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Stock Exchange Code: 3001
March 7, 2018

To Shareholders with Voting Rights:

Kimiya Sano
President and CEO
Katakura Industries Co., Ltd.
6-4 Akashi-cho, Chuo-ku, Tokyo

NOTICE OF
THE 109TH ANNUAL GENERAL MEETING OF SHAREHOLDERS

Dear Shareholders:

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

You are cordially invited to attend the 109th Annual General Meeting of Shareholders of Katakura Industries Co., Ltd. (the "Company"). The meeting will be held for the purposes as described below.

If you are unable to attend the meeting, you can exercise your voting rights in writing or via the Internet. Please review the attached Reference Documents for the General Meeting of Shareholders and exercise your voting rights by 5:20 p.m., Japan time on Wednesday, March 28, 2018.

[If exercising voting rights in writing]

Please indicate your vote for or against each proposal on the enclosed Voting Rights Exercise Form and return it so that it is received by the deadline mentioned above.

[If exercising voting rights via the Internet]

Please access the website for exercising voting rights (https://soukai.mizuho-tb.co.jp/) designated by the Company, enter the "voting rights exercise code" and "password" printed on the enclosed Voting Rights Exercise Form, and input your vote for or against each proposal by following the on-screen instructions by the deadline mentioned above.

1. **Date and Time:** Thursday, March 29, 2018 at 10:00 a.m. Japan time
   (Reception opens at 9:00 a.m.)
2. **Place:** JIJI PRESS HALL (2nd floor of Jiji Press Building) located at
   5-15-8, Ginza, Chuo-ku, Tokyo
3. **Meeting Agenda:**

   Matters to be reported:
   1. The Business Report and Consolidated Financial Statements for the Company's 109th Fiscal Year (January 1, 2017 - December 31, 2017), and results of audits by the Accounting Auditor and the Audit & Supervisory Board of the Consolidated Financial Statements
   2. Non-consolidated Financial Statements for the Company's 109th Fiscal Year (January 1, 2017 - December 31, 2017)

Proposals to be resolved:

Proposals by the Company (Proposals 1 to 5)

Proposal 1:	Appropriation of Surplus
Proposal 2:	Election of One (1) Director
Proposal 3:	Election of One (1) Audit & Supervisory Board Member
Proposal 4:	Election of One (1) Substitute Audit & Supervisory Board Member
Proposal 5:	Introduction of a Performance-Based Stock Compensation Program for Directors

Proposals by Shareholders (Proposals 6 to 11)

Proposal 6:	Dismissal of One (1) Director
Proposal 7:	Partial Amendments to the Articles of Incorporation (1)
Proposal 8:	Election of One (1) Director (1)
Proposal 9:	Election of One (1) Director (2)
Proposal 10:	Appropriation of Surplus
Proposal 11:	Partial Amendments to the Articles of Incorporation (2)

◎ When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk.

◎ Please refer to the English translation of the Reference Documents for the General Meeting of Shareholders which will be posted on the Company's website (http://www.katakura.co.jp/).

◎ Pursuant to relevant laws, regulations and the Company's Articles of Incorporation, "Notes to the Consolidated Financial Statements" and "Notes to the Non-consolidated Financial Statements," which pertain to the Consolidated Financial Statements and Non-consolidated Financial Statements in the attached documents, respectively, are provided to shareholders through the Company's website (http://www.katakura.co.jp/), and are not included in the attached documents.
The Consolidated Financial Statements and Non-consolidated Financial Statements audited by the Audit & Supervisory Board Members and the Accounting Auditor in the preparation of audit reports include "Notes to the Consolidated Financial Statements" and "Notes to the Non-consolidated Financial Statements" posted on the Company's website (http://www.katakura.co.jp/), in addition to information listed in the attached documents.

◎ Should the Reference Documents for the General Meeting of Shareholders and the Business Report, as well as the Non-consolidated Financial Statements and the Consolidated Financial Statements require any revision, the revised version will be posted on the Company's website (http://www.katakura.co.jp/).

Reference Documents for the General Meeting of Shareholders

Proposals by the Company (Proposals 1 to 5)

Proposal 1: Appropriation of Surplus

With regard to the year-end dividend for the 109th fiscal year, with a principle of distributing stable dividend payments to shareholders, we propose 12 yen per share as follows, an increase of 2 yen compared to the previous fiscal year, by thoroughly considering this year's business results, future business development and level of internal reserves, etc.

(1) Type of property to be distributed as dividend:
Cash

(2) Matters regarding the assignment of dividend property and total amount thereof:
12 yen per share of the Company's common stock
Total amount of the dividend will be 421,824,132 yen.

(3) Date on which payment of surplus takes effect:
March 30, 2018

Proposal 2: Election of One (1) Director

Directors, Messrs. Akio Takeuchi and Atsushi Tanaka will resign at the conclusion of this year's Annual General Meeting of Shareholders. Accordingly, the election of one (1) Director is proposed.

Pursuant to the provisions of the Articles of Incorporation of the Company, the term of office of the Director to be elected under this proposal shall be until the expiration of the term of office of the incumbent Directors, which is until the conclusion of the 110th Annual General Meeting of Shareholders.

The candidate for Director is as follows:

Name (Date of birth)	Past experience, positions and responsibilities at the Company (Significant concurrent positions)		Number of shares of the Company held
[New candidate] Ryosuke Joko (August 6, 1961)	April 1985	Joined The Fuji Bank, Limited	100
	April 2010	General Manager of Osaka Branch of Mizuho Bank, Ltd.	
	April 2012	Executive Officer and General Manager of Executive Secretariat of Mizuho Financial Group, Inc.	
	April 2014	Managing Executive Officer / In charge of Corporate Banking of Mizuho Bank, Ltd.	
	April 2017	Executive Adviser of Mizuho Bank, Ltd.	
	May 2017	Executive Adviser of the Company (to present)	
Reasons for nomination as a candidate for Director: Mr. Ryosuke Joko possesses wealth of experience and broad insight as an officer of major financial institution, not only in finance and accounting but also in a wide array of fields. Accordingly, he is deemed suitable for a position where he can contribute to improving the Company's corporate value, and therefore has been nominated as a candidate for Director.			

(Note) There are no special interests between the candidate for Director and the Company.

Proposal 3: Election of One (1) Audit & Supervisory Board Member

Audit & Supervisory Board Member, Mr. Kunio Oomori will resign at the conclusion of this year's Annual General Meeting of Shareholders. Accordingly, to fill the vacancy, the election of one (1) Audit & Supervisory Board Member is proposed.

