

To Our Shareholders,

**Alpine Electronics, Inc.**  
1-7, Yukigaya-otsukamachi,  
Ota-ku, Tokyo, Japan  
Nobuhiko Komeya  
President

## **Notice of Convocation of The Extraordinary General Meeting of Shareholders**

You are cordially invited to attend the Extraordinary General Meeting of Shareholders of Alpine Electronics, Inc. (the “Company”), which will be held as described hereunder.

**In the event you are unable to attend this Extraordinary General Meeting of Shareholders, you may delegate the exercise of your voting rights to a proxy by submitting a letter of proxy, or, you may exercise your voting rights via postal mail or via the Internet.**

Therefore, in the event that you are unable to attend the meeting, after reading items 1. through 5. below and referencing the “Information Regarding the Exercise of Voting Rights” and the “Reference Documents for the General Meeting of Shareholders,” we ask that you:

- (i) return the enclosed Letter of Proxy by the date of this Extraordinary General Meeting of Shareholders, or,
- (ii) return the Voting Rights Exercise Form or exercise your voting rights via the Internet by 5:00 p.m., Tuesday, December 4, 2018.

The proposals being submitted at this Extraordinary General Meeting of Shareholders are important proposals for all our shareholders and the Company. We ask that all our shareholders read the notifications in this notice, and either attend the meeting or notify us of your thoughts through either method (i) or (ii) above.

\* The time required for postal mail to arrive sometimes can take longer than regular delivery times due to postal circumstances. We ask shareholders who exercise their voting rights by sending the Letter of Proxy or the Voting Rights Exercise Form to post the form early.

### **MEETING AGENDA**

- 1. Date and Time**      **10:00 a.m., Wednesday, December 5, 2018**  
**(Reception will open at 9:00 a.m.)**
- 2. Location**              Hall on the first floor of Head Office Building of Alps Electric Co., Ltd.  
1-7, Yukigaya-otsukamachi, Ota-ku, Tokyo, Japan

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| <p>* Please note that the Company will not be distributing gifts to shareholders at this Extraordinary General Meeting of Shareholders.<br/>Please also note that the Company will not be hosting any social event after this Extraordinary General Meeting of Shareholders.<br/>Thank you for your understanding.</p> |
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### 3. Purpose of the General Meeting of Shareholders

#### Matters to be resolved:

##### <Company Proposals>

**Proposal 1:** Approval for the Share Exchange Agreement between the Company and Alps Electric Co., Ltd.

**Proposal 2:** Appropriation of Surplus

Details of Proposals 1 and 2 are presented in page 6 onward of the “Reference Documents for the General Meeting of Shareholders” below.

##### <Shareholder Proposal>

**Proposal 3:** Appropriation of Surplus

This proposal was submitted by our shareholder Oasis Investments II Master Fund Ltd. The reason for their submission is listed from page 32 in the below “Reference Documents for the General Meeting of Shareholders.”

**The Board of Directors of the Company opposes this proposal.** Please see page 33 onward of the “Reference Documents for the General Meeting of Shareholders” below for the reasons for the Board’s objection.

### 4. Matters Decided upon Convocation, etc.

- (1) Individual shareholders voting by proxy must, as a general rule, submit documents (i) through (iii) below.
  - (i) The proxy’s own Voting Rights Exercise Form
  - (ii) A document substantiating the proxy’s right to represent the shareholder (a letter of proxy bearing the signature, or seal and name, of the shareholder who appointed the proxy)
  - (iii) The Voting Rights Exercise Form of the shareholder who appointed the proxy or a photocopy of said shareholder’s seal registration certificate for the seal affixed to the letter of proxy, or passport, driver’s license, health insurance identification card or other government-issued document that can verify said shareholder’s identity
- (2) Corporate shareholders voting by proxy must, as a general rule, submit documents (i) and (ii) below.
  - (i) A document substantiating the proxy’s right to represent the shareholder (a letter of proxy or agency notice bearing the signature, or seal and name, of an authorized representative of the corporation that appointed the proxy)
  - (ii) The Voting Rights Exercise Form of the shareholder that appointed the proxy or a seal registration certificate for the corporate representative seal affixed to the letter of proxy or agency notice
- (3) Under the provisions of the Company’s Articles of Incorporation, a shareholder may appoint only one proxy and the proxy must be a Company shareholder with voting rights.
- (4) Diverse Exercise of Voting Rights  
In the event that you exercise your voting rights diversely, please notify the Company by three days prior to the General Meeting of Shareholders stating your intention of diverse exercise and the reasons in writing.

Other than the above, please refer to “Information Regarding the Exercise of Voting Rights” presented on pages 3 and 4.

### 5. Regarding the Internet Disclosure

Of the documents which must be attached at the time of providing this Notice of Convocation of the Extraordinary General Meeting of Shareholders, the matters that must be disclosed as a portion of the matters required as reference for the exchange consideration (“Articles of Incorporation of Alps Electric Co., Ltd.” (in Japanese only) and “Details of Financial Statements, etc. of Alps Electric Co., Ltd. for the Most Recently Ended Fiscal Year”) are reported on the Company’s website in accordance with the provisions of laws and regulations and Article 15 of the Company’s Articles of Incorporation, and therefore are not provided in this Notice of Convocation of the Extraordinary General Meeting of Shareholders.

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#### [To shareholders who will attend the meeting]

If attending the meeting in person, please present the enclosed Voting Rights Exercise Form at the reception desk. Please also note that **non-shareholders such as proxies who are not shareholders, people accompanying shareholders, and children, will not be permitted to attend the General Meeting of Shareholders.**

### **Information Regarding the Exercise of Voting Rights**

For details on the proposals at this Extraordinary General Meeting of Shareholders and the thinking of the Company's Board of Directors, please see the "Reference Documents for the General Meeting of Shareholders" (page 6 through page 35) below. Furthermore, **at this Extraordinary General Meeting of Shareholders, there has been a shareholder proposal from one of our shareholders (Proposal 3), and the Company's Board of Directors is opposed to this proposal.** For details, please see page 32 through page 35 of the "Reference Documents for the General Meeting of Shareholders" below.

**For shareholders in agreement with the Board of Directors' views, please vote in favor of Proposals 1 and 2, and against Proposal 3.**

**Shareholders may exercise voting rights by one of the following four methods A to D for this Extraordinary General Meeting of Shareholders.** Please exercise your voting rights by one of the following methods.

