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Securities code: 8093
June 3, 2019

To Shareholders with Voting Rights:

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

CONVOCATION NOTICE
FOR THE 99TH ANNUAL GENERAL MEETING OF SHAREHOLDERS

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

You are cordially invited to attend the 99th Annual General Meeting of Shareholders of Kyokuto Boeki Kaisha, Ltd. (the "Company").

If you are unable to attend the meeting, you can exercise your voting rights in writing. Please review the attached Reference Documents for the General Meeting of Shareholders, indicate your votes for or against the proposals on the enclosed Voting Rights Exercise Form and send it back to us so that it reaches us by close of business (5:40 p.m. JST) on Wednesday, June 19, 2019.

1. **Date and Time:** Thursday, June 20, 2019 at 10:00 a.m. JST

2. **Place:** 6-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Conference Room B, 16F, Fukuracia, Marunouchi Kitaguchi Building

3. **Meeting Agenda:**

Matters to be reported:
1. The Business Report, Consolidated Financial Statements for the Company's 99th Term (April 1, 2018 - March 31, 2019) and results of audits by the Accounting Auditor and the Audit and Supervisory Committee of the Consolidated Financial Statements
2. Non-consolidated Financial Statements for the Company's 99th Term (April 1, 2018 - March 31, 2019)

Proposals to be resolved:

<Company Proposals (Proposals 1 to 3)>

Proposal 1: Appropriation of Surplus
Proposal 2: Election of Six Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)
Proposal 3: Election of Three Directors Serving as Audit and Supervisory Committee Members

<Shareholder Proposals (Proposals 4 to 6)>

Proposal 4: Amendment to the Articles of Incorporation for Disclosure of Capital Cost
Proposal 5: Amendment to the Articles of Incorporation for Sale of Securities Held
Proposal 6: Appropriation of Surplus

When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk.
Of the documents required to be appended to this Convocation Notice as attachments, the Notes to the Consolidated Financial Statements and the Notes to the Non-consolidated Financial Statements have been posted on the Company's website (http://www.kbk.co.jp) in accordance with laws and regulations and Article 16 of the Articles of Incorporation of the Company.
Any revisions to the Reference Documents for the General Meeting of Shareholders, the Business Report, the Non-consolidated Financial Statements or Consolidated Financial Statements will be posted on the Company's website (http://www.kbk.co.jp).

Reference Documents for the General Meeting of Shareholders

Proposals and References

<Company Proposals (Proposals 1 to 3)>

Proposal 1: Appropriation of Surplus

The Company proposes to appropriate its surplus as follows.

Matters concerning year-end dividends:

The Company recognizes that it is an important responsibility to achieve sustained improvement in corporate value and continuously give back to its shareholders through strengthening the financial structure and business foundation for future business development under an appropriate capital policy. The Company therefore makes it a basic policy to distribute profits in consideration of revenue trends and other factors.

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

(1) Type of dividend property
Money

(2) Allocation of dividend property and total amount thereof
55 yen per share of common stock of the Company
On October 1, 2018, the Company implemented a 1-for-5 consolidation of shares for its common stock. If this proposal is approved as originally proposed, the dividend will be an increase of 5 yen compared to the previous fiscal year (50 yen per share if calculated based on the share consolidation ratio).
In this case, the total amount of dividends will be 350,639,795 yen.

(3) Effective date of distribution of surplus
June 21, 2019

Proposal 2: Election of Six Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

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

Accordingly, the Company proposes to elect six Directors.

The candidates for Directors are as follows.

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

No.		Name		Current positions and responsibilities	Attendance at Board of Directors meetings
1	Reappointment	Junichi Mito		Representative Director Chairman	14/14 (100%)
2	Reappointment	Yoshiya Okada		Representative Director President and Chief Executive Officer; General Manager, Sales Headquarters	14/14 (100%)
3	Reappointment	Nobuki Tomabechi		Director and Senior Managing Executive Officer; General Manager, Administrative Headquarters; General Manager, Administration and Planning Group; General Manager, General Overseas Business Group	14/14 (100%)
4	Reappointment	Masaharu Sato		Director and Managing Executive Officer; General Manager, Materials Group	14/14 (100%)
5	Reappointment	Shuichi Matsui		Director and Executive Officer; General Manager, Electronics & Instrumentation Group	14/14 (100%)
6	New candidate	Ichiro Terai	Outside Independent		