Pursuant to the provisions of the Articles of Incorporation of the Company, the term of office of the Audit & Supervisory Board Member to be elected under this proposal shall be until the expiration of the term of office of the resigned Audit & Supervisory Board Member, which is until the conclusion of the 111th Annual General Meeting of Shareholders.

The Audit & Supervisory Board has previously given its approval to this proposal.

The candidate for Audit & Supervisory Board Member is as follows:

Name (Date of birth)	Past experience, positions and responsibilities at the Company (Significant concurrent positions)		Number of shares of the Company held
[New candidate] Atsushi Tanaka (September 26, 1953)	April 1976	Joined The Fuji Bank, Limited	8,900
	April 2002	General Manager of Nihonbashi-Chuo Branch of Mizuho Bank, Ltd.	
	February 2004	General Manager of General Affairs Department of the Company	
	March 2009	Executive Officer and General Manager of Planning Department of the Company	
	March 2011	Managing Director of the Company	
	March 2015	Senior Managing Director of the Company (to present)	
Reasons for nomination as a candidate for Audit & Supervisory Board Member: As a Director of the Company since March 2011, Mr. Atsushi Tanaka has been in charge of each business division and administrative division, and is well-versed in internal control and internal audit. Therefore, he has been nominated as a candidate for Audit & Supervisory Board Member.			

(Notes)

1. There are no special interests between the candidate for Audit & Supervisory Board Member and the Company.
2. Liability limitation agreement with the candidate for Audit & Supervisory Board Member

   The Company has stipulated in Article 37, Paragraph 2 of the current Articles of Incorporation that it may enter into an agreement with each Audit & Supervisory Board Member to limit his or her liability for damages to the Company to a certain extent. Accordingly, if Mr. Atsushi Tanaka is elected, the Company intends to enter into the liability limitation agreement with him.

   The outline of the agreement is as follows.

   ・After the conclusion of the agreements, if the Audit & Supervisory Board Members neglect their duties and cause damages to the Company, they shall be liable for those damages up to the "minimum liability amount" stipulated in Article 425, Paragraph 1 of the Companies Act, on the condition that they act in good faith and without gross negligence in performing their duties.

Proposal 4: Election of One (1) Substitute Audit & Supervisory Board Member

Substitute Audit & Supervisory Board Member, Mr. Masanori Yagi has informed that he would resign from the position at the conclusion of this year's Annual General Meeting of Shareholders. Therefore, pursuant to the resolution at the 107th Annual General Meeting of Shareholders, the cancellation of his election as a Substitute Audit & Supervisory Board Member at the conclusion of this year's Annual General Meeting of Shareholders was resolved at the Board of Directors' meeting, with the consent of the Audit & Supervisory Board.

Accordingly, to prepare for a case in which the number of Audit & Supervisory Board Members falls below the number required by laws and regulations, the election of one (1) Substitute Audit & Supervisory Board Member is proposed.

The effectiveness of the election under this proposal may be cancelled based on resolution of the Board of Directors, provided such cancellation is done prior to the assumption of office and with the consent of the Audit & Supervisory Board.

Pursuant to the provisions of the Articles of Incorporation of the Company, the effective term of the preliminary election of the Substitute Audit & Supervisory Board Member to be elected under this proposal shall be until the beginning of the 113th Annual General Meeting of Shareholders.

The Audit & Supervisory Board has previously given its consent to this proposal.

The candidate for Substitute Audit & Supervisory Board Member is as follows:

Name (Date of birth)	Past experience and positions at the Company (Significant concurrent positions)		Number of shares of the Company held
[Outside Officer] [Independent Officer] Toshio Tanaka (February 3, 1948)	April 1971	Joined The Yasuda Fire & Marine Insurance Co., Ltd.	0
	June 2000	Director of The Yasuda Fire & Marine Insurance Co., Ltd.	
	June 2001	Managing Executive Officer of The Yasuda Fire & Marine Insurance Co., Ltd.	
	July 2002	Managing Executive Officer of Sompo Japan Insurance Inc.	
	March 2004	Outside Audit & Supervisory Board Member of the Company (retired in March 2008)	
Reasons for nomination as a candidate for Substitute Outside Audit & Supervisory Board Member: Mr. Toshio Tanaka possesses wealth of experience and broad insight as an officer of general insurance companies. Accordingly, he is deemed suitable for fulfilling duties of the Company's Outside Audit & Supervisory Board Member, and therefore has been nominated as a candidate for Substitute Outside Audit & Supervisory Board Member.			

(Notes)

1. There are no special interests between the candidate for Substitute Audit & Supervisory Board Member and the Company.
2. Mr. Toshio Tanaka is a candidate for Substitute Outside Audit & Supervisory Board Member.
3. Liability limitation agreement with the candidate for Substitute Outside Audit & Supervisory Board Member
   The Company has stipulated in Article 37, Paragraph 2 of the current Articles of Incorporation that it may enter into an agreement with each Audit & Supervisory Board Member to limit his or her liability for damages to the Company to a certain extent. Accordingly, if Mr. Toshio Tanaka assumes office, the Company intends to enter into the liability limitation agreement with him.
   The outline of the agreement is as follows.
   ・After the conclusion of the agreements, if the Audit & Supervisory Board Members neglect their duties and cause damages to the Company, they shall be liable for those damages up to the "minimum liability amount" stipulated in Article 425, Paragraph 1 of the Companies Act, on the condition that they act in good faith and without gross negligence in performing their duties.
4. Mr. Toshio Tanaka fulfills the criteria for independent officers stipulated by the Tokyo Stock Exchange. If he assumes the position of Outside Audit & Supervisory Board Member, the Company intends to designate him as an independent officer and notify the said Exchange to that effect.

Proposal 5: Introduction of a Performance-Based Stock Compensation Program for Directors

1. Reasons for proposal

In this proposal, the Company seeks shareholders' approval for introducing a new performance-based stock compensation program "Board Benefit Trust (BBT)" (hereinafter referred to as the "Program") for Directors (excluding Non-executive Directors, hereinafter the same in this proposal, unless otherwise provided) of the Company.

This proposal aims to clearly link compensation of Directors with the Company's results of operations and its share value, and thereby increase the motivation of Directors to make contributions to improve the Company's mid- and long-term performance and increase corporate value by not only sharing the benefits of increases in the stock price but also the risk of decline in the stock prices with shareholders. The introduction of this program and this proposal have been deliberated at a meeting of the Nomination and Compensation Advisory Committee established on November 27, 2017. In view of this, the Company believes that the content of this proposal is reasonable.

In this proposal, the Company would like to seek for approval for the amount of compensation, etc. of the new stock compensation to Directors apart from the amount of compensation for Directors (not more than 200 million yen per year; however, not including the portion of salaries as employees) that was approved at the 100th Annual General Meeting of Shareholders held on March 27, 2009. The Company proposes that details of the Program be left to the discretion of the Board of Directors within the framework outlined in 2. below.