If anything is unclear about the exercise of voting rights, please contact the Transfer Agent Department (support desk for shareholders) of Mitsubishi UFJ Trust and Banking Corporation at 0120-727-696.

**Please see the enclosed "Request for Your Support of the Company" as well.**

#### **A: By Attending the Meeting in Person:**

You may exercise your voting rights by attending the Extraordinary General Meeting of Shareholders. If you attend the meeting in person, you do not need to follow any specific procedures. Please bring the enclosed Voting Rights Exercise Form on the date of the meeting.

#### **B: By Submitting the Letter of Proxy:**

You may delegate the exercise of your voting rights to a proxy. **(1) Look at the sample Letter of Proxy enclosed and fill in the necessary items on the Letter of Proxy. (2) Put it with the Voting Rights Exercise Form (no need to fill it in) or other required identification. (3) Send it in the return envelope enclosed.** The deadline to return the documentation is the date of this Extraordinary General Meeting of Shareholders, however, we ask that you return the documentation as soon as possible.

#### **C: Exercise of Voting Rights via Postal Mail:**

**Please indicate, on the enclosed (ii) Voting Rights Exercise Form, your approval or disapproval of each proposal on the agenda and return the completed form so that it reaches us by 5:00 p.m., Tuesday, December 4, 2018.** We ask that you please return the Voting Rights Exercise Form as soon as possible.

#### **D: Exercise of Voting Rights via the Internet:**

Please access the website designated by the Company for the exercise of voting rights, and enter your approval or disapproval by 5:00 p.m., Tuesday, December 4, 2018.

For exercising voting rights via the Internet, please see the following two pages as well.

Website for the exercise of voting rights: <https://evote.tr.mufg.jp/>

- \* If you exercise your voting rights more than once via both postal mail and the Internet, then only the vote cast via the Internet shall be deemed valid.
- \* If you exercise your voting rights via the Internet multiple times, then only the last vote cast shall be deemed valid. If you exercise your voting rights via the Internet more than once, using a PC, a smartphone and/or a mobile phone, then only the last vote cast shall be deemed valid.
- \* Institutional investors may make use of the Tokyo Stock Exchange's Electronic Voting Platform (commonly known as the TSE Platform).

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| If revisions to the contents of the Reference Documents for the General Meeting of Shareholders are made, the Company shall post the revised content on the Company's website. |
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### **Information Regarding the Exercise of Voting Rights via the Internet**

1. The exercise of voting rights via the Internet is available only by gaining access to the Company's designated website for the exercise of voting rights (<https://evote.tr.mufig.jp/>) from a PC, a smartphone, or a mobile phone (i-mode, EZweb or Yahoo! Mobile)\*.

However, please note that you cannot exercise your voting rights via the Internet on the designated website between the hours of 2:00 a.m. and 5:00 a.m. every day.

\* "i-mode," "EZweb" and "Yahoo!" are trademarks or registered trademarks of NTT DOCOMO, INC., KDDI Corporation, and Yahoo Inc. in the U.S., respectively.

2. Please note that you may not be able to exercise your voting rights via PC or smartphone on the designated website for the exercise of voting rights, depending on the Internet settings configured on your PC or smartphone, such as firewalls, etc. that are in place to regulate your Internet connections, anti-virus software that has been installed on your PC or smartphone, the use of a proxy server, or when the TSL encrypted communication is not designated.
3. When exercising voting rights via mobile phone, you must use one of the following services: i-mode, EZweb or Yahoo! Mobile. For security reasons, you cannot vote using mobile handsets that TSL encrypted communication is not possible or mobile handsets that cannot send information of the mobile phone used.
4. Please note that, in order to prevent unauthorized access to the designated website by individuals other than shareholders (persons impersonating shareholders) and to prevent the alteration of votes, we request that you change your "temporary password" to a permanent password on the designated website for the exercise of voting rights, when you exercise your voting rights via the Internet.
5. All costs associated with accessing the website for the exercise of voting rights (cost of internet access, etc.) are to be borne by the shareholder. Also, when voting via mobile phone, etc., all packet communication fees and other costs incurred in the use of a mobile phone etc. are also to be borne by the shareholder.

**For further assistance, regarding the system, etc., please contact:**

Transfer Agent Department (Help Desk)

Mitsubishi UFJ Trust and Banking Corporation

Phone: **0120-173-027** (9:00 to 21:00 (Japan Time)); toll free only within Japan)

## Reference Documents for the General Meeting of Shareholders

### Company Proposal (Proposals 1 and 2)

#### Proposal 1: Approval for the Share Exchange Agreement between the Company and Alps Electric Co., Ltd.

The Company and Alps Electric Co., Ltd. (“Alps Electric” and, together with the Company, the “Companies”) resolved at their respective Board of Directors meetings held on July 27, 2017 to conduct a business integration (the “Business Integration”) that involves a reorganization into a holding company structure, and concluded an agreement regarding the share exchange, through which Alps Electric becomes a wholly owning parent company resulting from share exchange of the Company and the Company becomes a wholly owned subsidiary resulting from share exchange of Alps Electric based on the resolutions of their respective Board of Directors meetings held on the same day (hereinafter said share exchange referred to as the “Share Exchange”).

Following the conclusion of the agreement regarding the Share Exchange, the Companies resolved at their respective Board of Directors meetings held on February 27, 2018 to change the management structure following the Business Integration from a pure holding company structure to an operating holding company structure and introduce an in-house company system (the “Structure Change”), and the Companies executed a memorandum of understanding to amend the share exchange agreement to implement the changes that are necessary in connection with the Structure Change based on the resolutions of their respective Board of Directors meetings held on the same day.

Further, after that, based on the resolutions of their respective Board of Directors meetings held on July 27, 2018, the Companies executed a memorandum of understanding concerning the amendments to the share exchange agreement in order to implement the necessary changes in connection with the issuance of stock acquisition rights as stock options granted to Directors of the Company (excluding Directors who are not Officers and Directors or who are Audit and Supervisory Committee Members) on July 23, 2018 (hereinafter, the share exchange agreement that was amended following respective memorandums of understanding is referred to as the “Share Exchange Agreement”).

In this proposal, the Company shall seek approval of the Share Exchange Agreement.

Following the approval of this proposal, Alps Electric will become a wholly owning parent company of the Company as of the effective date of the Share Exchange (scheduled date: January 1, 2019). Furthermore the common shares of the Company (the “Company Common Shares”) are planned to be delisted from the First Section of Tokyo Stock Exchange, Inc. (the “TSE”) on December 26, 2018, which is prior to the effective date of the Share Exchange (final day of trading: December 25, 2018).