No.	Name (Date of birth)	Past experience, positions and responsibilities (Significant concurrent positions)	Number of shares of the Company held
1	Reappointment Junichi Mito (December 3, 1950) Attendance at Board of Directors meetings: 14/14 (100%)	April 1974 Joined the Company April 2002 General Manager, Advanced Materials Department June 2005 Senior General Manager; General Manager, Advanced Materials Department April 2006 Senior General Manager; General Manager, Advanced Materials Department; General Manager, Medical & Household Equipment Sales Office June 2007 Executive Officer; General Manager, Materials Group; General Manager, Medical & Media Systems Department June 2009 Director April 2011 Managing Director April 2013 Managing Director; General Manager, Sales Headquarters June 2013 President and Chief Executive Officer; General Manager, Sales Headquarters April 2017 President and Chief Executive Officer General Manager, Sales Headquarters April 2019 Chairman (to present) <Reason for candidacy> Mr. Mito assumed the office of President and Chief Executive Officer of the Company in 2013 and has since accumulated a high degree of expertise concerning business management as a whole through the above experience, and also possess abundant experience and insight as a corporate executive. The Company has nominated him as a candidate because it believes that he can contribute to the sustained growth of the Company and further enhancement of corporate value.	18,048 shares
2	Reappointment Yoshiya Okada (April 25, 1957) Attendance at Board of Directors meetings: 14/14 (100%)	April 1984 Joined the Company April 2003 General Manager, Information & Environment Systems Department June 2005 Managing Director, KBK Europe GmbH October 2009 General Manager, Industrial Systems Department April 2011 Executive Officer; General Manager, Industries & Resources Group General Manager, Industrial Systems Department April 2012 Executive Officer; General Manager, Industries & Resources Group April 2013 Executive Officer; General Manager, Industries & Resources Group; General Manager, Domestic Subsidiaries Management Group June 2013 Director and Executive Officer; General Manager, Industries & Resources Group; General Manager, Domestic Subsidiaries Management Group April 2017 Director and Managing Executive Officer; General Manager, Industries & Resources Group; General Manager, Domestic Subsidiaries Management Group June 2017 Director and Managing Executive Officer; General Manager, Industries & Resources Group April 2019 President and Chief Executive Officer General Manager, Sales Headquarters (to present) <Reason for candidacy> Since joining the Company, Mr. Okada has engaged mainly in the core industry-related business and has accumulated abundant experience and considerable achievements in the Company's various business areas. He also has management experience overseas, serving as a manager of a local subsidiary of the Company in Germany. The Company has nominated him as a candidate because it believes that he can contribute to the sustained growth of the Company and further enhancement of corporate value through his high degree of expertise concerning business management as a whole, which he has accumulated through the above experience.	6,526 shares

No.	Name (Date of birth)	Past experience, positions and responsibilities (Significant concurrent positions)	Number of shares of the Company held
3	Reappointment Nobuki Tomabechi (March 11, 1958) Attendance at Board of Directors meetings: 14/14 (100%)	April 1982 Joined the Company June 2006 General Manager, Accounting Department July 2006 General Manager, Accounting Department; General Manager, Affiliates Office April 2011 Executive Officer; General Manager, Administration and Planning Group; General Manager, Affiliates Companies April 2013 Executive Officer; General Manager, Administration and Planning Group; General Manager, Group Planning Office June 2015 Director and Executive Officer April 2017 Director and Managing Executive Officer; General Manager, Administration and Planning Group; General Manager, Group Planning Office April 2019 Director and Senior Managing Executive Officer; General Manager, Administrative Headquarters; General Manager, Administration and Planning Group; General Manager, General Overseas Business Group (to present) <Reason for candidacy> Since joining the Company, Mr. Tomabechi has engaged in duties in the administrative division and has served as General Manager of Accounting Department, Affiliates Office, and Administration and Planning Group, accumulating abundant experience and considerable achievements in the areas of accounting, finance, and overall administrative operations. He also has a global perspective, having worked at a local subsidiary of the Company in the U.S. The Company has nominated him as a candidate because it believes that he can contribute to the sustained growth of the Company and further enhancement of corporate value through his high degree of expertise concerning business management as a whole, which he has accumulated through the above experience.	6,026 shares
4	Reappointment Masaharu Sato (January 9, 1959) Attendance at Board of Directors meetings: 14/14 (100%)	April 1983 Joined the Company June 2005 General Manager, Plastics Department June 2009 Executive Officer; General Manager, Materials Group; General Manager, Plastics Department July 2009 Executive Officer; General Manager, Materials Group June 2017 Director and Executive Officer; General Manager, Materials Group April 2019 Director and Managing Executive Officer; General Manager, Materials Group (to present) <Reason for candidacy> Since joining the Company, Mr. Sato has engaged in the industrial materials-related business and has served as General Manager of Plastics Department and Materials Group, accumulating abundant experience and considerable achievements in those areas. In addition to having worked abroad, he has a wealth of business experience overseas involving coordination and negotiation with customers. The Company has nominated him as a candidate because it believes that he can contribute to the sustained growth of the Company and further enhancement of corporate value through his high degree of expertise concerning business management as a whole, which he has accumulated through the above experience.	2,995 shares