Currently, there are five (5) Directors who are subject to the Program, and if Proposal 2 is approved and resolved as originally proposed, there will be five (5) Directors who will be subject to the Program.

2. Amount of compensation, etc. under the Program and reference information

(1) Outline of the Program

The Program is a performance-based stock compensation program under which the Company's shares will be acquired through a trust (the trust established under the Program is hereinafter referred to as the "Trust") using money contributed by the Company as the source and the Company's shares and the money equivalent to the market value of the Company's shares (the "Company Shares, etc.") will be delivered to Directors through the Trust in accordance with the Rules of the Stock Benefit Trust for Directors established by the Company. The Directors will receive the Company Shares, etc., in principle, upon their retirement from office.

(2) Individuals subject to the Program

Directors (The Program does not apply to Non-executive Directors.)

(3) Trust period

The period will be from June 2018 (planned) until the end of the Trust (the Trust shall continue without determining a specific timeline as long as the Program exists. The Program shall be terminated when the Company's stock is delisted or the Rules of the Stock Benefit Trust for Directors are abolished, etc.).

(4) Amount of trust money (amount of compensation, etc.)

Subject to the shareholders' approval for this proposal, the Company will introduce the Program to cover the three (3) fiscal years from the fiscal year ending December 31, 2018 to that ending December 31, 2020 (hereinafter, the covered three-fiscal-year period shall be referred to as the "Initial Applicable Period," and the Initial Applicable Period and the subsequent three-fiscal-year period that starts following the Initial Applicable Period shall each be referred to as the "Applicable Period"), and for each following Applicable Period. The Company will contribute the money as below to the Trust as the source of funds to acquire the Company's shares through the Trust to deliver the Company Shares, etc. to Directors.

At first, as necessary funds for the Initial Applicable Period, the Company will contribute 150 million yen to the Trust as the upper limit at the establishment of the Trust (in June 2018 (planned)).

Further, after the Initial Applicable Period, the Company will, in principle, make additional contributions to the Trust every Applicable Period, with 150 million yen as the upper limit, until the Program ends. Provided, however, that in cases where such additional contribution is made and the Company's shares (excluding any undelivered portion of the Company's shares corresponding to the number of points granted to Directors pertaining to the immediately preceding Applicable Period) and money (hereinafter referred to as the "Remaining Stock, etc.") remain within the trust assets, the total amounts of the Remaining Stock, etc. (for the Company's shares, the amount of the Remaining Stock, etc. shall be the market value of the

Company's shares as of the last day of the preceding Applicable Period) and the additional contribution to the Trust shall not exceed 150 million yen.

Note that during the Applicable Period, including the Initial Applicable Period, if the aggregate contribution amount is within a range of reaching the upper limit mentioned above, the Company may contribute the funds to the Trust by splitting them into several times.

The Company will disclose in a timely and appropriate manner whenever it decides to make additional contributions.

(5) Method of acquiring the Company's shares and the number of shares to be acquired

The Trust will acquire the Company's shares using the money contributed based on (4) above as the source through the stock markets or disposal of treasury stock. New shares shall not be issued. Accordingly, in the event that the Company's shares are acquired by the Trust, the Company's total number of outstanding shares will not increase and there will be no dilution.

For reference, if the acquisition takes place based on the closing price on February 13, 2018, in the Initial Applicable Period, the maximum number of shares to be acquired by using 150 million yen, the upper limit of money to be contributed by the Company as funds to acquire shares to deliver to Directors, will be 110,782 shares.

Following the acquisition of the Company's shares by the Trust, details shall be disclosed in an appropriate and timely manner.

(6) Calculation method of the Company's Shares, etc. to be delivered to Directors

For each fiscal year, the Company will award points to each Director by taking into consideration the position and level of performance, etc. based on the Rules of the Stock Benefit Trust for Directors.

One point awarded to Directors, as described in (7) delivery of Company Shares, etc. below, is converted to one share of the Company's common stock. (Please note that when a stock split, gratis stock allotment or reverse stock split is conducted after approval for this proposal, the Company shall reasonably adjust the number of points granted or its conversion ratio, reflecting the ratio of such stock split, etc.)

For the delivery of the Company Shares etc. in (7) below, the standard points for Directors shall be in principle the number of points obtained by multiplying the points awarded to Directors up until retirement by a predetermined coefficient according to the reasons for retirement (not exceeding 1.0) (Points calculated based on this method are hereinafter referred to as "fixed points").

(7) Delivery of the Company Shares, etc.

In the event that a Director resigns and satisfies the requirements for eligible beneficiaries stipulated in the Rules of the Stock Benefit Trust for Directors, the Director shall, in principle, by following predetermined procedures to determine beneficiaries, receive from the Trust the Company's shares corresponding to "fixed points" as determined based on (6) above after retirement. Provided, however, that as for a certain percentage of the Company's shares which are supposed to be delivered, the Company may pay him/her money equivalent to the market value of such shares, instead of delivering them. Please note that the Trust may sell the Company's shares to pay such money.

(8) Exercise of voting rights

Voting rights related to the Company's shares held by the Trust shall not be exercised pursuant to the instructions of the trust administrator. In this way, concerning the exercise of voting rights in the Trust account, the Trust will be able to ensure its neutrality in the Company's management.

