

Please note that the following is an unofficial English translation of Japanese Notice of Convocation of the 145th Ordinary General Meeting of Shareholders of Kyosan Electric Manufacturing Co., Ltd. Kyosan provides this translation for your reference purposes only and without any warranty as to its accuracy or otherwise. In the event of any discrepancy between this translation and the Japanese original, the latter shall prevail.

(Code No. 6742)
June 2, 2010

To Our Shareholders:

Tsutomu Nishikawa
President and Representative Director
Kyosan Electric Manufacturing Co., Ltd.
2-29-1 Heian-cho, Tsurumi-ku, Yokohama

Notice of Convocation of the 145th Ordinary General Meeting of Shareholders

You are cordially invited to attend the 145th Ordinary General Meeting of Shareholders of Kyosan Electric Manufacturing Co., Ltd. (“Kyosan” or the “Company”), to be held as follows.

If you are unable to attend the meeting, you may otherwise exercise your voting rights in writing. Please read the attached Reference Documents for the Ordinary General Meeting of Shareholders provided below, and indicate your approval or disapproval of the respective proposals, and return the enclosed Voting Rights Exercise Form by 5:00 p.m. Thursday, June 24, 2010.

- 1. Date and Time:** 10:00 a.m. Friday, June 25, 2010
- 2. Place:** Conference Room, New Stage Yokohama,
1-1-32 Shin Urashima-cho, Kanagawa-ku, Yokohama
- 3. Purposes of the Meeting:**
- Matters to be Reported:**
1. Business Report, Consolidated Financial Statements for the 145th Term (from April 1, 2009 to March 31, 2010) and Reports of Audit of the Consolidated Financial Statements by the Accounting Auditors and Board of Company Auditors
 2. Report on the Financial Statements for the 145th Term (from April 1, 2009 to March 31, 2010)
- Matters to be Resolved:**
- Proposal No. 1:** Appropriation of Surplus
- Proposal No. 2:** Election of 9 Directors
- Proposal No. 3:** Election of 1 Substitute Company Auditor
- Proposal No. 4:** Continuation of Countermeasures to Large-Scale Purchases of Kyosan Shares (Defensive Measures against Takeovers)

- * If you are attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk. To save resource, please bring this “Notice of Convocation” with you.
- * Any amendments to the Reference Documents for the Ordinary General Meeting of Shareholders, Business Report, Consolidated Financial Statements and Financial Statements will be posted on Kyosan’s website (<http://www.kyosan.co.jp>).

[Translation for Reference Purposes Only]

No.	Name (Date of Birth)	Positions and Assignments in the Company	Biography and Status of Important Concurrent Positions		Number of the Company's Shares Held
2	Sadatsuna Watanabe (January 19, 1947)	Director, Senior Executive Officer, General Manager, Business Headquarters, Assigned to be in charge of Development Center, Business Headquarters and Technical Quality Management Center	April 1969 October 1995 June 1998 June 2004 April 2005 April 2006 April 2009	Joined Kyosan General Manager, 4th Signal System Engineering Dept., Kyosan Director, Kyosan (current position) Executive Officer, Kyosan General Manager, Railway Signal Division, Kyosan Senior Executive Officer, Kyosan (current position) General Manager, Business Headquarters, Kyosan (current position) General Manager, Power Converter Division, Kyosan	103,000 shares
3	Tsutomu Tokodai (January 21, 1951)	Director, Senior Executive Officer, General Manager, Planning and Control Headquarters, Assigned to be in charge of Internal Auditing Dept. and OA System Center	August 1974 April 2003 April 2006 June 2006 April 2009 April 2010 May 2010	Joined Kyosan General Manager, Manufacturing Control Dept., Power Converter Division, Kyosan Officer, Kyosan General Manager, Power Converter Division, Kyosan Director, Kyosan (current position) Executive Officer, Kyosan Deputy General Manager, Planning and Control Headquarters, Kyosan Senior Executive Officer, Kyosan (current position) General Manager, Planning and Control Headquarters, Kyosan (current position) President, Taiwan Kyosan Co., Ltd. (current position)	53,000 shares

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No.	Name (Date of Birth)	Positions and Assignments in the Company	Biography and Status of Important Concurrent Positions		Number of the Company's Shares Held
4	Kazuo Hinata (November 9, 1946)	Director, Executive Officer, General Manager, Railway Signal Division, Business Headquarters, Assigned to be in charge of Purchasing Dept., Business Headquarters	April 1969 May 1992 May 1998 June 1998 June 2004 April 2006 May 2007	Joined Kyosan General Manager, 3rd Signal System Sales Dept., Kyosan General Manager, 1st Sales Dept., Railway Signal Division, Kyosan Director, Kyosan (current position) Executive Officer, Kyosan (current position) General Manager, Railway Signal Division, Kyosan (current position) President and Representative Director, Kyosan Metal Industry Co., Ltd. (current position)	90,000 shares
5	Hisazumi Toho (February 27, 1956)	Director, Executive Officer, Assigned to be in charge of Corporate Planning Dept., Investor and Public Relations Dept. and Planning Center Dept., Business Headquarters	March 2003 March 2007 April 2008 June 2008 July 2008 April 2010	General Manager, 2nd Corporate Finance Dept., Nippon Life Insurance Company General Manager, 1st Corporate Finance Dept., Headquarters, and General Manager, Kyushu Area Corporate Finance Dept., Nippon Life Insurance Company Joined Kyosan Director, Kyosan (current position) Officer, Kyosan General Manager, General Planning Division, Kyosan Executive Officer, Kyosan (current position)	31,000 shares

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No.	Name (Date of Birth)	Positions and Assignments in the Company	Biography and Status of Important Concurrent Positions		Number of the Company's Shares Held
6	Takashi Yoshikawa (November 20, 1954)	Director, Executive Officer, General Manager, Legal and Compliance Dept., Assigned to be in charge of Finance & Accounting Dept.	June 2005 April 2007 June 2008 April 2009 May 2009 June 2009 July 2009 April 2010	Executive Officer, General Manager, Sagamihara-Ekimae Branch, and General Manager, Sales Headquarters, North Prefectural Block, the Bank of Yokohama, Ltd. Executive Officer, General Manager, Kawasaki Branch, and General Manager, Sales Headquarters, Kawasaki/Keihin Block, the Bank of Yokohama, Ltd. Director and Executive Officer, The Bank of Yokohama, Ltd. Director, The Bank of Yokohama, Ltd. Joined Kyosan Director, Kyosan (current position) Officer, Kyosan Executive Officer, Kyosan (current position) General Manager, Legal and Compliance Dept. (current position)	17,000 shares