No.	Name (Date of birth)	Past experience, positions and responsibilities (Significant concurrent positions)	Number of shares of the Company held
5	Reappointment Shuichi Matsui (January 10, 1956) Attendance at Board of Directors meetings: 14/14 (100%)	April 1982 Joined the Company December 2007 General Manager, Electronics & Systems Department October 2009 General Manager, Special Machinery Systems Department June 2010 Executive Officer; General Manager, Electronics & Instrumentation Group General Manager, Special Machinery Systems Department April 2011 Executive Officer; General Manager, Electronics & Instrumentation Group June 2013 Director and Executive Officer; General Manager, Electronics & Instrumentation Group April 2017 Director and Managing Executive Officer; General Manager, Electronics & Instrumentation Group April 2018 Director and Executive Officer; General Manager, Electronics & Instrumentation Group (to present) (Significant concurrent positions) Representative Director, ABB Bailey Japan <Reason for candidacy> Since joining the Company, Mr. Matsui has engaged mainly in the electronics and control systems-related business and has served as General Manager of Electronics & Systems Department, Special Machinery Systems Department, and Electronics & Instrumentation Group, accumulating abundant experience and considerable achievements in those areas. He also concurrently serves as Representative Director of ABB Bailey Japan. The Company has nominated him as a candidate because it believes that he can contribute to the sustained growth of the Company and further enhancement of corporate value through his high degree of expertise concerning business management as a whole, which he has accumulated through his experience of overseeing the Group.	5,867 shares
6	New candidate Outside Independent Ichiro Terai (January 12, 1954)	April 1976 Joined Ishikawajima-Harima Heavy Industries Co., Ltd. (currently IHI Corporation) June 2009 Director; Executive Officer; General Manager, Finance & Accounting Division April 2012 Director; Managing Executive Officer April 2015 Executive Vice President April 2018 Director June 2018 Advisor (to present) (Significant concurrent positions) Advisor, IHI Corporation Director, Japan Marine United Corporation <Reason for candidacy> Mr. Terai has served as Director and Executive Vice President of IHI Corporation. The Company has nominated him as a candidate for Outside Director in order for him to provide objective opinions on the Company's overall management from a broad perspective based on his abundant experience and wide insight as a corporate manager.	0 shares

(Notes)

1. There are no special interests between the above candidates and the Company.
2. Mr. Ichiro Terai is a candidate for Outside Director.
3. The matters concerning candidates for Outside Directors are as follows:
   i. In case where an Outside Director candidate served as Director, Executive Officer, or Audit & Supervisory Board Member at another company during the past five years, the fact that the candidate violated laws and regulations or the Articles of Incorporation or conducted unfair business practices at the said company during the candidate's term of office as either of the above positions.