(9) Handling of dividends

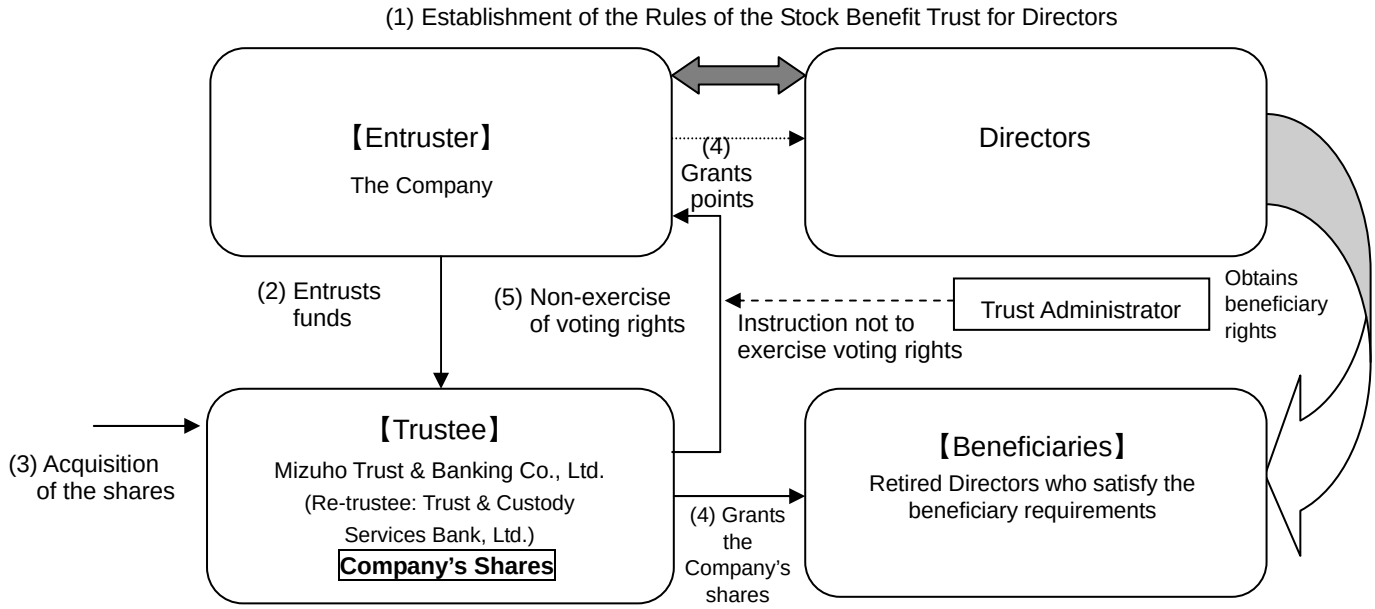
Dividends related to the Company's shares held by the Trust shall be received by the Trust and used to acquire the Company's shares or pay trust fee to the trustee's concerning the trust, etc. Any remaining dividends upon termination of the Trust will be paid to the Directors in office at that time in accordance with the Rules of the Stock Benefit Trust for Directors by prorating them based on the number of points held by each Director.

(10) Termination of the Trust

The Trust shall be terminated when the Company's stock is delisted or the Rules of the Stock Benefit Trust for Directors are abolished, etc.

Of the residual assets in the Trust upon its termination, the Company's shares will be entirely acquired by the Company with no charge and be canceled pursuant to the resolution of the Board of Directors; and money excluding the portion paid to Directors as described in (9) above will be received by the Company.

<For reference: Structure of the Program>



1) The Company shall establish the "Rules of the Stock Benefit Trust for Directors" within the framework of the approval for this proposal.
2) The Company entrusts funds in the range of the amount approved in this proposal.
3) The Trust will acquire the Company's shares using the money contributed based on 2) above as the source through the stock markets or disposal of treasury stock.
4) The Company awards points to Directors based on the "Rules of the Stock Benefit Trust for Directors."
5) Voting rights related to the Company's shares held by the Trust account shall not be exercised pursuant to the instructions of the trust administrator, who is independent from the Company.
6) The Trust grants the Company's shares to those satisfy the requirements for eligible beneficiaries stipulated in the "Rules of the Stock Benefit Trust for Directors" from among resigned Directors (hereinafter, referred to as the "Beneficiaries"). The number of Company's shares to be granted to the Beneficiaries is based on the number of points they have been awarded. However, if the Director satisfies the requirements set forth in the "Rules of the Stock Benefit Trust for Director," the Trust will pay, to a certain percentage of the points awarded, him/her money equivalent to the market value of the Company's shares.

Proposals by Shareholders (Proposals 6 to 11)

Proposals 6 to 11 are proposals made by shareholders. The details and reasons for the proposals are specified in this document, based on the description in the shareholder proposals submitted by the proposing shareholders, without any changes in terms of content.

Proposal 6: Dismissal of One (1) Director

1. Outline of Proposal

Dismiss Director Kimiya Sano.

2. Reasons for the Proposal

(1) The Company's Management Situation

In December 2011, the Company formulated and announced "Katakura 2016," a medium-term management plan for the five years from 2012 to 2016. However, based on the operating results of 2016 (full-year), which was the year to conclude "Katakura 2016," the goals for net sales and operating income set in "Katakura 2016" were far from attainable. The Company has experienced a significant management failure over the past five years and the shareholders are extremely disappointed by this deplorable situation.

Under such circumstances, in February 2017, the Company formulated and announced "Katakura 2021," a medium-term management plan for the five years from 2017 to 2021. Since "Katakura 2021" is a medium-term management plan created on the back of a major failure as described above, it goes without saying that there were expectations that it had been adequately examined not to repeat the same failure as that of "Katakura 2016." However, looking at the contents and execution situation of "Katakura 2021," we cannot help but say that the failure of "Katakura 2016" is already being repeated.

Firstly, although "Katakura 2021" has performance goals exceeding those of "Katakura 2016," the basic strategy is exactly the same as that of "Katakura 2016." Even if we look at the contents of the segmented strategies, for example, we can see that the stated contents such as "transformation into a high value-added innerwear manufacturer in pursuit of health and beauty" and "application development of new high-performance materials and heat-resistant fiber" are exactly the same as those of "Katakura 2016." The medium-term plan does not seem to have been formulated to improve the operating results nor to avoid repeating the failure of "Katakura 2016", accepting its failure to achieve the goals of "Katakura 2016" seriously and sincerely. In addition, although the Company is planning to achieve an operating income of 100 million yen with new businesses by 2021 in "Katakura 2021," we have to say that, compared to the amount of operating income, it will be a waste of resources when we consider the risks of business execution and the large cumulative losses due to the amount invested and business continuation. Furthermore, the Company is planning further investments even in "Katakura 2021" without any concrete improvement measures despite having experienced failure in the pharmaceutical business where, despite having invested more than 18 billion yen as research and development expenses and capital expenditure over the five years from 2012 to 2016, the Company recorded consecutive operating losses of 475 million yen in 2014 and 524 million yen in 2015 and only finally achieving an operating income of 200 million yen in 2016.

In this way, as far as the contents of "Katakura 2021" is concerned, we foresee that the failure of "Katakura 2016" would repeat.

Even by looking at the execution situation of "Katakura 2021," the Company's operating results up till the third quarter of 2017 and the full-year forecast for 2017 indicate that the operating results have not even reached the operating income level of 2011. As it is, it is clear that past failure will be repeated since the goals listed in "Katakura 2021" may or may not be achieved and it is unlikely that even the goals listed in "Katakura 2016," which ended unachieved, can be met. We are revising the performance goals for FY2017 in the first half of 2017 and, based on the fact that the operating results have been sluggish in the first six months, it is not difficult to imagine the same for the future.

As mentioned above, the Company has not only failed in the management from 2012 to 2016, we are currently in a state where the course has not yet been corrected.