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No.	Name (Date of Birth)	Positions and Assignments in the Company	Biography and Status of Important Concurrent Positions		Number of the Company's Shares Held
7	Shigenobu Nishida (September 12, 1947)	Director, Officer, General Manager, Traffic Control Systems Division, Business Headquarters, Assigned to be in charge of Industrial Engineering Dept., Business Headquarters	April 1969 June 1996 April 2000 June 2001 June 2004 April 2006 May 2006 June 2006	Joined Kyosan General Manager, 2nd Signal System Engineering Dept., Kyosan General Manager, Signal System Planning Dept., Kyosan General Manager, Signal System Project Control Dept., Kyosan Officer, Kyosan (current position) General Manager, Traffic Control Systems Division, Kyosan (current position) President and Representative Director, Kyosan Seiki Co., Ltd. (current position) Director, Kyosan (current position)	64,000 shares
8	Katsuhiko Fujimoto (July 30, 1944)	Director	March 1968 July 1969 April 1974 March 1989 September 2006 June 2008 August 2008	Joined Hiroshi Fujii CPA Office Joined Chiyoda Audit Corporation Officer (Partner), Chiyoda Auditing firm (later renamed to Chuo Shinko Audit Corporation) Representative Officer, Chuo Shinko Audit Corporation (later renamed to MISUZU Audit Corporation) Resigned MISUZU Audit Corporation Director, Kyosan (current position) Opened Katsuhiko Fujimoto CPA Office	0 shares

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No.	Name (Date of Birth)	Positions and Assignments in the Company	Biography and Status of Important Concurrent Positions	Number of the Company's Shares Held
9	Masanari Sakamoto (August 2, 1945)		<p>April 1973 Instructor, Faculty of Politics and Economics, Hiroshima University</p> <p>April 1977 Assistant Professor, Hiroshima University</p> <p>January 1984 Professor, Faculty of Law, Hiroshima University</p> <p>April 2001 Dean, Faculty of Law, Hiroshima University</p> <p>July 2004 Professor, Graduate School of Law, Kyushu University</p> <p>April 2008 Professor, College of Law and Politics, Rikkyo University (current position)</p>	0 shares

(Notes)

- Each candidate has no specific interest with Kyosan.
- Both Katsuhiko Fujimoto and Masanari Sakamoto are candidates for Outside Director.
Katsuhiko Fujimoto is an independent officer and recommended for the position of Outside Director because he is expected to improve transparency of the Board of Directors and to strengthen the supervisory function with his professional knowledge as a certified public accountant for a long time and experiences as a representative partner in an auditing corporation. Katsuhiko Fujimoto does not have any direct experience in corporate management, but is considered to be suitable for the position of Outside Director from the reason stated above.
The term of his office will have been 2 years at the conclusion of this General Meeting of Shareholders since he became Outside Director of Kyosan.
Masanari Sakamoto is recommended for the position of Outside Director because he is expected to improve transparency of the Board of Directors and to strengthen the supervisory function with his highly technical knowledge and deep insight as a university professor. Masanari Sakamoto does not have any direct experience in corporate management, but is considered to be suitable for the position of Outside Director from the reason stated above.

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Proposal No. 3: Election of 1 Substitute Company Auditor

It is proposed to elect 1 Substitute Company Auditor to serve in the event that the number of Company Auditors falls below the statutory requirement.

The preliminary election of the Substitute Company Auditor shall remain in force until the convention of the next Ordinary General Meeting of Shareholders.

The consent of the Board of Company Auditors has been obtained for the submission of this proposal.

The following candidate is proposed as Substitute Company Auditor.

Name (Date of Birth)	Positions in the Company	Biography and Status of Important Concurrent Positions	Number of the Company's Shares Held
Miki Kitajima (September 9, 1976)		October 2001 Passed bar exam October 2003 Registered as a lawyer (Yokohama Bar Association)	0 shares

(Notes)

1. The candidate for Substitute Company Auditor, Miki Kitajima, has no specific interest with Kyosan.
2. Miki Kitajima satisfies all requirements for Outside Company Auditor.

The reason for electing Miki Kitajima is to utilize her professional insights and experiences as a lawyer for the auditing systems of Kyosan.

Miki Kitajima does not have any direct experience in corporate management, but is considered to be suitable for the position of Outside Company Auditor in light of her experiences and insights as a lawyer.

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Proposal No. 4: Continuation of Countermeasures to Large-Scale Purchases of Kyosan Shares (Defensive Measures against Takeovers)

At the meeting held by the Board of Directors on May 15, 2007, Kyosan decided to introduce “Countermeasures to Large-Scale Purchases of Kyosan Shares (Defensive Measures against Takeovers)” (hereinafter referred to as “Former Plan”) on the assumption that the countermeasures would be approved by the shareholders at the 142nd Ordinary General Meeting of Shareholders on June 28, 2007. The countermeasures were approved as originally planned at the ordinary general meeting of shareholders. It was decided that Former Plan would remain effective until the closing of the 145th Ordinary General Meeting of Shareholders, which is slated to be held on June 25, 2010. Before the expiry of the term, Kyosan has reviewed the countermeasures from the viewpoints of protecting and enhancing the corporate value and the common interests of shareholders in consideration of revision of laws and regulations after the introduction of Former Plan and general views on such plan. As a result, Kyosan decided to add necessary revisions to Former Plan (the revised plan shall be hereinafter referred to as “the Plan”) and continue the countermeasures as follows at the meeting held by the Board of Directors on May 7, 2010, on the assumption that the countermeasures would be approved by the shareholders at this ordinary general meeting of shareholders.

Consequently, Kyosan would like to ask shareholders to approve the continuation of Defensive Measures against Takeovers.

No. 1 Programs and policies to protect and enhance Kyosan’s corporate value and the common interests of shareholders

Kyosan Electric Manufacturing Co., Ltd., was established on September 3, 1917 in Kanda, Tokyo. It subsequently changed its name and moved its head office to Tsurumi, Yokohama, but for a period of more than 90 years has developed and manufactured products for industries such as railways, transportation, telecommunications and electric power.

Many of these products are Japan-Firsts or World-Firsts, and the Kyosan Group has, since its inception, enjoyed a reputation for reliability and performance, making public-oriented contributions to society with extraordinarily flexible and adaptable technologies.

On the occasion of its 90th anniversary in September 2007, Kyosan developed a five-year “medium-term business plan” that starts in FY 2007 and ends in FY 2011 under its new vision called “Kyosan New Vision 100” toward its 100th anniversary. The new vision is promoted by the group as a whole.

“Kyosan New Vision 100” envisions a company that creates and evolves “safety” and “security.” It expresses this in the motto “First and Foremost in Reliability,” and articulates the company’s purposes as “reasonable returns to stakeholders, including dividends to shareholders,” “contributions to society and care for the global environment” and “the happiness and evolution of those who work at Kyosan Electric Manufacturing and its affiliates.”

The plan defines five key functions to achieve these goals: “expansion of business based on customer satisfaction and trust achieved through technology, quality, price and delivery,” “expansion of business based on a reorientation of operating structures towards core competences and profitability,” “enhancement of the base of operations through greater asset efficiency, financial stability and appropriate capital investments,” “enhancement of corporate governance” and “effective recruiting and training of human resources and enhancement of human resources systems.” The company has embarked on specific company-wide and division-level strategies and is proactively working towards the achievement of these targets.

No. 2 Purpose in introducing the Plan

As discussed in more detail below, our purpose in introducing the Plan is to protect and enhance Kyosan’s corporate value and the common interests of shareholders.