   Mr. Ichiro Terai served as Director of IHI Corporation from June 2009 to June 2018. In 2019, it was discovered that inappropriate work was performed in the Civil Aero Engine Maintenance Business at IHI Corporation. As a result, in March 2019, IHI Corporation received an order from the Ministry of Economy, Trade and Industry to conduct repair work under approved repair methods based on the Aircraft Manufacturing Industry Act. Additionally, in April 2019, IHI Corporation received a Business Improvement Order from the Ministry of

Economy, Trade and Industry based on the Civil Aeronautics Act.

ii. The Company plans to enter into a liability limitation agreement with Mr. Ichiro Terai if his election is approved as originally proposed. The outline of the agreement is as follows:
Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the liability for damages under Article 423, Paragraph 1 of the said Act shall be limited to the higher of 6 million yen or the minimum amount of liability stipulated in Article 425, Paragraph 1 of the said Act.

4. The Company plans to register Mr. Ichiro Terai as an independent officer stipulated by the rules of the Tokyo Stock Exchange if his election is approved as originally proposed.

Proposal 3: Election of Three Directors Serving as Audit and Supervisory Committee Members

Three Directors serving as Audit and Supervisory Committee Members will retire due to expiration of their terms of office at the conclusion of this General Meeting of Shareholders.

Accordingly, the Company proposes to elect three Directors serving as Audit and Supervisory Committee Members.

The candidates for Directors serving as Audit and Supervisory Committee Members are as follows.

No.	Name (Date of birth)	Past experience, positions and responsibilities (Significant concurrent positions)	Number of shares of the Company held
1	Reappointment Susumu Ohuchi (May 1, 1955) Attendance at Board of Directors meetings: 14/14 (100%) Attendance at Audit and Supervisory Committee meetings: 13/13 (100%)	April 1982 Joined the Company April 2003 General Manager, Business Planning Department June 2005 Senior General Manager; General Manager, Corporate Strategic Planning Department April 2012 Senior General Manager June 2012 Corporate Auditor June 2017 Director (Audit and Supervisory Committee Member) (to present) <Reason for candidacy> Mr. Ohuchi possesses abundant experience and advanced insight, developed through experience in finance, accounting, planning, and other operations at the Company over the years. The Company has nominated him as a candidate as it expects that he will contribute to strengthening the audit systems of the Company and enhancing corporate value.	5,100 shares
2	Reappointment Outside Independent Takuichi Arai (May 30, 1947) Attendance at Board of Directors meetings: 14/14 (100%) Attendance at Audit and Supervisory Committee meetings: 13/13 (100%)	November 1974 Joined Arthur Young & Co. October 1980 Registered as certified public accountant (to present) September 1985 Joined Asahi Shinwa & Co. (currently KPMG AZSA LLC) June 1996 Representative Partner, Asahi & Co. (currently KPMG AZSA LLC) June 2009 Adviser, AZSA & Co. (currently KPMG AZSA LLC) (retired January 2010) June 2010 Auditor of the Board (Outside), Mitsui Sumitomo Insurance Company, Limited June 2016 Corporate Auditor, the Company June 2017 Director (Audit and Supervisory Committee Member) (to present) <Reason for candidacy> Mr. Arai possesses specialist knowledge, abundant experience, and advanced insight, developed through experience as a certified public accountant over the years. The Company has nominated him as a candidate for Outside Director as it expects that he will contribute to strengthening the audit systems of the Company and enhancing corporate value, particularly from an accounting perspective.	0 shares
3	New candidate Outside Independent Mitsuharu Kaizuka (June 14, 1970)	October 2001 Registered as an attorney (Member, Dai-Ichi Tokyo Bar Association) October 2001 Joined Tanabe & Partners (to present) <Reason for candidacy> Mr. Kaizuka possesses specialist knowledge, abundant experience, and advanced insight, developed through experience as an attorney over the years. The Company has nominated him as a candidate for Outside Director as it expects that he will contribute to strengthening the audit systems of the Company and enhancing corporate value, particularly from the perspective of an attorney.	0 shares

(Notes)

1. There are no special interests between the above candidates and the Company.
2. Mr. Takuichi Arai and Mr. Mitsuharu Kaizuka are candidates for Outside Director.
3. The matters concerning candidates for Outside Directors are as follows:
   i. In case where an Outside Director candidate served as Director, Executive Officer, or Audit & Supervisory Board Member at another company during the past five years, the fact that the candidate violated laws and regulations or the Articles of Incorporation or conducted unfair business practices at the said company during the candidate's

term of office as either of the above positions and the actions that the candidate took as preventative and responsive measures against the emergence of such fact

Mr. Takuichi Arai served as Auditor of the Board (Outside) of Mitsui Sumitomo Insurance Company, Limited from June 2010 to June 2018. There are no facts that correspond to the above.

ii. Reasons the Company judges candidates will be able to appropriately execute their duties as Outside Directors

Mr. Takuichi Arai has never been directly involved in corporate management, but he possesses specialist knowledge, abundant experience, and advanced insight as a certified public accountant over the years, and also has experience as Auditor of the Board (Outside) at another company. Accordingly, the Company has judged that he will be able to appropriately execute his duties as Outside Director of the Company.