The reason for the Share Exchange and an overview of details of the Share Exchange Agreement are provided below.

#### 1. Reason for the Share Exchange

##### (1) Reason for decision on executing the Business Integration on July 27, 2017

The Company has been expanding its business focusing on car audio systems since its launch as a joint venture of Alps Electric and U.S.-based Motorola, Inc. in 1967. Being a later entrant in the industry, the Company has developed unique products under a differentiation strategy and proactively proposed new customer value. Through such efforts, the Company has established its brand as a premium brand and steadily elevated its market position. Following this, by accurately understanding the changing times and establishing its overseas production and sales network ahead of other competitors in the industry, the Company has acquired leading customers overseas and achieved corporate growth based on the expansion of the OEM business for automobile manufacturers and the increase of sales from car navigation and automotive display products. Meanwhile, however, business risks resulting from overemphasis on the businesses targeting automobile manufacturers and overseas markets have become apparent. Moreover, the automotive infotainment market has recently been polarized into highly functional system products for ADAS (advanced driver-assistance systems) and other automobile systems on the one hand and commodity products linked to smartphones on the other because the trend of automobiles becoming information terminals, as well as advances in technologies such as ADAS and autonomous driving are rapidly progressing, as well as because the services available on smartphones are expanding. Consequently, the market and customer demands are shifting towards collaboration with safety functions that utilize input devices, sensing devices and others, as well as implementation of the connected car technologies that utilize data communication modules. Under such circumstances, the Company believes that its business environment will significantly change from a past hardware-oriented business to a comprehensive car-oriented service business. In order to adapt to such changes and maintain continuous growth, the Company believes that its important challenges are as follows: in existing business areas, the Company has to improve profitability through maintaining and utilizing its strengths in the brand business and audio products, finding new customers by utilizing development assets and streamlining business activities; and in new business areas, the Company needs to work on the integration of core devices such as sensing devices and communication devices with software, create unique and high-value products that use HMI (human machine interface) as a core business domain,

and enhance its ability to propose solutions to markets and customers, with the aim of expanding its cockpit-related business and connected car-related business.

On the other hand, Alps Electric was founded in 1948 as Kataoka Electric Co., Ltd. Throughout its 70-year history, Alps Electric has diligently pursued its own style of *monozukuri* (which is loosely translated as “manufacturing” but encompassing all aspects of product creation) based on a stance of “devotion to electronic components.” Its corporate philosophy, too, calls for the creation, through *monozukuri*, of “new value that satisfies stakeholders and is friendly to the Earth.” Alps Electric’s basic management policy is to fulfill its social responsibility and to maximize its corporate value for its various stakeholders such as its shareholders, business partners, local communities, the global society and Alps Electric’s employees. Alps Electric develops, manufactures and sells input devices, sensing devices, data communication modules, and other similar products. However, today’s digital devices are constantly evolving, and the fields in which Alps Electric conducts business are ever-changing, marking a big shift away from consumer devices, (mainly home appliances), and embracing domains such as automobiles, which are being computerized increasingly; mobile devices, as typified by smartphones; energy saving; and healthcare. The scale of business, too, is expanding onto the global stage. In particular, innovation in automotive technology has progressed, as illustrated by driver assistance features, and the spread of smartphones moved into full swing worldwide with enhanced and upgraded functions and applications. Accordingly, in fiscal 2014, Alps Electric reported net sales of 200.0 billion yen for automotive business and 100.0 billion yen for smartphone-related business. Furthermore, in fiscal 2015, Alps Electric posted record-high net sales and profit attributable to owners of parent in consolidated earnings for the year. In the electronic components segment, too, Alps Electric set new net sales and operating income records. On the other hand, due to the drastic expansion of its operations, Alps Electric’s management resources have been tight. Also, having enjoyed sustained high growth, the smartphone market is now experiencing a slowdown in growth due to maturation of the market and the risk of commoditization. These and other factors make for an increasingly uncertain outlook. In addition to the above, given the trend toward the Internet of Things (IoT), it has become increasingly difficult for Alps Electric to secure additional value with single hardware products. In such a business environment, in order to ensure sustainable growth of Alps Electric, it needs to achieve balanced growth in its automotive business, smartphone-related business and other businesses by maintaining the growth of the smartphone-related business and managing business risks by preparing for a slowdown in growth due to maturation of the market and commoditization as well as establishing and expanding businesses that can take the place of smartphone-related business. Therefore, the important challenges of Alps Electric are, by providing high added value through development of functional module products integrated with software in addition to its existing core technologies, (i) in the automotive market, where technical innovation in connection with new trends such as autonomous driving, connected cars, EV and sharing, as well as intensified competition, are occurring, to further expand its businesses and improve profitability by strengthening its ability to propose solutions employing both hardware and software and (ii) to stabilize and increase revenues by establishing new business in such markets as EHII (Energy, Healthcare, Industry, and IoT).

In addition to the above, amid the increased electrification of automobiles in recent years, the business of the Companies in the automotive business have been coming closer and the Companies have greater need to collaborate with each other. Accordingly, it is a pressing issue for the Companies to resolve operational restrictions, which arise due to the nature of the Companies as independent listed companies, to their mutual cooperation in the areas of development, manufacturing and sales as well as sharing intellectual property, licenses, knowhow and other similar assets, while at the same time to realize more effective communication with customers.

The Companies believe that, in order to tackle these business challenges, it is vital, in addition to sharing management resources such as the Companies’ human resources and technologies, to exercise more efficient and agile management as the Alps Electric group as a whole, by growing the respective businesses of the Companies based on their prompt and agile decision making. As a measure to do so, the Companies will move to a holding company structure. Under the holding company that will have a group strategy function, the Companies will work on full-scale cooperation, such as strengthening of their ability as a group to propose solutions to and conduct sales vis-a-vis their customers, development of employees through personnel exchanges across businesses, such as engineers and sales personnel, and use of Alps Electric’s fund-raising capability, network and *monozukuri* capability. The Companies believe that, coupled with other measures, such as promotion of mutual use of production bases, streamlining of back-office departments through infrastructure sharing, cooperation with suppliers through joint procurement of parts, strengthening of the procurement capacity, and reinforcement of global operations, the above measures can maximize the synergy effects on business of the entire Alps Electric group.