In recent years, there have been growing numbers of cases in which purchasers attempt to acquire large volumes of shares unilaterally without obtaining the consent of the company’s management. Kyosan is not opposed to all large-scale purchases of its shares if they do indeed contribute to its corporate value and the common interests of its shareholders. We believe that it is ultimately up to the shareholders as a whole to accept or reject acquisition proposals that involve a transfer of control over the company.

Nonetheless, there are some large-scale share purchases that, in light of their objectives etc., would clearly harm corporate value and the common interests of shareholders, essentially compel shareholders to sell shares, fail to provide the board of directors and shareholders of the target company with sufficient time

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and information to study the nature and content etc., of the large-scale share purchase or provide a counterproposal from the board of directors of the target company, require negotiations with the purchaser to secure more advantageous terms and conditions than those initially offered, or otherwise fail to contribute to corporate value and the common interests of shareholders.

Kyosan serves industries that are highly public in nature, as can be seen from its core business of “railway and roadway signal systems.” Therefore, in order to protect and enhance Kyosan’s corporate value and the common interests of shareholders, it is essential that we maintain the trust of our customers by continuing to provide safe, quality, high value-added products quickly and inexpensively. We believe there are many crucial elements in this, for example: 1) sustained and stable management based on long-term vantage points so as to fully discharge our responsibilities to provide stable supplies of products that impinge on the very cores of our customers’ businesses; 2) maintenance and assurance of requisite levels of internal reserves so as to engage in an ongoing process of forward-looking investments in research, development and capacity that will protect and enhance the safety of our products; 3) stabilization and assurance of employment so as to maintain and pass on high levels of technology and skills; and 4) maintenance of high levels of pride among employees and awareness of the responsibilities that come with being in a business so closely related to public welfare and safety, in other words the maintenance of our corporate culture and values as Kyosan Electric Manufacturing Co., Ltd. We believe that any large-scale purchaser of Kyosan’s shares who fails to protect and enhance these elements over the medium and long terms would significantly injure Kyosan’s corporate value and the common interests of its shareholders. In addition to these concerns, in the event of any proposal received from an outside purchaser who is interested in making a large-scale purchase of our shares, we must appropriately understand Kyosan’s tangible and intangible management resources, the potential impact of future-oriented policies and programs, and other components of Kyosan’s corporate value, and these must be appropriately judged in terms of the impact that the purchase would have on Kyosan’s corporate value and the common interests of shareholders.

In light of these circumstances, the Board of Directors of Kyosan has reached the decision that it remains absolutely necessary for the company to have a framework which enables the Board to negotiate on behalf of shareholders in order to deter large-scale purchases that are contrary to Kyosan’s corporate value and the common interests of shareholders.¹ This framework should provide the information and time required for shareholders to make a decision as to whether they will respond positively to the proposed large-scale purchase and for the Board of Directors of Kyosan to provide shareholders with counterproposals. These are the reasons that led the Kyosan Board of Directors to continue the Plan. Please be advised that Kyosan does not at this point in time face a specific threat of acquisition.

No. 3 Description of the Plan

1. Overview of the Plan

(1) Establishment of procedures for triggering the Plan

The Plan establishes procedures to be triggered (see also No. 3-2 “Procedures for triggering the Plan”) in the event of a large-scale purchase of Kyosan’s shares etc., a similar action or a proposal to do so (“Purchase etc.,” hereinafter). These procedures require the party making the Purchase etc. (“Purchaser etc.,” hereinafter) to provide information regarding the Purchase etc. in advance and ensure that there is adequate time to collect and analyze etc. information regarding the Purchase etc., providing the Kyosan management with the opportunity to furnish shareholders with its own plan or the counterproposal and to negotiate with the Purchaser etc.

(2) Gratis allocation of new share subscription rights

In the event that a Purchaser etc. fails to follow the procedures set forth in the Plan or is otherwise deemed to threaten Kyosan’s corporate value or the common interests of shareholders (for details on the criteria to be satisfied, see No. 3-3 “Criteria for gratis allocation of new share subscription rights”), Kyosan will make a gratis allocation of new share subscription rights (the allocation method is as described beginning Article 277 of the Companies Act) to all shareholders at that point in time, attaching conditions upon exercise that do not allow exercise by the Purchaser etc., and providing repurchase conditions under which Kyosan will acquire the new share subscription rights in exchange for Kyosan shares from all parties other than Purchaser etc. (the new share subscription rights are described in more detail in No. 3-4 “Outline of gratis allocation of new share subscription rights” and are referred to as “Rights” hereinafter).

¹ See Annex 3 for the status of Kyosan’s large shareholders.

(3) Use of Independent Committee to exclude arbitrary decisions by the Board of Directors

To ensure transparency and exclude arbitrary decisions by the Board of Directors regarding gratis allocations and repurchases of Rights, decisions will be sought from an Independent Committee comprised of outside directors, outside auditors and other experts with a high degree of independence from Kyosan's management team, who will operate in accordance with the Independent Committee Bylaws (see Annex 1 for an outline), and information will be disclosed to shareholders in a timely manner.

The members of the Independent Committee involved in the Plan are listed in Annex 2 (see Annex 1 for the criteria used to select members of the Independent Committee, its decision-making requirements and its areas of competence etc.).

(4) Exercise of new share subscription rights and acquisition of new share subscription rights by Kyosan

It will be possible to dilute the Purchaser etc.'s ownership of voting shares in Kyosan to approximately 50% in the event that a gratis allocation of Rights is made in accordance with the Plan and shareholders other than the Purchaser etc. exercise Rights, and in the event that Kyosan shares are delivered to shareholders other than the Purchaser etc. in exchange for repurchase of the Rights by Kyosan.

2. Procedures for Triggering the Plan

(1) Applicable Purchases etc.

The Plan applies to the Purchases etc. described in 1) or 2) below.

- 1) The Purchase etc. of share certificates or other equity securities² issued by Kyosan such that the owner³ acquires 20% or more of the total issued and outstanding share certificates or other equity securities⁴ of Kyosan
- 2) Any Tender Offer⁵ for share certificates or other equity securities⁶ issued by Kyosan which results in an aggregate Share Certificates, etc. Holding Rate⁷ of the Tender Offer and any Persons in Special Relationship⁸ of 20% or more of the total issued and outstanding share certificates or other equity securities of Kyosan

(2) Request for information from the Purchaser etc.

A Purchaser etc. engaging in a Purchase etc. as described in (1) above will, unless deemed to be a friendly acquisition etc. by Kyosan's Board of Directors, be requested to furnish in Japanese in a format designated by Kyosan the following information to Kyosan ("Required Information" hereinafter) together with a document containing a covenant etc. that the Purchaser etc. will comply with the procedures for Purchases etc. set forth in the Plan ("Purchase Statement" hereinafter) prior to initiating the Purchase etc.

If the Independent Committee determines that the information furnished by the Purchaser etc. is inadequate to qualify as "Required Information," it may directly or indirectly request the Purchaser etc. to furnish additional information, setting an appropriate deadline for response. In such cases, the Purchaser etc. will be expected to furnish additional information by the deadline.

² As defined in Article 27-23:1 of the Financial Instruments and Exchange Act, and so throughout this document unless specifically noted to the contrary.

³ Including parties included under "owner" pursuant to Article 27-23:3 of the Financial Instruments and Exchange Act (including parties so designated by Kyosan's Board of Directors), and so throughout this document.

