Net income	2,047
Disposal of treasury shares	230
Acquisition of treasury shares	(230)
Net changes in items other than shareholders' equity during the term	1,097
Total changes during the term	2,379
Balance at end of the term	39,156



## Reference Materials for the General Meeting of Shareholders

### Agenda items and reference materials

#### Item 1: Appointment of Nine (9) Directors

The term of office of all ten (10) Directors will expire at the conclusion of this General Meeting of Shareholders. Approval of the appointment of nine (9) Directors is, therefore, requested.

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)	<p>Apr. 1978    Joined the Company</p> <p>Jun. 2004    Director &amp; Vice President, Division Manager of Semiconductor Devices Div.</p> <p>Aug. 2006    Director &amp; Senior Vice President, Division Manager of Semiconductor Devices 1st Div. and in charge of Semiconductor Devices 2nd Div.</p> <p>Jun. 2007    Director &amp; Executive Vice President, in charge of Electronics Business and Semiconductor Devices Business</p> <p>Apr. 2008    President (Representative Director) (present)</p>	28,340

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
2	Yoshinae Takada (May 27, 1957)	<p>Apr. 1983    Joined the Company</p> <p>Jun. 2004    Director &amp; Vice President, Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept., and in charge of E.D.P. Dept.</p> <p>Jul. 2006    Director &amp; Vice President, Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept. and in charge of E.D.P. Dept. and Overseas Subsidiaries Management Div.</p> <p>Apr. 2007    Director &amp; Vice President, Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept. and in charge of E.D.P. Dept. and J-SOX Project Team Leader</p> <p>Jun. 2007    Director &amp; Vice President, Manager of Financial &amp; Accounting Dept. and in charge of E.D.P. Dept. and J-SOX Project Team Leader</p> <p>Apr. 2008    Director &amp; Vice President, Division Manager of Corporate Management Div. and Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept.</p> <p>Jun. 2008    Director &amp; Senior Vice President, Division Manager of Corporate Management Div. and Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept.</p> <p>Apr. 2009    Director &amp; Senior Vice President, Division Manager of Corporate Management Div. and Manager of Financial &amp; Accounting Dept.</p> <p>Apr. 2010    Director &amp; Senior Vice President, Division Manager of Corporate Management Div.</p> <p>Apr. 2011    Director &amp; Senior Vice President, in charge of Corporate Management Div.</p> <p>Jun. 2011    Director &amp; Executive Vice President, Supervisor over Corporate Administration Div. and Corporate Management Div. and in charge of Risk Management and Corporate Compliance</p>	6,700

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
		<p>Nov. 2012 Director &amp; Executive Vice President, Supervisor over Corporate Administration Div. and Corporate Management Div. and Division Manager of Corporate Management Div. and Manager of Corporate Planning Dept. and Financial &amp; Accounting Dept. and in charge of Risk Management and Corporate Compliance</p> <p>Apr. 2013 Director &amp; Executive Vice President, Supervisor over Corporate Administration Div. and Corporate Management Div. and Division Manager of Corporate Management Div. and Manager of Corporate Planning Dept. and in charge of Risk Management and Corporate Compliance (present)</p>	
3	Noriaki Tomioka (Apr. 18, 1949)	<p>Mar. 1973 Joined the Company</p> <p>Jun. 2007 Director &amp; Vice President, in charge of Overseas Business</p> <p>Apr. 2008 Director &amp; Vice President, in charge of Electronic Equipment Business and Division Manager of Electronic Equipment 1st &amp; 2nd Div.</p> <p>Jun. 2008 Director &amp; Senior Vice President, in charge of Electronic Equipment Business and Division Manager of Electronic Equipment 1st &amp; 2nd Div.</p> <p>Apr. 2010 Director &amp; Senior Vice President, Division Manager of Electronic Equipment Div.</p> <p>Jun. 2012 Director &amp; Senior Vice President, Division Manager of Electronic Equipment Div. and in charge of Overseas Business Operation Div.</p> <p>Dec. 2013 Director &amp; Senior Vice President, in charge of Electronic Equipment Div. and Overseas Business Operation Div. (present)</p>	3,800