Specifically, Alps Electric will stick to its basic stance of devoting itself to electronic components. For the automotive business, which faces new trends, such as autonomous driving, connected cars, EV and sharing, Alps Electric will push forward with (i) the advancement and fusion of input device, sensing device and communication device technology, which are Alps Electric’s core technologies and products, and (ii) enhancement of the electronic device business by using the Company’s software development capability and system design capability. With respect to the EHII business, Alps Electric will promote providing high added value through development of functional module products integrated with software, besides Alps Electric’s existing core technologies, to strengthen product capabilities.

Furthermore, Alps Electric will promote alliances with other companies proactively and aggressively based on open innovation and will establish new business models, taking advantage of Alps Electric's extensive market and customer channels and the Company's service business for general consumers. The Companies believe that they can continue to create new value and businesses by expanding the core devices through those business models.

Based on the principles that it will not exclude any alternatives in pursuing enhanced corporate value, Alps Electric has considered various possibilities concerning the direction of the Alps Electric group and its relationship with the Company. Consequently, as described above, Alps Electric decided that conducting the business integration would contribute to the improvement of the corporate value of the entire Alps Electric group. In late December 2016, Alps Electric proposed the Business Integration to the Company. Since then, the Companies have discussed and considered the transaction.

Based on a similar understanding to the above, after receiving a proposal of the Business Integration from Alps Electric, the Company has independently considered various factors, such as the consequences of the delisting of the Company, to its stakeholders. As a result, with regards to the existing business region, the Company has concluded that by reorganizing into a holding company structure, while maintaining and strengthening its strengths in its brand business and audio business that it has long developed, the Company will also be able to accelerate its business expansion by finding new customers through capitalizing on Alps Electric's extensive customer channel. Similarly, with regards to the automotive HMI business area, the Company has concluded that it will be able to develop various products, such as integrated HMI cockpit systems that seamlessly integrate electronic devices, software and packaging, through combining Alps Electric's input device, sensing device and communication device technologies, which have built up a track record in the fields of consumer and automotive electronic components, with the Company's output equipment development technology (with navigation at its core), software development capability and production planning capability. Through this, the Company shares Alps Electric's view that the Business Integration will allow the Company to create, propose and expand highly functional system products unique to the Alps Electric Group as an automotive HMI system integrator and realize increased corporate value by expanding in new business areas, and that eventually the Business Integration will lead to the maximization of corporate value of the entire Alps Electric Group. Therefore, after receiving the proposal of the Business Integration from Alps Electric as described above, the Company also decided to move to the holding company structure.

Amid market innovation brought about by the fourth industrial revolution, by conducting the Business Integration, Alps Electric and the Company will keep contributing to people's lives in the areas of electronics and communication by focusing on the electronic components business and the automotive infotainment business, and to significantly transform itself into a sustainable value creating corporate group to become a corporate group with sales of one trillion yen. In addition, the Companies aim to endeavor to further enhance corporate governance to help maximize value for all stakeholders on a global basis.

## (2) Reason for decision to make the Structure Change on February 27, 2018

Following the decision on implementing the Business Integration on July 27, 2017, the Companies launched a business integration preparation committee, and in the course of considering the business plans of the holding company after the Business Integration, the optimal group structure, the timing when business integration synergies are to be realized and the methods for such realization, and other strategies for the sustainable growth of the Companies, it has been concluded that, in the current market environment that the Companies are facing, it is vital to realize steadily the synergy effects from the Business Integration and secure market competitiveness. The Companies believe that, in order to steadily realize the synergy effects from the Business Integration, it is best to first integrate the common functions existing in both companies, such as those of the administration departments, including the human resources, general affairs, accounting, and legal departments, as well as the planning departments responsible for management strategies and business strategies by having each of the Companies' respective personnel tasked with performing such common functions belong to a single entity. Such integration will strengthen the business strategy function, thereby forming a foundation upon which to strongly promote the integration of the Companies' joint businesses that are to be operated in accordance with such business strategies. Based on such concept, while taking into consideration the importance of realizing a corporate governance structure in which, within one entity, management supervision and business execution are separated while at the same time securing autonomy of the businesses, the Companies have decided to adopt an operating holding company structure and introduce an in-house company system and a corporate officer system as the management structure after the Business Integration. As it is no longer necessary to carry out the procedure for a company split as a result of the Structure Change, the Companies, wishing to accelerate the Business Integration, decided to set an earlier date for the date of reorganization into a holding company structure, moving it from April 1, 2019 to January 1, 2019. In addition, in conjunction with the adoption of the operating holding company structure, the Companies believe it would be important to increase a sense of unity between the Companies and have decided to name the holding company "ALPS ALPINE CO., LTD." after the Business Integration.



Today's automotive industry has entered a phase of tremendous transformation that is said to occur only once every 100 years. In particular, the four domains which are referred to as CASE (Connected, Autonomous, Shared, Electric) are seeing, in a short period of time, major changes that are unparalleled by other industries such as a constant connection to the Internet (Connected), autonomous driving (Autonomous), automobile sharing services (Shared) and a shift to electric vehicles such as hybrid cars and electric vehicles (Electric). As represented by IT companies' entries into the automobile industry, M&A and alliance activities beyond the framework of the automotive industry have been accelerating at an unprecedented pace. The Companies have continued conversations with their own automotive OEM customers even after the announcement of the Business Integration. In the course of such conversations with automotive OEM customers, the Companies have realized that the trend of concentrating management resources on the CASE domain will continue in fiscal 2018 and beyond in the entire automotive industry, and that suppliers of human machine interfaces (HMIs) and other similar products like Alps Electric and the Company are expected, even more than the Companies thought when they started considering the Business Integration, to not only supply mere electronic components and module products but also propose HMI systems used in the entire vehicle. In light of such a dramatically changing environment surrounding the automotive market, developing new products that integrate the Companies' strengths and accelerating time-to-market have become a pressing issue for the Companies. The Companies believe that the acceleration of the Business Integration and the steady realization of the synergy effects will allow the Companies to promptly address those issues and meet customers' expectations.