⁴ As defined in Article 27-23:4 of the Financial Instruments and Exchange Act, and so throughout this document.

⁵ As defined in Article 27-2:1 of the Financial Instruments and Exchange Act, and so throughout this document.

⁶ As defined in Article 27-2:6 of the Financial Instruments and Exchange Act, and so throughout this document.

⁷ As defined in Article 27-2:8 of the Financial Instruments and Exchange Act, and so throughout this document.

⁸ As defined in Article 27-2:7 of the Financial Instruments and Exchange Act (including parties so deemed by Kyosan's Board of Directors). Notwithstanding, the parties as set forth in Article 3:2 of the Cabinet Office Order concerning a Tender Offer of Shares by Parties Other than the Issuer (*Hakkosha-igai no mono ni yoru kabuken-tou no koukai-kaitusuke no kaiji ni kansuru naikakufu-rei*) shall be excluded from the parties listed in Paragraph 1 of the said article, and so throughout this document.

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- 1) Details of the Purchaser etc. and its group, including details of Joint Holders⁹, Persons in Special Relationship (including partners and other members if the Purchaser etc. is an investment fund), such as their specific name(s), capital structure(s) and financial information;
- 2) The purpose, method and details of the Purchase etc. (including price and type of consideration for the Purchase etc., timing of the Purchase etc., related transaction mechanisms, legality etc., of the Purchase etc. method);
- 3) Basis for calculation of the Purchase etc. price (including facts assumed in calculation, calculation method, numerical information used in calculation, description of synergies anticipated from transactions related to the Purchase etc. and description of synergies to be allocated to other shareholders);
- 4) Evidence of funding for the Purchase etc. (including specific name(s) of provider(s) of funding plans, including the actual provider(s); fundraising method, description of related transactions);
- 5) Management policies (including any guidelines that impinge on the public-oriented and safety-oriented facets of Kyosan's business), business plans, capital policies and dividend policies for Kyosan and the Kyosan Group after the Purchase etc.;
- 6) Policies for relations with Kyosan's employees, suppliers, customers and other interested parties after the Purchase etc.;
- 7) Any other information deemed necessary and appropriate by the Independent Committee.
In the event that the Independent Committee deems the Purchaser etc. to have commenced the Purchase etc. without following the procedures set forth in the Plan, and absent specific circumstances requiring continued consultations and/or negotiations etc., with the Purchaser etc. regarding the submission of the Purchase Statement and/or Required Information, the Independent Committee will in principle recommend that Kyosan's Board of Directors make a gratis allocation of Rights as described in No. 3-2, (4), 1).

(3) Investigation of the Purchase etc., negotiation with the Purchaser etc., and planning of counterproposals

- 1) Request for information from the Kyosan Board of Directors
Upon submission of the Purchase Statement and Required Information by the Purchaser etc., the Independent Committee may also request the Kyosan Board of Directors to submit by an appropriate response deadline (in principle, no longer than 60 days) an opinion on the content of the Purchase etc. proposed by the Purchaser etc. (including cases in which opinion is reserved, and so below), documentation of its rationale, counterproposals and other information etc., deemed necessary and appropriate by the Independent Committee so as to enable comparison etc. of the Purchase Statement and Required Information of the Purchaser etc. against the business plans and valuation of the company etc., of the Kyosan Board of Directors from the perspectives of protecting and enhancing corporate value and the common interests of shareholders.
- 2) Examination by the Independent Committee
Upon receipt of Required Information etc. from the Purchaser etc. and the Kyosan Board of Directors (including requests pursuant to 1) above), the Independent Committee shall, for a period of up to 60 days, examine the content of the Purchase etc. proposed by the Purchaser etc., gather and compare information on the business plans etc. of the Purchaser etc. and the Kyosan Board of Directors, and examine the counterproposal furnished by the Kyosan Board of Directors ("Independent Committee Examination Period" hereinafter). Notwithstanding, the Independent Committee may extend the said period in the circumstances noted in No. 3-2, (4), 3) and in other similar circumstances. In the event that the Independent Committee requests

⁹ Refers to "Joint Holders" pursuant to Article 27-23:5 of the Financial Instruments and Exchange Act, including parties deemed to be Joint Holders pursuant to Paragraph 6 of the said article (including parties so designated by Kyosan's Board of Directors), and so throughout this document.

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additional information etc., the period shall be calculated from the date on which the said information etc. is submitted.

When deemed necessary to improve the content of the Purchase etc. from the perspective of protecting and enhancing Kyosan's corporate value and the common interests of shareholders, the Independent Committee may directly or indirectly through the Board of Directors consult and/or negotiate etc. with the Purchaser etc., and/or present etc. to shareholders etc. any counterproposal(s) from the Kyosan Board of Directors or other parties.

To ensure that its judgment contributes to Kyosan's corporate value and the common interests of shareholders, the Independent Committee may seek the advice of independent third parties (including legal counsel, certified public accountants, financial advisers, consultants and other experts) at the expense of Kyosan.

The Purchaser etc. shall respond in a timely manner in the event that is requested by the Independent Committee either directly or indirectly through the Board of Directors to furnish documentation or other information or to engage in consultations and/or negotiations etc.

3) Disclosure of information

Kyosan shall disclose at timings deemed appropriate by the Independent Committee the fact that a Purchaser etc. has come forward, the fact that a Purchase Statement has been submitted by the Purchaser etc. and such matters among the Required Information and other information as deemed appropriate by the Independent Committee.

(4) Procedures for recommendations etc. from the Independent Committee

In the event that a Purchaser etc. comes forward, the Independent Committee shall make recommendations etc. to Kyosan's Board of Directors in accordance with the following procedures. The Independent Committee shall disclose information in a timely manner after issuing recommendations to Kyosan's Board of Directors pursuant to No. 3-2, (4), 1) through 3), when making other resolutions, or in other circumstances deemed appropriate by Independent Committee. Disclosure information shall include an outline of the recommendation etc. and other matters as deemed appropriate by the Independent Committee (including the length and reasons for any extensions to the Independent Committee Examination Period).

1) Recommendations by the Independent Committee to trigger the Plan

The Independent Committee shall recommend that Kyosan's Board of Directors make a gratis allocation of Rights in the event that the Purchaser etc. fails to comply with the procedures set forth in the Plan and in the event that investigation of the Purchase etc. proposed by the Purchaser etc. is found to satisfy any of the "Criteria for gratis allocation of new share subscription rights" set forth in No. 3-3 and the Independent Committee determines it appropriate to make a gratis allocation of Rights. The Independent Committee may make this recommendation regardless of whether the Independent Committee Examination Period has commenced or concluded.

Notwithstanding, after recommending the gratis allocation of Rights, the Independent Committee may issue a new recommendation to suspend the gratis allocation of Rights (until the effective date of the gratis allocation) or to acquire the gratis allocation of Rights (after the gratis allocation has taken effect) prior to the commencement of the Rights exercise period (as defined in Section (6) of No. 3-4 "Outline of gratis allocation of new share subscription rights") in the event that it determines any of the following to apply.