(2) Management Responsibility

The responsibility of the Company's Board of Directors to the shareholders as manifested by the above-mentioned management situation is serious. In particular, despite having been appointed the President and CEO for more than two and a half years and having led the formulation of "Katakura 2021," which clearly have contents that will repeat the failure of "Katakura 2016," the management responsibility of Mr. Kimiya Sano as the President and CEO, who has not contributed to the improvement of the Company's performance at all, is significantly greater than other Directors.

(3) Summary

For the above reasons, Oasis has proposed to dismiss Director Kimiya Sano, President and CEO of the Company, in view of the management responsibility.

Proposal 7: Partial Amendments to the Articles of Incorporation (1)

1. Outline of Proposal

Amend Paragraph 18 of the Articles of Incorporation as follows.

(The amended part is underlined.)

Current Articles of Incorporation	Proposed Amendment
(Number of Directors) Paragraph 18 The Company shall have up to <u>10</u> Directors.	(Number of Directors) Paragraph 18 The Company shall have up to <u>12</u> Directors.

2. Reasons for the Proposal

As stated in 2.(1) of Proposal 6, the Company has fallen into a situation where it is impossible to improve the past management structure nor correct the management course, as symbolized by the fact that "Katakura 2016" and "Katakura 2021" are mostly similar. In order for the Company to overcome such a situation, we can say that it is essential to welcome new talents who can make management decisions based on appropriate "selection and focus" to the management team in the respective profitable departments and unprofitable departments. In addition, welcoming new talents to the management team from outside will also contribute to strengthening the supervision of the Company's management system.

According to the Company's current Articles of Incorporation, the number of Directors is limited to ten (10), and considering the fact that there are currently nine (9) Directors, it is necessary to increase the number of Directors in order to welcome such new talents to the management team.

Therefore, Oasis believes that the number of Directors should be increased to twelve (12) by partially amending Paragraph 18 of the Company's Articles of Incorporation.

Proposal 8: Election of One (1) Director (1)

1. Outline of Proposal

Elect Mr. Akira Hirata as Director.

2. Reasons for the Proposal

Oasis believes that the following candidate should be elected as the Company's Outside Director.

The real estate business is the segment with the highest profit margin and operating income among the businesses of the Company, and it will continue to be so in "Katakura 2021." Furthermore, according to "Katakura 2021," the Company is planning to expand the scope of business not only by developing sites owned by the Company, which it has been doing so far, but also by promoting new acquisitions and developments. In order to make appropriate management decisions concerning business expansion in such new areas, it is necessary to bring more experts in real estate business to the Board of Directors. Oasis believes that the person should be a truly independent Outside Director so that he can speak without hesitation at the meetings of the Board of Directors and make the full use of his insight.

Mr. Akira Hirata had served as Director and General Manager in sales as well as Adviser of Mitsui Fudosan Retail Management Co., Ltd., which is engaged in the operation and management of one of the leading retail facilities in Japan, and has abundant experiences in activities such as attracting tenants to retail facilities and launching shopping center businesses. In addition, the relationship in the industry stakeholders and the network of potential tenants formed through his career is very useful for the expansion of the Company's real estate business. Therefore, Oasis proposes to elect Mr. Akira Hirata as an independent Outside Director to provide appropriate advice to internal Director Mr. Junichi Honma who is in charge of the real estate business division and to the Board of Directors.

Mr. Akira Hirata's brief biography is as follows.

Name (Date of birth)	Past experience, positions and responsibilities (Significant concurrent positions)	Number of shares of the Company held
Akira Hirata (June 23, 1948)	April 1971 Director of Maki Co., Ltd. September 1978 Senior Managing Director of Coco Nakae Co., Ltd. December 1987 General Manager of Sales Department of ML Promotion Co., Ltd. (affiliate company of Mitsui Fudosan Co., Ltd.) Seconded to Mitsu Fudosan Co., Ltd. (Retail Properties Department) November 1995 General Manager of Retail Business Department of LaLaport Co., Ltd. (currently Mitsui Fudosan Retail Management Co., Ltd.) April 2000 Director, and General Manager of Sales Department of LaLaport Co., Ltd. April 2009 Adviser to Mitsui Fudosan Retail Management Co., Ltd. December 2009 President and CEO of Flatwork Co., Ltd. (to present) March 2010 Retired as Adviser to Mitsui Fudosan Retail Management Co., Ltd. (Significant concurrent positions) President and CEO of Flatwork Co., Ltd.	0

Proposal 9: Election of One (1) Director (2)

1. Outline of Proposal

Elect Etsuro Nakanishi as Director of the Board of Directors, subject to the approval of Proposal 6 and Proposal 7.

2. Reasons for the Proposal

Oasis believes that the following candidate should be elected as the Company's Outside Director.

The profitability of the textile business is the poorest among all of the businesses the Company is engaged in and the segment is in desperate need of a structural change. Notwithstanding the fact that Oasis has been advising the Company to withdraw from the industry, the management has not been heeding the advice. If the Company should decide to stay in the business, the fundamental change and reform would be indispensable. In this connection, we need an Outside Director who, not only has knowledge on the textile business, but also can speak without hesitation at the Meeting of the Board of Directors and make the full use of his knowledge without being bound by the past business of the Company. At the same time, as we understand from "Katakura 2021," the Company's intends to expand its business to the overseas market with its main emphasis centered in Asia. The person who has knowledge on overseas expansion of textile business would be a more suitable.

Mr. Etsuro Nakanishi was the longtime President of DESCENT LTD., a manufacturer and marketer specialized in sportswear. He has been successful in expanding the Company's overseas sales. During his six-year tenure as President, he managed to increase net sales from 60 yen billion to 85 billion yen, and operating profit from 3.5 billion yen to 7.0 billion yen. 80% of the operating profit came from overseas sales. He also served as Executive Managing Executive Officer of ITOCHU Corporation, and as the second in command of a textile company, he contributed to the development of the textile business and achieving the best results. With his experience and profound knowledge, he is the perfect person to bring about structural and fundamental reform to the Company's textile business. In addition to Mr. Masaaki Fujimoto whom we nominated and who was appointed as Outside Director of the Company as he has knowledge in the textile business at the Annual General Meeting of Shareholders last year, we propose to elect Mr. Etsuro Nakanishi as a truly independent Outside Director.

Mr. Nakanishi's brief biography is as follows.