To that end, it is important for the Companies to distribute management resources efficiently, create new business domains, develop new technologies and implement other initiatives at an accelerated pace. It is particularly vital to provide customers with solutions centered on system integration products leveraging the Companies' core device technologies, system design capabilities and software development capabilities. In order to steadily realize such result, it is essential to ensure a system that allows flexible and timely personnel transfers and clear reporting lines between the departments in charge of common functions of the Companies and the departments in charge of the Companies' joint businesses. Accordingly, the Companies concluded that it would be desirable to adopt an operating holding company structure which enables the personnel involved in those departments to belong to a single entity. The Companies believe that, under the operating holding company structure after the Structure Change, it would be possible to retain the departments in charge of common functions of the Companies and the personnel of the departments in charge of the Companies' joint businesses within the operating holding company, a single entity, and it would be possible to realize steadily the integration effects in the automotive businesses which formerly belonged to each of the Companies. Furthermore, the Companies also believe that the acceleration of the Business Integration will contribute to the steady establishment of new businesses in the EHII (Energy, Healthcare, Industry, and IoT (Internet of Things)) and other markets.

Meanwhile, the Companies believe that, while integrating the functions of the Companies that need to be integrated, it is also important to ensure autonomy of the businesses of Alps Electric and the Company, and to ensure prompt and strong-minded decision-making based on clear and fair procedures by separating the management supervision and business execution functions even after the Business Integration. To this end, the Companies have judged that it is desirable to adopt, under an operating holding company structure, an in-house company system to ensure the autonomy of the businesses, as well as a corporate officer system to separate the management supervision and business execution functions.

Specifically, under an operating holding company structure and an in-house company system, the Companies will have the personnel of the departments, etc. that carry out common functions, such as respective administration departments (human resources, general affairs, accounting, and legal departments) and the departments in charge of strategy and planning, including the global business planning departments, be concentrated in Alps Electric (the company name from the date of reorganization into a holding company structure, "ALPS ALPINE CO., LTD."). At the same time, the Companies will establish (i) "Alps Company," which will mainly be engaged in the electronic components business, and (ii) "Alpine Company," which will mainly be engaged in the automotive infotainment business, and promote the collaboration of the Companies. In addition, in Alps Company, by transferring the personnel involved in the Companies' joint businesses from the Company to ALPS ALPINE CO., LTD., the Companies will promote the co-creation projects to develop new technology domains that the Companies are currently working on, and otherwise integrally operate the Companies' businesses in which synergy effects are expected to be realized. The Companies also plan to take such measures as separating the management supervision and business execution functions by appointing some of the current Directors of the Companies as the Directors of ALPS ALPINE CO., LTD. to have them supervise the businesses of the entire Alps Electric group and also adopting a corporate officer system in ALPS ALPINE CO., LTD. to have the Corporate Officers operate Alps Company and Alpine Company, respectively. In addition, the Companies will establish a "integrated corporate officer committee" which will traverse across the two in-house companies and strengthen the business strategy functions of the Companies after the Business Integration.

The Companies had planned to adopt a pure holding company structure and name the holding company ALPS HD CO., LTD. after the Business Integration. However, in adopting an operating holding company structure, the

Companies believed it would be important to put a better sense of unity in the company name for further growth and a new challenge, namely, the integration of the Companies' strength and brand power, and started another series of discussions between them. As a result, the Companies decided to name the holding company, after the Business Integration, ALPS ALPINE CO., LTD. instead of ALPS HD CO., LTD.

As for the details of the functions to be integrated, the business integration preparation committee and ALPS ALPINE CO., LTD. after the Business Integration will consider ways to realize the mutual use of management resources and the efficient and prompt integration of the common functions and the joint businesses of the Companies, including the restructuring and integration of the Companies' business systems and IT infrastructures, so as to accelerate the realization of the Business Integration and realize steadily the intended synergy effects. The Companies believe that these efforts will allow them to address the dramatically changing market environment and diverse customer needs in a prompt and flexible manner, and as a result the entire Alps Electric group will be able to steadily increase its enterprise value.

## 2. Overview of Details of the Share Exchange Agreement

For details of the Share Exchange Agreement, please refer to the details of the Attachment 1 "Share Exchange Agreement" as of July 27, 2017, the Attachment 2 "Memorandum of Understanding Concerning Amendments to Share Exchange Agreement" as of February 27, 2018 and the Attachment 3 "Memorandum of Understanding Concerning Amendments to Share Exchange Agreement" as of July 27, 2018.

## 3. Matters Concerning Appropriateness of Exchange Consideration

### (1) Matters Concerning Appropriateness of Total Number of Shares and the Total Price of Exchange Consideration

#### i. Details of Allotment in the Share Exchange

|  | Alps Electric<br>(Wholly Owing Parent Company)   | The Company<br>(Wholly Owned Subsidiary) |
|--|--|--|
| Details of Allotment<br>in the Share Exchange                  | 1  | 0.68                                     |
| Number of shares to be delivered<br>through the Share Exchange | Common shares of Alps Electric: 27,701,053 shares (planned)<br>(Alps Electric intends to deliver 1,900,000 shares of its treasury shares for the allotment<br>of shares through the Share Exchange.) |  |

#### (Note 1) Share allotment ratio in the Share Exchange

0.68 shares of the common shares of Alps Electric (the "Alps Electric Common Shares") will be allocated and delivered for each Company Common Share. However, no shares will be allocated for the Company Common Shares held by Alps Electric (28,215,417 shares as of March 31, 2018) through the Share Exchange.

If matters that may cause material adverse effect to the above share exchange ratio for the Share Exchange (the "Share Exchange Ratio") occur or such matters are found to exist, the Share Exchange Ratio may be changed upon agreement between Alps Electric and the Company.

#### (Note 2) Number of shares to be delivered through the Share Exchange

Through the Share Exchange, Alps Electric will deliver to the shareholders of the Company (excluding Alps Electric) as of the time immediately before Alps Electric acquires all of the Company Common Shares (excluding the Company Common Shares held by Alps Electric) through the Share Exchange (such time, the "Record Time") the number of the Alps Electric Common Shares calculated based on the Share Exchange Ratio, in exchange for the Company Common Shares held by those shareholders. Shares to be delivered by Alps Electric will consist of newly issued Alps Electric Common Shares and the treasury shares of Alps Electric.

Pursuant to the resolution at a meeting of the Board of Directors of the Company to be held by the date immediately before the effective date of the Share Exchange, the Company plans to cancel, immediately before the Record Time, all of the treasury shares that it holds (832,241 shares as of March 31, 2018) and the treasury shares that it will hold by immediately before the Record Time (including shares the Company acquires upon share buyback requests from dissenting shareholders in relation to the Share Exchange pursuant to Article 785, paragraph (1) of the Companies Act). Therefore, the number of shares to be actually allocated and delivered by Alps Electric may be changed in the future.