- (a) After the recommendation the Purchaser etc. has withdrawn the Purchase etc. or the Purchase etc. has ceased to exist for other reasons;
- (b) Changes have taken place in the facts underlying the decision in the recommendation such that the Purchase etc. proposed by the Purchaser etc. does not satisfy any of the criteria set forth in No. 3-3 "Criteria for gratis allocation of new share subscription rights," or it is otherwise recognized as inappropriate to make the gratis allocation of Rights or allow the Rights to be exercised.

2) Recommendations by the Independent Committee not to trigger the Plan

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The Independent Committee shall recommend that Kyosan's Board of Directors not make a gratis allocation of Rights in the event that, as a result of its investigation of the Purchase etc. proposed by the Purchaser etc. and/or its consultations and/or negotiations etc. with the Purchaser etc., it finds that the Purchase etc. proposed by the Purchaser etc. does not satisfy any of the criteria noted in No. 3-3 "Criteria for gratis allocation of new share subscription rights" or that it would be inappropriate to make the gratis allocation of Rights even though one or more criteria are satisfied.

The Independent Committee may make this recommendation regardless of whether the Independent Committee Examination Period has been expired or not.

Notwithstanding, after recommending that the Kyosan Board of Directors not make the gratis allocation of Rights, the Independent Committee may make a new judgment including the gratis allocation of Rights recommend that the Kyosan Board of Directors in the event that there are changes in the facts underlying the recommendation such that the criteria in Subsection 1) above are satisfied.

3) Extensions of the examination period by the Independent Committee

In the event that the Independent Committee fails to reach a decision to recommend or not recommend the gratis allocation of Rights by the end of the Independent Committee Examination Period, the Independent Committee may resolve to extend the Independent Committee Examination Period within a reasonable scope required to examine the Purchase etc. proposed by the Purchaser etc., negotiate with the Purchaser etc., or examine counterproposals etc. The same procedure shall apply in the event of any further extensions of the period subsequent to this extension.

When resolving to extend the Independent Committee Examination Period, the Independent Committee shall disclose its reasons and the new period in a timely manner and shall continue to collect and examine etc. information, exerting maximum efforts to arrive at a recommendation regarding a gratis allocation of Rights within the extended period.

(5) Resolution of the Board of Directors

The Kyosan Board of Directors shall accord maximum respect to the recommendation of the Independent Committee and shall reach a resolution in a timely manner as the institution designated under the Companies Act to determine whether to make a gratis allocation of Rights. The Purchaser etc. shall not make the Purchase etc. until such time as the Kyosan Board of Directors resolves not to invoke the Plan.

Upon reaching a resolution, the Kyosan Board of Directors shall disclose in a swift manner an outline of the resolution and other such information as deemed appropriate by the Kyosan Board of Directors.

3. Criteria for gratis allocation of new share subscription rights

Kyosan plans to make a gratis allocation of Rights pursuant to a resolution of the Kyosan Board of Directors as stipulated in No. 3-2 "Procedures for invoking the Plan" Section (5) in the event that the Purchase etc. proposed by the Purchaser etc. satisfies any of the following criteria and it is deemed appropriate to make a gratis allocation of Rights.

As described in No. 3-2 "Procedures for invoking the Plan" Section (4), a judgment will be sought from the Independent Committee prior to deciding whether the following criteria are satisfied and a gratis allocation of Rights should be made.

- 1) The Purchase etc. fails to comply with the procedures set forth in the Plan;
- 2) It is rationally anticipated based on objective information that the Purchaser etc. will engage in any of the following actions:
 - (a) Attempts to buy up the share certificates or other equity securities of Kyosan and require their acquisition by Kyosan at an inflated price;
 - (b) Purchase etc., for the purpose of temporarily acquiring control over the management of Kyosan so as to cause the intellectual property rights, expertise, confidential corporate information,

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- major suppliers and customers etc. required for management to be transferred to the Purchaser etc., or for the purpose of acquiring important assets etc. of Kyosan at undervalued prices, or for the purpose of other actions that would sacrifice Kyosan to the benefit of the Purchaser etc.;
- (c) Diversion of Kyosan's assets to the security or repayment source of the liabilities of the Purchaser etc. or members of its group companies etc.;
 - (d) Temporary acquisition of control over the management of Kyosan so as to cause Kyosan to sell or otherwise dispose of highly-valued assets which are not currently related to Kyosan's business and to distribute temporarily higher dividends with the proceeds from such disposal, or to pick a top by selling Kyosan shares at an inflated price caused by such temporarily higher dividends;
 - (e) Other actions that would significantly injure Kyosan's corporate value and the common interests of shareholders.
- 3) Compulsory two-stage purchase (refers to any tender offer etc. for the purchase of shares in which there is no solicitation for purchase of all of the shares made at the initial stage and disadvantageous terms of purchase set or no explicit terms of purchase set for the second stage) that would potentially compel shareholders to sell their shares;
- 4) Failure to provide Kyosan shareholders with Required Information or with other information as reasonably required to judge the proposed Purchase etc. or significant inadequacies in any such information provided;
- 5) Terms of Purchase etc. (including price and type of consideration for the Purchase etc., timing of the Purchase etc., legality of the Purchase etc. method, management policies and business plans after the Purchase etc., and policies for relations with other shareholders, employees, suppliers and other interested parties in Kyosan after the Purchase etc.), that are inadequate or inappropriate in light of No. 1 "Programs and policies to protect and enhance Kyosan's corporate value and the common interests of shareholders" and No. 2 "Purpose in introducing the Plan;"
- 6) Purchase etc. with the potential for a serious and detrimental impact on Kyosan's corporate value and the common interests of shareholders by significantly injuring relations with the Kyosan employees, suppliers and clients etc. who are essential to the creation of Kyosan's corporate value, by significantly injuring the relationships with those and Kyosan corporate culture.

4. Outline of gratis allocation of new share subscription rights

Below is an outline of the gratis allocation of Rights pursuant to the Plan.

(1) Number of Rights

The number of share options shall be determined by the resolution of the Board of Directors to make a gratis allocation of Rights ("Gratis Rights Resolution" hereinafter) as the same number of shares as the final total issued and outstanding shares (however, excluding Kyosan shares owned by Kyosan on that date) as at a date to be specified separately by the Kyosan Board of Directors ("Allocation Date" hereinafter).

(2) Shareholders eligible for allocation

Shareholders other than Kyosan registered on the final shareholders registry of Kyosan as at the Allocation Date, with rights to be allocated in the ratio of 1 new share subscription right per Kyosan share owned.

(3) Effective date of gratis allocation of Rights

The gratis allocation of Rights shall take effect as at a date to be determined separately by the Kyosan Board of Directors in the Gratis Rights Resolution.

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(4) Number of shares underlying Rights

The number of shares¹⁰ underlying 1 new share subscription right (“Number of Underlying Shares” hereinafter) shall be 1 share per right absent any separate adjustments.

(5) Asset and amount to be paid in by exercise of Rights

The asset to be paid in upon exercise of Rights shall be cash in an amount to be determined separately by the Kyosan Board of Directors in the Gratis Rights Resolution of at least 1 yen per 1 share.