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	Ryoji Abe (Nov. 9, 1957)	<p>Mar. 1983    Joined the Company</p> <p>Aug. 2002    Manager of AP Sales Promotion Dept., Electronic Devices 1st Div.</p> <p>Feb. 2006    Manager of AP Sales Dept., Semiconductor Devices Div.</p> <p>Apr. 2006    Manager of 1st Sales Dept., Semiconductor Devices 2nd Div.</p> <p>Apr. 2007    Deputy Division Manager of Semiconductor Devices 2nd Div.</p> <p>Oct. 2007    Division Manager of Semiconductor Devices 2nd Div.</p> <p>Apr. 2008    Division Manager of Semiconductor Devices 2nd Div. and Electronic Components Div.</p> <p>Jun. 2008    Director &amp; Vice President, Division Manager of Semiconductor Devices 2nd Div. and Electronic Components Div.</p> <p>Apr. 2010    Director &amp; Vice President, in charge of Semiconductor Devices 2nd Div. and Division Manager of Electronic Components Div.</p> <p>Mar. 2011    Director &amp; Vice President, Division Manager of Semiconductor Devices 2nd Div. and Electronic Components Div. (present)</p>	3,600
5	Jun Takagi (Jul. 8, 1959)	<p>Apr. 1984    Joined the Company</p> <p>Apr. 2003    Manager of 2nd Devices Sales Dept., Electronic Components 1st Div.</p> <p>Jun. 2004    Deputy Division Manager of Semiconductor Devices Div.</p> <p>Apr. 2006    Deputy Division Manager of Semiconductor Devices 1st Div.</p> <p>Apr. 2007    Division Manager of Semiconductor Devices 1st Div.</p> <p>Jun. 2008    Director &amp; Vice President, Division Manager of Semiconductor Devices 1st Div. (present)</p>	4,100

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
6	Nobuhito Shintoku (Dec. 6, 1960)	<p>Apr. 1985    Joined the Company</p> <p>May 2005    Manager of Human Resources Dept., Corporate Administration Div.</p> <p>Apr. 2008    Manager of General Affairs Dept., Corporate Administration Div. and Chief of Isehara Technical Center</p> <p>Apr. 2009    Deputy Division Manager of Corporate Administration Div. and Manager of General Affairs Dept. and Chief of Isehara Technical Center</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 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) (present)</p>	5,000

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
7	Ichiro Takayama (Jan. 3, 1958)	Jun. 1986 Qualified Medical Doctor (US) May 1990 Qualified Medical Doctor (Japan) Jun. 1990 Director of the Company Jun. 1996 Retired from Director Jun. 2000 Director of the Company (present)	1,058,923
8	Katsuyoshi Iwashiro (Mar. 20, 1945)	Oct. 2001 Deputy President of The Asahi Bank, Ltd. (currently Resona Bank, Limited.) Jun. 2002 President of Shoei Insurance Service Co., Ltd. Jun. 2003 External Audit & Supervisory Board Member of Kobayashi Yoko Co., Ltd. Jun. 2005 External Director of the Company (present)	7,600
9*	Keiji Kondo (Dec. 26, 1951)	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) < Significant concurrent positions outside the Company > Joint representation, Fukuda and Kondo Law Firm	-

Notes:

1. The candidate marked with an asterisk (\*) is a candidate for a new Director.
2. There are no special interests between the Company and the candidates for Directors above.
3. Mr. Katsuyoshi Iwashiro and Mr. Keiji Kondo are both candidates for appointment to the position of External Director.
4. The Company appointed Mr. Keiji Kondo, 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 him as an Independent Officer.
5. Information relating in particular to the candidates for appointment as External Directors is provided below.

(1) Reasons for appointing External Directors

- 1) Mr. Katsuyoshi Iwashiro has served as the Deputy President of The Asahi Bank, Ltd. (currently Resona Bank, Limited.) and in other capacities that have allowed him to accumulate rich 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.

- 2) 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.
- (2) Years served as External Director since appointment  
Mr. Katsuyoshi Iwashiro will have served as an External Director for nine years as of the end of this General Meeting of Shareholders.
- (3) Independence of External Director candidates
- 1) Neither Mr. Katsuyoshi Iwashiro nor Mr. Keiji Kondo has served in any managerial capacity (as defined in Article 2, Paragraph 3, Item 6, of the Companies Act Enforcement Regulations, same applies below) at either the Company or any of its designated related companies (as defined in Article 2, Paragraph 3, Item 19 of the Companies Act Enforcement Regulations, same applies below) over the past five years.
  - 2) Neither Mr. Katsuyoshi Iwashiro nor Mr. Keiji Kondo 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.
  - 3) Neither Mr. Katsuyoshi Iwashiro nor Mr. Keiji Kondo has any family relationships of the third degree or closer to any person working in a managerial capacity at either the Company or any of its designated related companies.