#### (Note 3) Treatment of shares constituting less than one unit

In connection with the Share Exchange, shareholders of the Company who are allotted shares of the Alps Electric Common Shares constituting less than one unit (100 shares) cannot sell those allotted shares on the TSE or any other financial instruments exchange. However, such shareholders of the Company who are expected to hold shares constituting less than one unit may use the following programs relating to shares of Alps Electric constituting less than one unit.

##### 1. Program for demanding buybacks of shares constituting less than one unit (sale of less than 100 shares)

Under this program, pursuant to Article 192, paragraph (1) of the Companies Act, shareholders who will hold shares of Alps Electric constituting less than one unit may demand that Alps Electric purchase those shares.

2. Program for purchasing additional shares, in connection with shares constituting less than one unit (purchase to reach 100 shares)

Under this program, pursuant to Article 194, paragraph (1) of the Companies Act and the Articles of Incorporation of Alps Electric, shareholders who will hold shares of Alps Electric constituting less than one unit may purchase from Alps Electric the number of shares of Alps Electric needed, together with the number of shares they hold, to constitute one unit (100 shares), unless Alps Electric does not hold the number of its treasury shares to satisfy the request for purchasing additional shares.

(Note 4) Treatment of fractions less than one share

In connection with the Share Exchange, with respect to the Company's shareholders who are to be allotted fractions less than one Alps Electric Common Share, Alps Electric will, pursuant to Article 234 of the Companies Act and other relevant laws and regulations, pay cash to those shareholders in an amount corresponding to the value of fractions less than one share, and no fractions will be allotted to them.

ii. Basis for the Calculation of the Share Exchange Ratio of the Share Exchange, etc.

A. Basis and Reasons for the Share Exchange Ratio

In order to ensure fairness and reasonableness of the calculation of the Share Exchange Ratio used in the Share Exchange stated in "i. Details of Allotment in the Share Exchange" above, each of Alps Electric and the Company decided to separately request an independent third-party financial advisor to analyze the Share Exchange Ratio. Alps Electric appointed Nomura Securities Co., Ltd. ("Nomura Securities") and the Company appointed SMBC Nikko Securities Inc. ("SMBC Nikko") respectively, as independent third-party financial advisors.

As described in "(3) Matters Considered to Ensure the Benefits of the Company's Shareholders are Not Undermined i. Measures to Ensure Fairness" below, Alps Electric concluded that the Share Exchange Ratio is appropriate and would not undermine the interests of its shareholders, and therefore determined that it is appropriate to consummate the Share Exchange at the Share Exchange Ratio, after carefully discussing and considering the Share Exchange Ratio with reference to the financial analysis report on the share exchange ratio and fairness opinion provided by Nomura Securities, its third-party financial advisor, on July 26, 2017, the legal advice from Mori Hamada & Matsumoto, and other factors.

As described in "(3) Matters Considered to Ensure the Benefits of the Company's Shareholders are Not Undermined i. Measures to Ensure Fairness" below, the Company carefully discussed and considered the Share Exchange Ratio with reference to the financial analysis report on the share exchange ratio and the written opinion (fairness opinion) provided by SMBC Nikko, its third-party financial advisor, on July 26, 2017, the legal advice from TMI Associates, and the written report (*toshinsho*) received on July 26, 2017 from the third-party committee consisting of three members, namely Mr. Hideo Kojima, the Company's Audit and Supervisory Committee Member, as well as an outside director of the Company who is registered with the TSE as an independent officer, Mr. Shunsuke Teragaki, an attorney-at-law (Nexpert Law Office), and Mr. Toshikazu Nakazawa, a certified public accountant (Blest Partners Inc.), with each of the latter two being an external expert with no interests in either Alps Electric or the Company (details are described in "(3) Matters Considered to Ensure the Benefits of the Company's Shareholders are Not Undermined ii. Measures to Avoid Conflicts of Interest" below; hereinafter the "Original Third-Party Committee") (the "Original Written Report"). The Company concluded that the Share Exchange Ratio is appropriate because, as described in "B. Matters Concerning Financial Analysis (B) Overview of the Analysis" below, according to the financial analysis report received from SMBC Nikko on the share exchange ratio, the Share Exchange Ratio falls within the range analyzed by the discounted cash flow analysis ("DCF Analysis") and exceeds the respective upper limits of the ranges analyzed by the market share price analysis and comparable company analysis, and thus would not undermine the interests of its shareholders. Therefore, the Company determined that it is appropriate to consummate the Share Exchange at the Share Exchange Ratio.

In addition to the above, based on the results of due diligence that Alps Electric and the Company conducted on each other, the Companies carefully negotiated and discussed the Share Exchange Ratio comprehensively taking into account factors such as the financial conditions, condition of assets, future prospects and other factors. As a result, the Companies determined that the Share Exchange Ratio is appropriate and would serve the interests of their shareholders and, at the meetings of the Board of Directors of Alps Electric and the Company held on July 27, 2017, the Companies resolved to execute the Share Exchange Agreement, which sets forth the Share Exchange Ratio.

The Company subsequently made upward revisions to the full-year consolidated earnings forecast for the fiscal year ended March 31, 2018 (the "Revisions to Earnings Forecasts") as described in the press releases titled "Notice of Differences between Earnings Forecasts and Actual Financial Results for First Six Months of Fiscal Year Ending March 31, 2018, and Revisions to Full-Year Earnings Forecasts" dated October 30, 2017 and "Notice of Revisions to Full-Year Earnings Forecasts for Fiscal Year Ending March 31, 2018" dated January 30, 2018.

Given such upward revisions, as described in the “Notice Regarding the Results of the Examination of the Impact that the Financial Forecasts Reflecting the Revisions to Full-Year Earnings Forecasts for Fiscal Year Ending March 31, 2018 Have on the Calculation of the Share Exchange Ratio” dated February 27, 2018, as the means to take a cautious approach in consummating the Share Exchange and to confirm that the Share Exchange is not disadvantageous to the minority shareholders of the Company, with respect to the DCF Analysis conducted by SMBC Nikko as described in “B. Matters Concerning Financial Analysis (B) Overview of the Analysis (i) Overview of calculations made when the Share Exchange Agreement is concluded” below, the Company examined whether or not the impact of the Revisions to Earnings Forecasts on the financial forecasts of the Companies that were used as conditions underlying the DCF Analysis is so material as to make it necessary for the Company to request Alps Electric to revise the Share Exchange Ratio (the “Re-examination”).