Name (Date of birth)	Past experience, positions and responsibilities (Significant concurrent positions)			Number of shares of the Company held
Etsuro Nakanishi (27 January, 1948)	April	1971	Joined ITOCHU Corporation	0
	April	1996	President of Prominent Apparel Limited	
	June	2001	Executive Officer of ITOCHU Corporation, General Manager of the North America Textile Division of ITOCHU International Inc.	
	April	2003	Executive Officer, and General Manager of Textile Product Division of ITOCHU Corporation	
	April	2004	Managing Executive Officer and General Manager of Textile Product Division of ITOCHU Corporation	
	April	2005	Managing Executive Officer and Executive Vice President of Textile Company cum General Manager of Textile Product Division of ITOCHU Corporation	
	June	2007	President of DESCENT, LTD.	
	June	2013	Retired as President of DESCENT, LTD.	

Proposal 10: Apropriation of Surplus

1. Outline of Proposal

We propose the year-end dividend for the latest business year (January 1, 2017 to December 31, 2017) as follows.

(1) Type of property to be distributed as dividend:
Cash

(2) Matters regarding the assignment of dividend property and total amount thereof:
127 yen per share of the Company's common stock
(Total amount of the dividend will be 4,472,305,000 yen.)

(3) Date on which payment of surplus takes effect:
March 31, 2018

2. Reasons for the Proposal

As we have mentioned in Proposal 6 2. (1), there are so much wasteful business investment including that in the pharmaceutical business. Other accumulated profits of the Company as of December 31, 2016 accounts 11,291,000,000 yen. We believe it would be much more advisable to return the surplus to the shareholders that wasting the capital of the Company in such investments. The reduced amount of other accumulated profits of the Company will lead to the pressure to improve the current ineffective management depending on the abundant capital to more effective one, therefore contributing to the improvement in ROE which will be referred in Proposal 11.

Therefore, Oasis proposes that the dividend be increased as outlined above.

Proposal 11: Partial Amendments to the Paragraphs of Incorporation (2)

1. Outline of Proposal

Include the following article and provisions in the current Articles of Incorporation.

Article 7 Management with a Strong Awareness of ROE

(Management with a strong awareness of ROE)

Paragraph 41 The Board of Directors will set and announce in advance a specific numerical goal for the Return on Equity (ROE) of the Company every fiscal year, regardless of whether a medium-term management plan has been formulated. In addition, the Board of Directors will also set and announce in advance specific numerical goals for the Return on Equity (ROE) of each business segment every fiscal year.

2) The Board of Directors will calculate and announce the Return on Equity (ROE) results (both of the overall Company, and of each business segment) of the Company every fiscal year.

3) When a medium-term management plan is formulated and announced, each Director should recognize that the plan is a commitment to shareholders and should make utmost effort to achieve the goals set in the plan. When a medium-term management plan ends without the goals being met, the Board of Directors should thoroughly analyze the reasons behind such an outcome, explain them to the shareholders, and reflect the findings from the analysis in the next medium-term management plan.

(Withdraw from businesses with a low ROE)

Paragraph 42 From FY2018 onwards, at the end of every fiscal year, if any business segment falls into either of the following categories, the Company will withdraw from that business promptly. Although the specific date of withdrawal will be decided by the Board of Directors based on the status of the business the Company is withdrawing from and other circumstances, as a general rule, the withdrawal should be completed by the end of the second quarter of the next fiscal year, or if deemed unfeasible, by the final day of the next fiscal year.

1. A business with a business segment ROE of less than 5% in the said fiscal year
2. A business with an average business segment ROE of less than 5% per year in the last five fiscal years including the said fiscal year

2) Regardless of the preceding item, in the case that a business segment falls into category 1. or 2. in the preceding item, if the Board of Directors deem it as a segment that is particularly necessary based on reasonable grounds or if a detailed business plan shows that the said business segment's ROE is expected to rise above 5% within two fiscal years, then the Company does not have to withdraw from the said business. If the Board of Directors makes such a decision, at the Annual General Meeting of Shareholders immediately following the decision, the Representative Director has to explain to shareholders the necessity of the said business, the business plan and expected ROE figures of the said business, and the reasonable grounds as basis for such decision, as well as obtain the approval of shareholders through an ordinary resolution at the General Meeting of Shareholders. Furthermore, all

the above information has to be publicly disclosed.

(Restriction on entering businesses where high ROE is not expected)

Paragraph 43 The Company shall not enter a new business that is not expected to have a Return on Equity (ROE) of more than 5% within three fiscal years based on reasonable grounds. However, if the Board of Directors deem it as a business that is particularly necessary based on reasonable grounds and a detailed business plan shows that the said business segment's ROE is expected to rise above 5% within five fiscal years, the preceding sentence does not hold true. If the Board of Directors makes such a decision, at the Annual General Meeting of Shareholders immediately following the decision, the Representative Director has to explain to shareholders the necessity of the said business, the business plan and expected ROE figures of the said business, and the reasonable grounds as basis for such decision, as well as obtain the approval of shareholders through an ordinary resolution at the General Meeting of Shareholders. Furthermore, all the above information has to be publicly disclosed.

2. Reasons for the Proposal

The Corporate Governance Code, which came into effect in June 2015, states that engaging in constructive discussion with respect to specific business strategies and business plans is one major aspect of the Board of Directors' roles and responsibilities (Principle 4.1), and that when establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policy, and present targets for profitability and capital efficiency (Principle 5.2). Furthermore, in the final report of the Ministry of Economy, Trade and Industry's project "Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors" (also known as the Ito Review), it was stated that an ROE of 8% is the minimum standard level, and companies should aim for a level higher than that. Moreover, in the Corporate Governance Code, "recognizing that a mid-term business plan is a commitment to shareholders, the board and the senior management should do their best to achieve the plan. When the medium-term management plan ends without the goals being met . . . an appropriate explanation should be given to shareholders, and findings from the analysis should be reflected in a plan for the ensuing years" was stated as guidelines for action for the Board of Directors and senior management (Supplementary Principle 4.1.2).

The Corporate Governance Report that the Company submitted on April 25, 2017 stated that the Company will implement Principle 4.1, Supplementary Principle 4.1.2 and Principle 5.2. Oasis wishes to see members of the Board of Directors strictly following Principle 4.1 and Principle 5.2 of the Corporate Governance Code, as well as proper management that is carried out with a strong awareness of ROE (Return on Equity). Accordingly, we proposed the inclusion of Article 7 "Management with a Strong Awareness of ROE" in the Articles of Incorporation of the Company, and through provisions of the Articles of Incorporation, members of the Board of Directors will be obliged to decide on and announce in advance the specific numerical goal for ROE, as well as specific numerical goals for ROE of each major business segment every fiscal year (newly included Paragraph 41 Item 1). Also, despite formulating and announcing a medium-term management plan, members of the Board of Directors cannot reach the goals set in the plan. Accordingly, to ensure that members of the Board of Directors strictly follow Supplementary Principle 4.1.2, we propose the inclusion of new provisions with the same content as the said principle (newly included Paragraph 41 Item 3).