(4) Agreements limiting the liability of External Directors

To facilitate the recruitment of outstanding people suited to serve as External Directors and make it possible for these people to fulfill the roles expected of them, the Company has included in the current Articles of Incorporation provisions allowing it to enter into agreements limiting the liability of External Directors for payment of damages to the Company.

Mr. Katsuyoshi Iwashiro is presently serving as External Director and the Company has entered into agreement with Mr. Katsuyoshi Iwashiro limiting his liability for damages to the higher of an amount of ¥3 million or the smallest amount specified under Article 425, Paragraph 1 of the Companies Act. Should the reappointment of Mr. Katsuyoshi Iwashiro be approved, the Company will extend the above agreement with him. In addition, should the appointment of Mr. Keiji Kondo, a new candidate of External Director, be approved, the Company will enter into the same agreement as above with Mr. Keiji Kondo.

## Item 2: Appointment of One (1) Audit & Supervisory Board Member

The term of office of Mr. Tadao Kuwano, an Audit & Supervisory Board Member, will expire at the conclusion of this General Meeting of Shareholders. Approval of the appointment of one (1) Audit & Supervisory Board Member is, therefore, requested.

The Audit & Supervisory Board has approved this proposal.

Career history of the candidate for Audit & Supervisory Board Member is as follows:

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
Satoshi Nakaizumi (Apr. 22, 1951)	Apr. 1974	Joined Arthur Young & Company	-
	Aug. 1981	Registered as Certified Public Accountant (present)	
	Dec. 1983	Joined Asahi & Co. (currently KPMG AZSA LLC)	
	Aug. 2001	Senior Partner, Asahi & Co. (currently KPMG AZSA LLC)	
	Jun. 2013	Retired from KPMG AZSA LLC	

Notes:

1. Mr. Satoshi Nakaizumi is a new candidate for Audit & Supervisory Board Member.
2. There are no special interests between the Company and the candidate for Audit & Supervisory Board Member above.
3. Mr. Satoshi Nakaizumi is a candidate for appointment to the position of External Audit & Supervisory Board Member.
4. The Company appointed Mr. Satoshi Nakaizumi, a candidate of Audit & Supervisory Board Member, 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 him as an Independent Officer.
5. Information relating in particular to the candidate for appointment as External Audit & Supervisory Board Member is provided below.
  - (1) Reasons for appointing External Audit & Supervisory Board Member  
As Mr. Satoshi Nakaizumi has expert knowledge and insight regarding corporate accounting audits as a certified public accountant, it is judged that he is capable of providing supervision and effective advice on management on the whole. Therefore, his appointment as an External Audit & Supervisory Board Member is requested.
  - (2) Independence of External Audit & Supervisory Board Member candidate
    - 1) Mr. Satoshi Nakaizumi has not served in any managerial capacity (as defined in Article 2, Paragraph 3, Item 6, of the Companies Act Enforcement Regulations, same applies below) at either the Company or any of its designated related companies (as defined in Article 2, Paragraph 3, Item 19 of the Companies Act Enforcement Regulations, same applies below) over the past five years.
    - 2) Mr. Satoshi Nakaizumi has not 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.



- 3) Mr. Satoshi Nakaizumi does not have any family relationships of the third degree or closer to any person working in a managerial capacity at either the Company or any of its designated related companies.
- (3) Agreements limiting the liability of External Audit & Supervisory Board Members  
To facilitate the recruitment of outstanding people suited to serve as External Audit & Supervisory Board Members and make it possible for these people to fulfill the roles expected of them, the Company has included in the current Articles of Incorporation provisions allowing it to enter into agreements limiting the liability of External Audit & Supervisory Board Members for payment of damages to the Company.  
Should the appointment of Mr. Satoshi Nakaizumi be approved, the Company will enter into agreement with Mr. Satoshi Nakaizumi limiting his liability for damages to the higher of an amount of ¥2 million or the smallest amount specified under Article 425, Paragraph 1 of the Companies Act.

## **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.

### **1. Voting Rights Exercise Site**

- (1) Exercise of voting rights is possible only by using a personal computer, smartphone or 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 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 25, 2014 (Wednesday), 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.

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

- (1) Enter your “Login ID” and “Temporary Password,” both of which are noted on the voting form, 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. Cost for accessing the Voting Rights Exercise Site**

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.

#### **4. 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.

#### **5. 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)

#### **6. 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.**