In conducting the Re-examination, the Company requested SMBC Nikko to analyze the impact of the then most recent updates to the financial forecasts of the Companies from the fiscal year ended March 31, 2018 through the fiscal year ending March 31, 2020 reflecting, among others, the Revisions to Earnings Forecasts, on the results of the DCF Analysis conducted by SMBC Nikko as described in “B. Matters Concerning Financial Analysis (B) Overview of the Analysis (i) Overview of calculations made when the Share Exchange Agreement is concluded” below. In the analysis, SMBC Nikko used the then most recent financial forecasts as underlying conditions and conducted scenario-based simulations using the DCF Analysis on the basis of several reasonably expected assumptions, and provided explanations on the method and results of such simulation to the Company.

In the course of the Re-examination, the Company established the Original Third-Party Committee again on February 2, 2018 and, on February 26, 2018, obtained from the Original Third-Party Committee a written report (*toshinsho*) stating that there would be no change in its opinion expressed in the Original Written Report as a result of the Revisions to Earnings Forecasts.

Accordingly, based on the results of the Re-examination, the Company resolved at its Board of Directors meeting held on February 27, 2018 that, having determined that the impact of the Revisions to Earnings Forecasts on the financial forecasts does not make it necessary for the Company to request Alps Electric to revise the Share Exchange Ratio, the Company will not request a revision of the Share Exchange Ratio.

Furthermore, in light of the fact that approximately one year has passed since the execution of the Share Exchange Agreement and taking opinions from shareholders of the Company and other factors into account, the Company has decided to conduct the final examination (the “Final Examination”) as the means to take a cautious approach to protect the interests of its minority shareholders before submitting a proposal for the approval of the Share Exchange Agreement to the Extraordinary General Meeting of Shareholders.

In the Final Examination, the Company requested SMBC Nikko to conduct a final analysis of the Share Exchange Ratio (the “Final Analysis”). In connection with the Final Analysis, the Company updated the period covered by the Company’s financial forecasts to the period from the fiscal year ending March 31, 2019 through the fiscal year ending March 31, 2021. The Company also asked Alps Electric to update Alps Electric’s financial forecasts and, once the Company received the updated financial forecasts, the Company checked the details of such updates. In addition, the Company examined the validity of Alps Electric’s updated financial forecasts through, for instance, conducting question-and-answer sessions relating to the financial forecasts with Alps Electric. Please note that in connection with the Final Analysis, the Company has not obtained an opinion (fairness opinion) from SMBC Nikko to the effect that the Share Exchange Ratio is fair from a financial point of view to shareholders of the Company’s common shares other than the Company’s controlling shareholder and others (i.e., “controlling shareholders and other persons specified by the Enforcement Rules” as defined in Article 441-2 of the Securities Listing Regulations of the TSE and Article 436-3 of its Enforcement Rules. Hereinafter referred to as the “Controlling Shareholder and Others”).

Furthermore, the Company has obtained advice on such matters as the methods and process of the Final Examination from TMI Associates (the legal advisor of the Company), which is independent from both of the Company and Alps Electric, from a legal point of view.

In addition, as described in “(3) Matters Considered to Ensure the Benefits of the Company’s Shareholders are Not Undermined ii. Measures to Avoid Conflicts of Interest” below, with a view to further increasing the independence of the third-party committee and having them play their roles more effectively, the Company established on July 27, 2018 a third-party committee (the “Third-Party Committee”) consisting of five members, namely, the three members of the Original Third-Party Committee in addition to two new members of Mr. Toru Matsumoto, a certified public accountant (Toru Matsumoto Certified Public Accountant Office) and Mr. Takashi Kokubo, an attorney-at-law (Kokubo Law Office), and the Company asked the Third-Party Committee whether or not the Share Exchange is disadvantageous to the minority shareholders of the Company.

In parallel with the examination described above, the Company also discussed the conditions regarding the Business Integration with Alps Electric based on the current business condition and market trend given that approximately one year has passed since the execution of the Share Exchange Agreement.

Specifically, firstly, although no particular circumstances that give rise to doubt about fairness of the Share Exchange Ratio were initially identified in the course of the Final Examination, which was conducted without taking the impact of the Company's dividend payment of surplus that will be made on the condition that the proposal for the approval of the Share Exchange Agreement will be approved at the Extraordinary General Meeting of Shareholders (hereinafter the "Special Dividends"; for details of the Special Dividends, please refer to Proposal 2 "Appropriation of Surplus") into consideration, in light of various factors such as opinions expressed by certain minority shareholders of the Company, including the voting outcome at the 52nd ordinary general meeting of shareholders of the Company held on June 21, 2018, and the latest trends of share prices of the Companies, on September 4, 2018, the Company officially requested Alps Electric to discuss the terms and conditions of the Business Integration with the Company in order to pursue the possibility for the Business Integration to be conducted on even more favorable terms and conditions to its minority shareholders.

After that, while discussing with Alps Electric, the Company also continued careful consideration at its Board of Directors meetings, and as a result, on September 14, 2018, the Company stated to Alps Electric that it would like to pay the Special Dividends and, from the same day, started discussions on the payment of the Special Dividends with Alps Electric. The Company has set the amount of dividend per share for the Special Dividends at ¥100 in light of such factors as the amount of operating cash necessary for the Company's business operations, the recent business conditions of each of the Companies, the difference between the financial forecasts of the Companies which were used as a basis for the DCF Analysis, and to which the Companies referred in executing the Share Exchange Agreement on July 27, 2017, and the actual operating results of the Companies for the fiscal year ended March 31, 2018, and the impact of the Special Dividends on the Share Exchange Ratio.

As the result of the discussions described above, the Company obtained agreement from Alps Electric as to the payment of the Special Dividends and that there would be no revision to the Share Exchange Ratio despite the payment of the Special Dividends.