Furthermore, the ROE and Return on Invested Capital (ROIC) of the Company remain low, while its average cost of capital is about 7%. This indicates that the Company has not produced enough profit to cover its cost of capital, and is effectively damaging the corporate value of the Company. Oasis views the significant slump in the operating results of the Company as a result of the Company's strong insistence on continuing unprofitable businesses. Therefore, Oasis proposes that the following two points—the Company will withdraw from low-ROE businesses, and refrain from entering businesses that are not expected to produce a high ROE—should be clearly specified in the Articles of Incorporation (newly included Paragraph 42 and Paragraph 43). Not establishing such a level of standard, at the very least, it is apparent from the past operating results that it will lead to the significant damage of the Company's corporate value, due to the operation of businesses with low profitability and unprofitable businesses (it can be even said that the corporate value has already, in effect, degraded).

The Ito Review states that Japanese corporations should aim for a minimum ROE level of 8%. Oasis does not even require the Company to set such a high standard for itself, and only wishes for the Company to begin at a target of 5% ROE for the time being. Although this level is still lower than the Company's cost of capital, it is still a notable first step towards improving the operating results. This proposal requires the Company to withdraw from businesses that are unable to even meet the goals of this low level, and is therefore a proposal that has given generous consideration to the current management team.

Views of the Board of Directors of the Company

The Board of Directors is against all of the Proposals 6 to 11. The reasons for the opposition are as follows.

1. Proposal 6: Dismissal of One (1) Director

(1) Regarding the business status of the Company

The Group was established in 1873 with the silk reeling business as its first business. Since then, using its strength of tangible and intangible assets built up over its long history of corporate management spanning 144 years, it has progressed in the expansion and diversification of its business. In the previous medium-term management plan "Katakura 2016" (2012-2016), "shift emphasis to growing businesses" and "create new businesses" were listed as the basic strategies of the overall Group, and initiatives were implemented based on them. As a result, although operating results for FY2016 were significantly lower than targets set in the previous medium-term management plan, substantial results have been achieved such as the smooth progress in the real estate business, centered on a large-scale development project on company-owned land, in line with the plan as well as the earnings improvement in the machinery business despite the operating income falling short of target. Additionally, although we failed to achieve the target in the pharmaceuticals business due mainly to the effect of drug price revisions, favorable results have been achieved such as the launch of the transdermal patch of β1 blocker "Bisono Tape" in line with the plan.

As such, based on the analysis of the previous medium-term management plan, on February 14, 2017, the Company formulated and announced a new medium-term management plan "Katakura 2021" that spans across five years from FY2017 to FY2021. The proposing shareholder points out that the basic strategies for "Katakura 2021" are identical to those for "Katakura 2016" and the managerial failure in "Katakura 2016" has not led to any improvements. The basic strategies for "Katakura 2016," however, were formulated with a view to the Company's business vision for the next ten years. The Group aims to be a corporate group that pursues "dispersion and fusion" while realizing the achievement of health, safety and comfort, and co-existence with the environment. Thus, among other things, "shift emphasis to growing businesses" and "create new businesses" listed as the basic strategies are surely the universal themes for the Group. Although the basic strategies for "Katakura 2021" and "Katakura 2016" are similar to each other, there is a significant difference between the details of two plans. We will carry out its structural reforms of some of the unprofitable businesses while taking withdrawals into account. On the other hand, with respect to continually growing businesses and strategic priority fields, we will positively promote various measures such as effective use of external resources as well as alliances and M&A. Also in the pharmaceuticals business where the proposing shareholder considers its investment plan to be questionable, we will carry out structural reforms by reviewing research and development systems (improvement of efficiency by shifting from in-house development to joint development) as well as sales systems. At the same time, we will strive to improve corporate value by selective and concentrated investments of management resources based on the experience in the previous medium-term management plan. Specifically, we will enter into a field of kidney and dialysis which is a neighboring field of the core cardiovascular field.

The proposing shareholder also points out that the consolidated financial results forecast for the full year ended December 31, 2017 was revised downward in the first half of FY2017. Such revisions in the forecast were mainly as a result of the increase in retirement benefit expenses, which has brought about no revisions in the essential initiatives set in "Katakura 2021."

(2) Regarding managerial responsibility

As stated above, in order to achieve the goals set in "Katakura 2021," which was formulated based on the analysis of the previous medium-term management plan "Katakura 2016," all officers and employees of the Group are monolithically working on business operations under the current President and CEO. While the Company recognizes that its management team including President and CEO should assume the greatest responsibility to shareholders for the solid implementation of "Katakura 2021" and the achievement of the performance goal set for the final fiscal year of the plan, the current President and CEO is driving the Group forward with his strong leadership. Accordingly, the Company considers that the dismissal of the current President and CEO is unnecessary and inappropriate.

2. Regarding Proposal 7 “Partial Amendments to the Articles of Incorporation (1),” Proposal 8. “Election of One (1) Director (1)” and Proposal 9. “Election of One (1) Director (2)”

(1) Rationale for the composition of the Board of Directors

Subject to the approval for Proposal 2. “Election of One (1) Director” in its original form, a proposal made by the Company, the Board of Directors of the Company will comprise eight (8) Directors (including two (2) Outside Directors) and four (4) Audit & Supervisory Board Members (including two (2) Outside Audit & Supervisory Board Members). In light of factors such as the scale, business content and management status of the Company and considering the optimal balance, diversity, professional expertise and experience of the overall Board of Directors, the Company believes that it would be best to have these members constitute the Board of Directors at this moment, in terms of both size and lineup. Accordingly, the Board of Directors is of the opinion that it is unnecessary to amend the provision concerning the number of Directors in the Articles of Incorporation to increase the number of Directors.

(2) Establishment of the Nomination and Compensation Advisory Committee

The Company established the Nomination and Compensation Advisory Committee in November 2017. The purpose for the establishment is to put Outside Directors’ insight and advice to good use, while ensuring objective and transparent decision-making process concerning nomination and compensation, thereby enhancing the Board of Directors’ supervising function and further upgrading its corporate governance function. The Advisory Committee consists of three members, who are the Company’s President and CEO, and two (2) Independent Outside Directors, and is chaired by an Independent Outside Director. Its duty is to deliberate on matters concerning the following; 1) personnel affairs of Directors, Audit & Supervisory Board Members and Executive Officers, 2) succession plan and 3) compensation of Directors and Audit & Supervisory Board Members. With respect to Proposal 2. “Election of One (1) Director,” a proposal made by the Company, the candidate has been decided by the Board of Directors upon deliberation at a meeting of the Advisory Committee. In light of this candidate selection process, the Company’s Board of Directors deems the eight (8) persons, specifically, the candidate mentioned in the said proposal and seven (7) other Directors remaining in office, to be the best qualified for the position of Director of the Company. Accordingly, the Board of Directors is of the opinion that it is unnecessary to select the two (2) candidates mentioned in the shareholders’ proposal as Directors.