Mr. Mitsuharu Kaizuka has never been directly involved in corporate management, but he possesses specialist knowledge, abundant experience, and advanced insight as an attorney over the years. Accordingly, the Company has judged that he will be able to appropriately execute his duties as Outside Director of the Company.

iii. The Company plans to enter into the liability limitation agreement with Mr. Takuichi Arai and Mr. Mitsuharu Kaizuka if their election is approved as originally proposed. The outline of the agreement is as follows:

Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the liability for damages under Article 423, Paragraph 1 of the said Act shall be limited to the higher of 6 million yen or the minimum amount of liability stipulated in Article 425, Paragraph 1 of the said Act.

iv. Mr. Takuichi Arai is currently an Outside Director of the Company serving as an Audit and Supervisory Committee Member and will have served in the position for two years at the conclusion of this Annual General Meeting of Shareholders.

4. The Company plans to enter into a liability limitation agreement with Mr. Susumu Ohuchi if his election is approved as originally proposed. The outline of the agreement is as follows:

   Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the liability for damages under Article 423, Paragraph 1 of the said Act shall be limited to the higher of 6 million yen or the minimum amount of liability stipulated in Article 425, Paragraph 1 of the said Act.

5. The Company has registered Mr. Takuichi Arai as an independent officer stipulated by the rules of the Tokyo Stock Exchange. If the election of Mr. Takuichi Arai and Mr. Mitsuharu Kaizuka is approved, the Company plans to register both of them as independent officers.

<Shareholder Proposals (Proposals 4 to 6)>

Proposals 4 to 6 was raised by two shareholders (hereinafter the "Proposing Shareholders").

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

Proposal 4: Amendment to the Articles of Incorporation for Disclosure of Capital Cost

1. Content of Proposal

Establish the following chapter and article in the current Articles of Incorporation.

CHAPTER VII CAPITAL COST

(Disclosure of Capital Cost)

Article 37

In its report concerning corporate governance submitted by the Company to financial instrument exchanges (hereinafter the "CG Report"), the Company shall disclose its weighted average capital cost and calculation basis thereof ascertained by the Company, within the one-month period preceding the date of submission of the CG Report.

2. Reasons for Proposal

The Company's stock price has been significantly below its liquidation value. This indicates that the Company's return on equity (ROE) has failed to meet the level sought by investors (shareholders' equity cost).

In the Corporate Governance Code, (hereafter the "Code"), provided as an attachment to the Securities Listing Regulations, the following provisions are made: "When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company's capital cost. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human resources, and specific measures that will be taken in order to achieve their plans and targets." These provisions require that the management have a full and accurate understanding of the capital costs of their company (Principle 5-2, Establishing and Disclosing Business Strategies and Business Plans). It should also be a requirement for the management of the Company to draft and examine business plans and capital policy after a full appraisal of its weighted average capital cost that reflects the Company's shareholders' equity cost. Further, disclosure of the weighted average capital cost enables a dialogue between the Company's management and investors that include shareholders based on shared criteria. In this way, the disclosure of the capital cost will expectedly help improve the lackluster reputation of the Company's stock in the market.

○ The Board of Directors' Opinion on the Proposal

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

The shareholders' Proposal calls for addition of a chapter and an article to the Articles of Incorporation to the effect that the Company is required to disclose in its corporate governance report its weighted average capital cost and calculation basis thereof ascertained by the Company, within one-month period preceding the date of submission of the report.

However, matters involving the provisions of the Articles of Incorporation form part of the fundamental rules of the Company. The content of the Proposal is asking does not come under the fundamental rules of the Company. Accordingly, the Board of Directors does not believe that this Proposal is a matter that should be included in the Articles of Incorporation.