(6) Rights exercise period

The Rights exercise period shall be as specified separately by the Kyosan Board of Directors in the Gratis Rights Resolution within the range of 1 to 3 months from the first day of the Rights exercise period designated separately by the Kyosan Board of Directors in the Gratis Rights Resolution (the first day of the Rights exercise period to be referred to as the “Commencement of the Exercise Period” hereinafter).

However, in the event that Kyosan acquires Rights pursuant to Section (9) below, the Rights exercise period for the acquired Rights shall be until the day prior to the acquisition date. In the event that the final day of the exercise period is a holiday at the place of payment for cash paid in exercise of the Rights, the final day of the exercise period shall be the immediately-preceding business day.

(7) Conditions upon Rights exercise

The following parties will in principle not be allowed to exercise Rights: (i) designated Large Volume Holders¹¹, (ii) Joint Holders with designated Large Volume Holders, (iii) designated large-scale purchasers¹², (iv) Persons in Special Relationship of designated large-scale purchasers, (v) parties receiving assignment or succeeding to Rights from parties listed in (i) through (iv) above without the approval of the Kyosan Board of Directors, or (vi) parties having relationships¹³ with parties listed in (i) through (v) above (the parties listed in (i) through (vi) above shall be referred to as “Ineligible Parties” hereinafter).

In addition, non-residents who are required under applicable foreign laws to take specific procedures for the exercise of Rights shall not in principle be allowed to exercise Rights (however, non-residents who are able to avail themselves of waiver provisions in applicable foreign laws may exercise Rights and Rights held by non-residents are eligible for acquisition by Kyosan in exchange for Kyosan shares as described in Section (9) below).

¹⁰ In the event that Kyosan issues class shares in the future (see Article 2:13 of the Companies Act), this shall refer to 1) Kyosan shares issued upon execution of new share subscription rights, and 2) shares distributed in exchange for repurchase of new share subscription rights, in either case to be of the same class as the shares currently issued (ordinary shares) by Kyosan as at the time the Board of Directors meeting is convened.

¹¹ “Designated Large Volume Holders” shall refer to holders (including those included as holders pursuant to Article 27-23:3 of the Financial Instruments and Exchange Act) of share certificates or other equity securities (as defined in Article 27-23:1 of the said Act, and so below unless specifically stipulated to the contrary) issued by Kyosan, whose holding ratios (as defined in Article 27-23:4 of the Act) are 20% or more of the total share certificates and other equity securities issued by Kyosan (including parties so deemed by the Kyosan Board of Directors).

¹² “Designated large-scale purchasers” shall refer to purchasers who make an announcement regarding purchase etc. (as defined in Article 27-2:1 of the Financial Instruments and Exchange Act, and so for the remainder of this footnote) of share certificates and other equity securities (as defined in Article 27-2:1 of the Financial Instruments and Exchange Act, and so below) issued by Kyosan through tender offer (as defined in Article 27-2:6 of the Financial Instruments and Exchange Act), who after the Purchase etc. (as defined in Article 27-2:1, and so below) will possess (including cases defined in Article 7-1 of the Financial Instruments and Exchange Act Enforcement Orders) Kyosan’s shares in a holding ratio (as defined in Article 27-2:8 of the Financial Instruments and Exchange Act, and so below) in aggregate with Persons in Special Relationship (including parties deemed to be such by the Kyosan Board of Directors) of at least 20% of the total issued and outstanding shares of Kyosan.

¹³ “Parties having relationships” refers to parties who exert control over or are controlled by or are jointly controlled by another party (including parties so deemed by the Kyosan Board of Directors), or to parties deemed by the Kyosan Board of Directors to act in a coordinated manner.

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(8) Restriction on assignment of Rights

Acquisition of Rights through assignment requires the approval of the Kyosan Board of Directors.

(9) Acquisition of Rights by Kyosan

- 1) Kyosan may acquire any and all Rights without contribution at any time the Board of Directors of Kyosan deems appropriate prior to the Commencement of the Exercise Period, to be determined separately by the Board of Directors.
- 2) Kyosan may acquire on a date to be designated separately by the Kyosan Board of Directors any and all Rights owned by parties other than Ineligible Parties that have not been exercised prior to the date designated by the Kyosan Board of Directors, delivering in exchange therefor a number of underlying shares in Kyosan per Right.

In the event that the Kyosan Board of Directors determines there to be parties other than Ineligible Parties who hold Rights after the date of the said acquisition, Kyosan may acquire on a subsequent date to be determined separately by the Kyosan Board of Directors any and all Rights held by the said parties that are unexercised prior to the said date, delivering in exchange therefor a number of underlying shares in Kyosan per Right, and so thereafter.

5. Procedures for introducing the Plan

The Kyosan Board of Directors resolved to introduce the Plan on May 7, 2010. It will be proposed to the Ordinary General Meeting of Shareholders of Kyosan scheduled for June 25, 2010 for approval based on the Articles of Incorporation.

6. Term of effect, termination and amendment of the Plan

Assuming the approval of a General Meeting of Shareholders, the Plan shall be in effect from June 25, 2010 to the conclusion of the Ordinary General Meeting of Shareholders scheduled to be held in June 2013.

However, the Plan may be terminated at any time prior to the expiration of the term of effect by a resolution to terminate the Plan by a General Meeting of Shareholders of Kyosan or by the Kyosan Board of Directors.

The Kyosan Board of Directors may amend or modify the Plan during the term of effect with the approval of the Independent Committee. In the event that the Plan is terminated or modified etc., Kyosan will disclose in a timely manner information regarding the fact of termination or modification etc., the nature of modification and other relevant matters.

No. 4 Reasonableness of the Plan

1. Consistency with Guidelines Regarding Takeover Defense

The Plan is consistent with the three principles articulated in the “Guidelines Regarding Takeover Defense for the Purpose of Protection and Enhancement of Corporate Value and Shareholders’ Common Interests” jointly released by the Ministry of Economy, Trade and Industry and Ministry of Justice on May 27, 2005: (i) Principle of protecting and enhancing corporate value and shareholders’ common interests, (ii) Principle of prior disclosure and shareholders’ will and (iii) Principle of ensuring the necessity and reasonableness of defensive measures.

2. Respect for shareholders’ will

As described in No. 3-5 “Procedures for introducing the Plan,” the will of shareholders with respect to the Plan will be confirmed at an Ordinary General Meeting of Shareholders based on the Articles of Incorporation. In addition, as described in No. 3-6 “Term of effect, termination and amendment of the Plan,” the Plan contains a “sunset clause” under which its term of effect expires at the conclusion of the Ordinary General Meeting of Shareholders scheduled for June 2013 and can be terminated prior to the expiration of the term of effect with a resolution of a General Meeting of Shareholders of Kyosan. In addition, the term of Kyosan directors will be 1 year and there will be no provisions for staggered terms or restrictions on dismissals, creating mechanisms that are more conducive to the reflection of shareholders’ will. It is therefore believed that the Plan is based on the will of Kyosan shareholders.

3. Full and serious consideration of opinions from independent outside professionals and information disclosure

In introducing the Plan, Kyosan has attempted to eliminate arbitrary decisions by the Board of Directors by establishing an Independent Committee as an institution to make objective and essential judgments regarding the implementation and termination etc. of the Plan on behalf of shareholders.