(3) Use of external professional knowledge

According to the reasons for proposal by the proposing shareholder, the proposing shareholder recommends a specialist in real estate business and a person well-versed in overseas expansion of textile business as Directors of the Company. As a matter of course, the Company’s Board of Directors is fully aware of the importance of incorporating external professional knowledge as necessary, as a prerequisite for decision-making on the business execution. Nonetheless, the Group is engaged in wide-ranging businesses under the corporate vision of “Our goal is to be a corporate group that pursues dispersion and fusion while achieving high standards of health, safety and comfort, and environmental responsibility in order to create new seeds of growth.” As a position bearing responsibilities for decision-making on the business execution and management supervision, the quality that are particularly necessary for a Director of the Company to have should be a good sense of balance and a wide perspective to enable managerial decision-making in view of the entire business of the Group from a higher perspective, not professional knowledge in a certain, specific field.

In addition, with regard to the use of external professional knowledge in the real estate business, the Company has decided at its Board of Directors meeting held on January 25, 2018 to invite Mr. Koichi Omuro (former Vice President and Chief Executive Officer, Mitsui Fudosan Co., Ltd.) as Special Consultant as of February 1 of the same year, and has already made this decision public. Mr. Omuro has been engaged in the real estate business in general, including development and operation of large-scale commercial facilities (such as LaLaport shopping malls) and has extensive knowledge in the business based on his wealth of experience and achievements. In this manner, upon incorporating external professional knowledge into the management, the Company, as a general rule, requests appointment as Consultant or Adviser, so that they can be directly committed to the relevant businesses.

Concerning the textile business, with assistance of external consultants, the Company is currently executing fundamental structural reforms as represented by a decision made at the Board of Directors meeting held on February 14, 2018 to withdraw the business of a consolidated subsidiary, which has been made public.

In this way, the Company conducts multifaceted business, incorporating external professional knowledge in a timely and appropriate manner. Accordingly, the Board of Directors is of the opinion that it is unnecessary to select the two (2) candidates mentioned in the shareholders’ proposal as Directors.

3. Proposal 10: Appropriation of Surplus

With regard to the dividends from surplus, in order to respond to shareholders' expectation in the medium- to long-term as well as to increase shareholder's predictability of dividend payments, the Company has a principle of maintaining stable dividend payments in view of this year's business results, future business development and other aspects.

With regard to the year-end dividend for the fiscal year under review, based on such dividend principle, it is proposed that the Company pay 12 yen per share, an increase of 2 yen compared to the previous fiscal year. This proposal was made in light of the aforementioned dividend principle after considering the implementation of selective and concentrated investments which is expected to be needed in the future to establish the foundation of "a beloved bicentennial company" presented in "Katakura 2021."

We believe that such a temporarily high dividend as requested in the shareholder proposal is against the Company's dividend principle and will lead to a negative factor to impede the investment for our growth in the medium- to long-term. Therefore, we consider that such a temporarily high dividend is contrary to the expectation of many shareholders who will support the Company in the medium- to long-term.

4. Proposal 11: Partial Amendments to the Articles of Incorporation (2)

The Company recognizes that ROE is increasingly receiving greater attention as a performance indicator for management, and the Company's management team carries out management with various performance indicators, including ROE, in mind. However, the contents of Proposal 11 "Partial Amendments to the Articles of Incorporation (2)" is incompatible with the nature of the Articles of Incorporation. In addition, they impose on the Company's management team excessive restrictions on management by ROE, and may instead prevent the improvement of the Company's corporate value. The reasons for this view are stated below.

(1) Incompatibility with the nature of the Articles of Incorporation

The Articles of Incorporation of the Company was formulated based on the Company's basic policy, etc. and in accordance with laws and regulations. Therefore, defining provisions related to specific management indicators and individual management decisions is incompatible with its nature. Accordingly, we consider the content of Proposal 11 "Partial Amendments to the Articles of Incorporation (2)" as incompatible with the nature of the Articles of Incorporation.

(2) Excessive emphasis on ROE is inappropriate for the Company's management

Currently, in the management of the Company, the Company's management team positions ROE as a reference indicator of the results, but not as the only goal. The Company's management team has no intention of disregarding the importance of capital efficiency. However, based on its principle of dispersion and fusion, through building a stable business foundation while avoiding risks, the Company aims to realize the achievement of health, safety and comfort, and co-existence with the environment. Therefore, excessive emphasis on increasing short-term capital efficiency may instead prevent the achievement of sustainable growth in the medium- to long-term. Accordingly, regarding the management of the Company at present, the Company's management team views the operating profit ratio as having more importance than ROE, and believes that by steadily working towards the goals for operating profit ratio, ROE will also improve as a result.

(3) Regarding the medium-term management plan "Katakura 2021"

As stated in 1. above, all officers and employees of the Group are monolithically working on business operations to achieve the goals set in "Katakura 2021." Positioning the solid implementation of "Katakura 2021" as a key to the establishment of the foundation for the Company's sustainable growth, the Company recognizes that the Company's management team including President and CEO should assume the greatest responsibility for the achievement of the performance goal set for the final fiscal year of the plan.

In the final fiscal year of "Katakura 2021", FY2021, the Company plans to achieve net sales of 56.6 billion yen (9.6 billion yen increase from actual results of FY2016), operating income of 5.2 billion yen (3.7 billion increase from FY2016), and an operating profit margin of 9.2% (increase of 6.0 points from FY2016).

5. Dialogue with proposing shareholder

The Company recognizes the importance of constructive dialogues with its shareholders, and thus strives to make a courteous response to requests from institutional investors for individual consultations, etc. with a view to fostering such dialogues. Based on this policy, we have made efforts to maintain a constructive dialogue with the proposing shareholder of Proposals 6 to 11, OASIS INVESTMENTS II MASTER FUND

LTD., seeking for the improvement of the Company's corporate value. However, the contents of proposals provided this time by the said proposing shareholder are significantly different from the past dialogue that we hitherto have engaged in, whereby we consider this matter regrettable with considerable surprise.

For the reasons stated above, the Board of Directors of the Company is against all of the Proposals 6 to 11.

The management team and all employees of the Company will work together as one to, in all sincerity and to the best of their abilities, work towards the achievement of the goals set in "Katakura 2021." We sincerely request the kind support and understanding of our shareholders in these endeavors.