Furthermore, with regard to the capital cost, it states in Principle 5-2 of the Code that: "When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company's capital cost. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human resources, and specific measures that will be taken in order to achieve their plans and targets." But there is no mention in the corporate governance report of disclosure of a weighted capital cost or its calculation basis.

In the new "KBK Breakthrough 2023" medium-term management plan announced on May 27, numerical ROE targets are set based on profitability and capital efficiency targets, after a precise appraisal of the Company's capital cost, and strategies for their achievement are disclosed.

Accordingly, the Board of Directors disagrees with this Proposal.

Proposal 5: Amendment to the Articles of Incorporation for Sale of Securities Held

1. Content of Proposal

Establish the following chapter and article in the current Articles of Incorporation. For numbering purposes, in the case of rejection of the above Proposal 1 (Amendment to the Articles of Incorporation for Disclosure of Capital Cost), Chapter 8 shall become Chapter 7 and Article 38 Article 37.

CHAPTER VIII SALE OF COMPANY SHAREHOLDINGS

(Sale of Company shareholdings)

Article 38

(1) During the 100th period, the Company shall promptly sell off shares held purely for investment purposes as of the date of entry into effect of the amendment of the Articles of Incorporation by addition of this Article.

(2) During the three fiscal years between the 100th and 102nd periods, the Company shall promptly sell off cross-shareholdings held as of the date provided in the previous clause.

2. Reasons for Proposal

At the end of March 2018, the Company held cross-shareholdings in three companies in the total of 1,567 million yen on the balance sheet and shares held purely for investment purposes in the total of 4,264 million yen on the balance sheet.

In its securities report, the Company explains that the issuers of these strategically held shares (cross-shareholdings) are "suppliers that form part of cooperative relationships in Japan and overseas (abbreviated)." But it is hard to understand the nature of the link between holding shares and forming cooperative relationships with suppliers and others.

Nor is there any reason for shares to be held purely for investment purposes, given that shareholders expect earnings growth from the main business of the Company, not from its stock investments.

The Company should sell off all cross-shareholdings and stocks currently held purely for investment purposes, and use the proceeds from such sales to improve shareholder value. Specifically, shares held purely for investment purposes should be sold during the current fiscal year, and the cross-shareholdings within the coming three fiscal years, including the current fiscal year, given that the latter may take some time to sell off.

○ The Board of Directors' Opinion on the Proposal

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

The shareholders' Proposal requests that the Company create in the Articles of Incorporation a chapter and an article to the effect that the shares held by the Company purely for investment purposes as of the effective date of the concerning amendment of the Articles of Incorporation, shall be sold during the 100th period, and the cross-shareholdings held by the Company as of the same date above shall be sold during the three fiscal years between the 100th and 102nd periods.

However, matters involving the provisions of the Articles of Incorporation form part of the fundamental rules of the Company. The content of the Proposal does not come under the fundamental rules of the Company. Accordingly, the Board of Directors does not believe that this Proposal is a matter that should be included in the Articles of Incorporation.

In addition to forming the financial bedrock of the trust placed in the Company by the public, the shares held by the Company purely for investment purposes serve as business investments in that they ensure the continued stability of its financial fundamentals and strengthen our business earnings capability.

The prompt sale of shares held purely for investment purposes would hinder flexible business investments for sustained growth under the Company's capital policy.

At the moment, it is the view of the Board of Directors that cross-shareholdings contribute to the sustained growth of the Company and improvement of corporate value in the medium- to long-term, in terms of fostering stable long-term trading relations and business partnerships and ensuring stronger and smoother cooperation in business development.

Such strategically held shares are subject to annual monitoring by the Board of Directors. In light of the de facto nature of relationships with transaction partners and based on certain standards, the Board of Directors reviews the viability of continuing such cross-shareholdings from a medium- to long-term perspective, and adjusts the number of such shares held. The Company duly exercises voting rights on strategically held shares after determining whether such cross-shareholdings contribute to the improvement of corporate value of the Company in accordance with the original purpose for holding them.

Promptly selling off shares in the three periods between the 100th and 102nd periods would breach the Company's policy for cross-shareholdings. The Board of Directors also fears erosion of the corporate value of the Company if there is any hindrance to the continuation and development of the Company's business in the medium- to long-term.