As described in No. 3-2 “Procedures for triggering the Plan,” in the event of a Purchase etc. of Kyosan, the Independent Committee will, in accordance with its bylaws, render an essential judgment as to whether the proposed Purchase etc. significantly injures Kyosan’s corporate value and the common interests of shareholders, and the Kyosan Board of Directors will accord maximum respect to that judgment when making resolutions as the decision-making body pursuant to the Companies Act.

The Independent Committee thus provides strict monitoring against any arbitrary actions on the part of the Kyosan Board of Directors, and an outline of its determinations is to be disclosed to shareholders, vouchsafing mechanisms for the transparent administration of the Plan within the scope required to contribute to Kyosan’s corporate value and the common interests of shareholders (see Annex 1 for the criteria used to select members of the Independent Committee, its decision-making requirements and its scope of competence etc.; see Annex 2 for a list of Independent Committee members).

4. Reasonableness and objectivity of Plan requirements

As noted in No. 3-2, (4) “Procedures for recommendations etc. from the Independent Committee” and No. 3-3 “Criteria for gratis allocation of new share subscription rights,” reasonable and detailed objective requirements must be satisfied before the Plan is triggering, and mechanisms have been established to prevent arbitrary implementation by the Kyosan Board of Directors.

5. Opinions from outside experts

In the event that a Purchaser etc. comes forward, the Independent Committee may, at Kyosan’s expense, seek advice from independent third parties (including legal counsel, certified public accountants, financial advisers, consultants and other experts). This mechanism provides greater assurance of the fairness and objectivity of the determinations of the Independent Committee.

6. Not a “dead hand” or “slow hand” takeover defense

As noted in No. 3-6 “Term of effect, termination and amendment of the Plan,” the Plan is designed so that it can be terminated by directors nominated by a large-scale purchaser of share certificates and other equity securities of Kyosan and elected by a General Meeting of Shareholders. It does not, therefore, constitute a “dead hand” takeover defense (a takeover defense that cannot be impeded even if the majority of directors are replaced).

Likewise, the Plan does not constitute a “slow hand” takeover defense (a takeover defense that requires time before it can be impeded because members of the Board of Directors cannot be replaced all at once) because Kyosan does not employ staggered terms for directors.

No. 5 Influence on shareholders etc.

1. Influence on shareholders and investors upon the introduction of the Plan

No gratis allocation of Rights will be made at the time the Plan is introduced and there will therefore be no direct and specific impact on shareholders and investors.

2. Influence on shareholders and investors upon a gratis issue of new share subscription rights

In the event that the Kyosan Board of Directors resolves to make a gratis allocation of Rights, shareholders as at a separately-stipulated Allocation Date will be allocated 1 Right without contribution per share that they own.

Should shareholders fail to make payment or otherwise take procedures for the exercise of Rights as described in detail in Section (2) of No. 5-3 “Procedures required of shareholders in conjunction with gratis allocation of new share subscription rights” during the Rights exercise period, their ownership of Kyosan shares will be diluted by the exercise of Rights by other shareholders. However, under the procedures noted in Section (3) of No. 5-3 “Procedures required of shareholders in conjunction with gratis allocation of new share subscription rights,” Kyosan may acquire Rights from shareholders other than Ineligible Parties in exchange for Kyosan shares. In the event that acquisition procedures are taken by Kyosan, shareholders other than Ineligible Parties will receive Kyosan shares without exercising Rights or paying an exercise price, so there will be a dilution in the per-share value of the Kyosan shares

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that they hold but no dilution in the overall value of their Kyosan shareholdings.

In addition, as described in No. 3-4, (9) "Acquisition of Rights by Kyosan," Kyosan may terminate the allocation of Rights at any time following the ex-rights date after finalization of shareholders eligible for the gratis allocation of Rights until the day prior to the Commencement of Rights Exercise, or may also acquire Rights without contribution after the gratis allocation takes effect. In such cases, there will be no dilution of the per-share value of shares, but there is the potential for significant losses due to share price fluctuations in the event that trading assumes dilution of the per-share value of shares.

3. Procedures required of shareholders in conjunction with gratis allocation of new share subscription rights

(1) Procedures for gratis allocation of new share subscription rights

Kyosan will announce an Allocation Date for the gratis allocation of the Rights in the event that the Kyosan Board of Directors resolves to make a gratis allocation of Rights. In this case, 1 new share subscription right shall be allocated gratis to 1 Kyosan share of each of the shareholders noted in Kyosan's final shareholder registry on Allocation Date. Those shareholders to whom new share subscription rights shall be allocated gratis shall become as a matter of course the holders of new share subscription rights on the date when the gratis allocation of new share subscription rights becomes effective. Therefore, such shareholders shall not be required to take any procedure for application.

(2) Rights exercise procedures

Kyosan will in principle send to shareholders noted in the final shareholder registry of Kyosan as at the Allocation Date a New Share Subscription Right Exercise Request Form (in the standard format of Kyosan, including the nature and number of the new share subscription rights exercised, the date of rights exercise and other required information together with representations and guarantees that the shareholder is not an Ineligible Party, indemnity terms and other covenants) and other documentation required for the exercise of Rights.

After the gratis allocation of Rights, shareholders who submit these documents to Kyosan and pay in the amount per share of at least 1 yen designated in the Kyosan Board of Directors resolution on the gratis allocation of Rights during the Rights exercise period and prior to the acquisition of Rights by Kyosan will be issued 1 share in Kyosan per Right.

(3) Procedures for the acquisition of Rights by Kyosan

In the event that the Kyosan Board of Directors resolves to acquire Rights, Kyosan will acquire Rights from shareholders other than Ineligible Parties on the date specified separately by the Kyosan Board of Directors and in accordance with statutory procedures, and furnish shareholders with Kyosan shares in exchange for the Rights. In this case, such shareholders shall receive 1 Kyosan share per Right in principle in exchange for Kyosan's acquisition of the Rights without paying the monetary amount equivalent to the exercise price. In such cases, however, such shareholders may be required to submit to Kyosan standard forms containing representations and guarantees that the shareholder is not an Ineligible Party, indemnity terms and other covenants.

Other detailed matters regarding the allocation method, exercise method and method of acquisition by Kyosan will be contained in disclosure information or notification sent to shareholders after the resolution by the Kyosan Board of Directors regarding the gratis allocation of Rights.

Please check the details.

The laws and regulations cited in the Plan are those in effect on March 31, 2010. In the event of the enactment of new laws and regulations or the amendment or repeal of existing laws and regulations etc., such that is necessary to amend the conditions contained herein or the meanings of terminology etc., conditions and terminology meanings etc., will be substituted or amended within a reasonable and appropriate range in accordance with the intentions of the new enactments, amendments or repeals of laws and regulations.

(End)

Outline of Independent Committee Bylaws

- * The Independent Committee shall be established by resolution of the Kyosan Board of Directors.
- * Membership of the Independent Committee shall consist of at least 3 persons, the said persons to be independent of the management team executing the business of Kyosan and to be selected by the Kyosan board of directors from among: (1) outside directors of Kyosan, (2) outside auditors of Kyosan and (3) outside experts.
In this context, “outside experts” refer to corporate managers with proven track records, persons who are well-versed in investment banking, legal counsel, certified public accountants, researchers with primary focus on legal studies, or other similar persons, and the said persons shall be required to enter into a contract with Kyosan that includes a duty of care as designated separately by the Kyosan Board of Directors.
- * Members of the Independent Committee shall serve for a term of 1 year and may be reappointed. However, this shall not apply if stipulated to the contrary by resolution of the Kyosan Board of Directors. Members of the Independent Committee who were outside directors of Kyosan or outside auditors of Kyosan and who no longer serve in those capacities shall simultaneously terminate their service on the Independent Committee unless specifically reappointed.
- * The Independent Committee shall render decisions on the matters noted below and shall issue recommendations to the Kyosan board of directors noting the nature of and reasons for the said decisions. The Kyosan Board of Directors shall accord maximum respect to the recommendation of the Independent Committee in reaching a resolution as the institution designated under the Companies Act to determine whether to make a gratis allocation of new share subscription rights.
The individual members of the Independent Committee and the members of the Kyosan Board of Directors shall base their decisions on whether proposals contribute to Kyosan’s corporate value and the common interests of shareholders and not on their own personal interests or the personal interests of the Kyosan management team.
 - 1) Whether to make a gratis allocation of new share subscription rights
 - 2) Whether to terminate a gratis allocation of new share subscription rights or acquire without contribution new share subscription rights that have been allocated
 - 3) Other matters to be determined by the Kyosan Board of Directors and referred by the Kyosan Board of Directors to the Independent Committee
- * In addition to the matters provided for above, the Independent Committee may also engage in the following:
 - 1) Determination of the suitability of triggering the Plan for specific Purchases etc.
 - 2) Determination to extend the Independent Committee Examination Period
 - 3) Determination of the information to be furnished to the Independent Committee by the Purchaser etc. and Kyosan Board of Directors and the response deadline therefor
 - 4) Detailed study and examination of the management policies and business plan etc. of the Purchaser etc. after the proposed Purchase etc.
 - 5) Negotiation and consultation with the Purchaser etc.
 - 6) Request for submission of a counterproposal by the Kyosan Board of Directors and examination of the counterproposal
 - 7) Approval of amendments and modifications to the Plan
 - 8) Other matters to be determined by the Independent Committee as specified in the Plan
 - 9) Other matters as designated separately by the Kyosan Board of Directors for performance by the Independent Committee
- * The Independent Committee may request the submission of additional information from the Purchaser etc. in the event that the Independent Committee determines the Purchase Statement and/or the Required Information submitted by the Purchaser etc. to be inadequate. In the event that a Purchase Statement and Required Information are submitted by the Purchaser etc., the Independent Committee may also request the Kyosan Board of Directors to submit an opinion on the Purchase etc. proposed by the Purchaser etc. and the rationale for that opinion, a counterproposal or other information etc., as deemed necessary and appropriate by the Independent Committee within a standard deadline.
- * When deemed necessary to improve the content of the Purchase etc. proposed by the Purchaser etc. from the perspective of protecting and enhancing Kyosan’s corporate value and the common interests of shareholders, the Independent Committee may directly or indirectly through the Board of Directors consult and/or negotiate etc. with the Purchaser etc. and/or present etc. to shareholders etc. any

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- counterproposal(s) from the Kyosan Board of Directors or other parties.
- * To gather the information it requires, the Independent Committee may request the attendance of Kyosan directors, auditors, employees or other persons it deems necessary and may seek explanations from them regarding matters for which the Independent Committee seeks information.
 - * The Independent Committee may, at Kyosan's expense, seek advice from independent third parties (including legal counsel, certified public accountants, financial advisers, consultants and other experts).
 - * Members of the Independent Committee may convene meetings of the Independent Committee in the event of a Purchase etc. or at any other time.
 - * Resolutions of the Independent Committee shall in principle require the attendance of all members of the Independent Committee and a majority of at least $2/3$. Notwithstanding, resolutions may be made with the attendance of a majority of the members of the Independent Committee and the approval of a majority of the voting rights in attendance in the event that a member is unable to attend due to accidents or other unavoidable circumstances.

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Annex 2

Independent Committee Member Biographies

Membership in the Independent Committee under the Plan consists of the following 3 persons.

Takashi Kurushima

[Biography]

1943	Born
April 1972	Full-Time Instructor, Faculty of Commercial Sciences, Hiroshima College of Commerce (currently, Hiroshima Shudo University)
April 1974	Assistant Professor, Hiroshima College of Commerce
April 1975	Assistant Professor, Faculty of Business Administration, Yokohama National University
April 1987	Professor, Yokohama National University
April 1989	Professor, Graduate School, Yokohama National University
April 1997	Dean, Graduate School of International and Business Law, Yokohama National University
April 1999	Professor, Graduate School (International Graduate School of Social Sciences), Yokohama National University
April 2009	Part-Time Instructor, Takushoku University

Masanari Sakamoto

[Biography]

1945	Born
April 1973	Instructor, Faculty of Politics and Economics, Hiroshima University
April 1977	Assistant Professor, Hiroshima University
January 1984	Professor, Faculty of Law, Hiroshima University
April 2001	Dean, Faculty of Law, Hiroshima University
July 2004	Professor, Graduate School of Law, Kyushu University
April 2008	Professor, College of Law and Politics, Rikkyo University (current position)

(Note) Masanari Sakamoto is a candidate for Outside Director at this General Meeting of Shareholders, and he is slated to take office as an Outside Director of Kyosan after his election at this General Meeting of Shareholders.

Katsuhiko Fujimoto

[Biography]

1944	Born
March 1968	Joined Hiroshi Fujii CPA Office
July 1969	Joined Chiyoda Audit Corporation
April 1974	Officer (Partner), Chiyoda Auditing firm (later renamed to Chuo Shinko Audit Corporation)
March 1989	Representative Officer, Chuo Shinko Audit Corporation (later renamed to MISUZU Audit Corporation)
September 2006	Resigned MISUZU Audit Corporation
June 2008	Director, Kyosan (current position)
August 2008	Opened Katsuhiko Fujimoto CPA Office

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Annex 3

Status of Large Shareholders

As at March 31, 2010

Name	Number of Shares (thousands of shares)	Equity ownership (%)
Nippon Life Insurance Company	6,245	9.94
Japan Trustee Services Bank, Ltd. (trust account)	4,090	6.51
The Bank of Yokohama, Ltd.	3,124	4.97
Keio Corporation	2,971	4.73
Kyosan Mizuho Kai	2,896	4.61
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,700	4.30
Kyosan Electric Manufacturing Co., Ltd., Employee Shareholding Club	2,276	3.62
The Master Trust Bank of Japan, Ltd. (trust account)	1,993	3.17
The Dai-ichi Mutual Life Insurance Company	1,459	2.32
The Chase Manhattan Bank, N.A. London, S.L. Omnibus Account	1,241	1.97

(Notes)

1. The equity ownership is calculated by deducting the treasury stock (79,547 shares).
2. The Dai-ichi Mutual Life Insurance Company changed its organizational structure to the Dai-ichi Life Insurance Company, Ltd. on April 1, 2010.