Accordingly, the Board of Directors disagrees with this Proposal.

Proposal 6: Appropriation of Surplus

1. Content of Proposal
   (1) Type of dividend property
   Money
   (2) Allocation of dividend property and total amount thereof
   We proposed that a sum be added to the Company-proposed dividend total that is the sum resulting after deduction from 188 yen of the per-share common stock dividend amount (hereafter the "Company-proposed dividend") based on the Board of Directors' proposal for appropriation of surplus approved at the 99th Annual Ordinary General Meeting of Shareholders (hereafter "Company Proposal for appropriation of surplus").
   In the event of deviation of the net earnings per share for the 99th period after rounding to the decimal point (hereafter "actual earnings per share") from 188 yen, the above sum of 188 yen shall become the actual earnings per share.
   The total dividend is the sum resulting from multiplication of the number of shares underlying the current dividend as of March 31, 2019 by the dividend per share of common stock as detailed above.
   (3) Effective date of distribution of surplus
   The day following the holding of the 99th Annual Ordinary General Meeting of Shareholders in June 2019
   If the Company Proposal for appropriation of surplus is proposed at the 99th Annual Ordinary General Meeting of Shareholders, this Proposal shall become supplementary to the Company Proposal, separate from it but reconciled with it.
2. Reasons for Proposal
   The 188 yen stated in this "Appropriation of Surplus" is the latest forecast for net earnings per share, as of April 15, 2019. This Proposal is aimed at allocating all net income for the period under review for the dividend, however much the dividend per share amounts to under the Company's Proposal: in other words, a 100% dividend payout ratio.
   In March 31, 2018, the shareholders' equity ratio of the Company stood at 44.4%, and by December 31 the same year, this rose to 48.0%. This is an extremely high figure, given the nature of the Company's business as a trading company. Reflecting this high shareholders' equity ratio, ROE for the fiscal year ended March 31, 2018 stood at the low level of 6.6% and is forecast to have fallen further to 5.2% for the fiscal year ended March 31, 2019. In addition to the high shareholders' equity ratio, as of December 31, 2018, the Company had adequate levels of cash and near-cash assets, comprising cash and time deposits totaling approximately 8,800 million yen, investment securities totaling about 8,200 million yen and interest-bearing debt of some 4,000 million yen.
   There is no need for the Company to hold funds internally at a higher level than this. Moreover, even if own capital is increased, ROE will only decline. Dividend of surplus should be greatly increased, since return of surplus funds to the shareholders pushes up the shareholder value and share price.
   Even with the implementation of this Proposal for appropriation of surplus, the total value of the dividend will fall within the range of net income for the current fiscal year, so there will be no major change from the prior-year-end level in own capital and cash and deposits, and the Company's financial position will remain healthy.

○ The Board of Directors' Opinion

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

The shareholders' Proposal asks for the Company's distribution of all of its net income, that is, a payout ratio of 100%.

However, the Company recognizes that it is an important responsibility to achieve sustained improvement in corporate value and continuously give back to its shareholders through strengthening the financial structure and business foundation for future business development under an appropriate capital policy. The Company has a basic policy of distributing profit through payment of a dividend in light of overall considerations including earnings trends.

In line with this basic policy, the Company proposes a year-end dividend of 55 yen per share of common stock (350 million yen in total) as in Proposal 1 Appropriation of Surplus. Assuming approval of Proposal 1, this would be a sixth continuous year of increased dividends since fiscal 2013, the 94th business year.

The Company is committed to carrying out M&A and business investments that create new value as a key strategy in the new medium-term business plan announced on May 27, KBK Breakthrough 2023, to ensure sustained growth into the medium- to long-term. Going forward, the Company will continue to

make proactive but prudent investments to realize these medium- to long-term strategies. To leverage these business investments, and to respond to rapidly changing economic currents and business risks, the Company believes it is important to maintain and strengthen a healthy, stable financial base.

The Company will continue to work to actively ensure return of profit to all shareholders. At the same time, the Company believes that using net assets for investment in the business and taking measures to sustain and increase corporate value will contribute to the medium- to long-term returns of all our shareholders.

Accordingly, the Board of Directors disagrees with this Proposal.