The Company confirmed the details including the updated factors concerning the revised financial forecasts of each of the Companies and examined the appropriateness, and carefully discussed and considered the details of the Final Analysis, the legal advice from TMI Associates, and the written report (*toshinsho*) received on September 26, 2018 from the Third-Party Committee. Also, as described above, in parallel with the Final Examination, in light of the fact that approximately one year has passed since the execution of the Share Exchange Agreement, the Company discussed the terms and conditions of the Business Integration with Alps Electric based on the purpose of the Share Exchange Agreement, taking the latest business conditions and market trends into consideration. As a result, the Company concluded that the Share Exchange Ratio is fair on the grounds that (a) as described in "B. Matters Concerning Financial Analysis (B) Overview of the Analysis (ii) Overview of analyses for the Final Analysis" below, in accordance with the Final Analysis, the Share Exchange Ratio is at an appropriate level because it is within the range obtained by the DCF Analysis and exceeds the median value of the range obtained by the comparable company analysis, (b) as described in "(3) Matters Considered to Ensure the Benefits of the Company's Shareholders are Not Undermined ii. Measures to Avoid Conflicts of Interest A. Obtaining a Written Report (*toshinsho*) from the Third-party Committee with No Interest" below, the financial analysis report regarding the Share Exchange Ratio, which the Third-Party Committee received from YAMADA Consulting Group Co., Ltd. ("YCG") on September 26, 2018 (the "Financial Analysis Report"), also states that the Share Exchange Ratio exceeds the upper limit of the range obtained by the DCF Analysis and the Third-Party Committee has submitted, taking into account the Financial Analysis Report other analysis, a written report (*toshinsho*) to the effect that it is considered that the Share Exchange is not disadvantageous to the minority shareholders of the Company. Furthermore, (c) as described above, even on the assumption that the Share Exchange Ratio is fair where the Special Dividends are not paid, in light of various factors such as opinions expressed by certain minority shareholders of the Company, including the voting outcome at the 52nd ordinary general meeting of shareholders of the Company held on June 21, 2018, and the latest trends of share prices of the Company, the Company has concluded that it is appropriate to conduct the Business Integration on even more favorable terms and conditions to its minority shareholders by way of the Special Dividends.

Based on the result of the examination above, in order to implement the Share Exchange on the premise of the Share Exchange Ratio, the Company resolved at its Board of Directors meeting held on September 27, 2018 to set the record date for convening the Extraordinary General Meeting of Shareholders as October 15, 2018, and to submit a proposal for the approval of the Special Dividends to the Extraordinary General Meeting of Shareholders, subject to the condition that the proposal for the approval of the Share Exchange Agreement will be approved at the Extraordinary General Meeting of Shareholders. Moreover, based on such resolutions, the Company agreed on the payment of the Special Dividends with Alps Electric on September 27, 2018.

On the other hand, Alps Electric was informed by the Company that the Company would like to pay the Special Dividends. In accordance with the Share Exchange Agreement, Alps Electric discussed the payment of the Special Dividends with the Company.

Since the payment of the Special Dividends will change the financial forecasts of the Company and not revising the Share Exchange Ratio could undermine the interests of Alps Electric's shareholders, Alps Electric decided to conduct an examination (the "Alps Electric's Examination") as to whether it is appropriate to consummate the Share Exchange at the Share Exchange Ratio even on the premise that the Special Dividends are to be paid.

In the Alps Electric's Examination, Alps Electric requested Nomura Securities, a third-party financial advisor independent from Alps Electric and the Company, to conduct a re-analysis of the Share Exchange Ratio on the premise that the Special Dividends are to be paid. In connection with the re-analysis, Alps Electric updated the period covered by Alps Electric's financial forecasts to the period from fiscal year ending March 31, 2019 through fiscal year ending March 31, 2021. After receiving from the Company its financial forecasts updated in a similar manner, Alps Electric checked the details of such updates and examined the validity of the updated financial forecasts through, for instance, conducting question-and-answer sessions relating to such financial forecasts with the Company. In order to ensure fairness and appropriateness of the Share Exchange Ratio on the premise that the Special Dividends are to be paid, Alps Electric received a financial analysis report dated September 26, 2018 with respect to the Share Exchange Ratio for the Share Exchange from Nomura Securities (the details are as described in "B. Matters Concerning Financial Analysis (B) Overview of the Analysis (iii) Overview of calculations in the Alps Electric's Examination" below). Please note that in the Alps Electric's Examination, Alps Electric has not obtained an opinion (fairness opinion) from Nomura Securities to the effect that the Share Exchange Ratio is fair from a financial point of view to Alps Electric. Furthermore, Alps Electric has obtained advice on such matters as the methods and process of the Alps Electric's Examination and decision-making of the Board of Directors from Mori Hamada & Matsumoto (the legal advisor of Alps Electric for the Business Integration), which is independent from both Alps Electric and the Company, from a legal point of view.

Alps Electric confirmed the details including the updated factors concerning the revised financial forecasts of each of the Companies and examined the appropriateness, and conducted careful discussions and considerations in light of various factors such as the objectives, contents, terms and conditions, and effect of the Special Dividends as well as the details of the discussions over the Special Dividends, the details of the analysis by Nomura Securities, and the legal advice from Mori Hamada & Matsumoto.

As a result, Alps Electric concluded that, even on the premise that the Special Dividends are to be paid, the Share Exchange Ratio is appropriate and will not undermine the interests of Alps Electric's shareholders on the grounds of such factors as that even if the Special Dividends are paid as described in "B. Matters Concerning Financial Analysis (B) Overview of the Analysis (iii) Overview of calculations in the Alps Electric's Examination" below, the Share Exchange Ratio will be within the calculation range using the comparable company analysis and the DCF Analysis, and that the size of the Special Dividends is not as significant as the difference caused between the Company's financial forecasts on the premise of which the Share Exchange Ratio was determined and the financial forecasts following the subsequent upward revisions and therefore will not significantly affect the appropriateness of the Share Exchange Ratio. Accordingly, Alps Electric determined that it is appropriate to conduct the Share Exchange based on the Share Exchange Ratio. On that basis, in light of such factors as the Company's business results after the announcement of the Share Exchange, the voting outcome at the 52nd ordinary general meeting of shareholders of the Company held on June 21, 2018, and the latest trends of share prices of the Companies, Alps Electric determined that Alps Electric agreeing to the payment of the Special Dividends will lead to a smooth realization of the Business Integration and eventually lead to benefits for Alps Electric's shareholders.

Based on the examination results described above, Alps Electric resolved at its Board of Directors meeting held on September 27, 2018 to agree to the payment of the Special Dividends by the Company and not to revise the Share Exchange Ratio. Alps Electric therefore agreed with the Company with respect to the payment of the Special Dividends by the Company.

In the case of any material change to the various conditions underlying the analysis or in other cases, the Share Exchange Ratio may be changed based on an agreement between the Companies pursuant to the Share Exchange Agreement.

The measures carried out at Alps Electric and the opinions of Alps Electric and other information concerning Alps Electric stated above are based on statements received from Alps Electric.

## B. Matters Concerning Financial Analysis

### (A) Names of the Financial Advisors and their Relationship with the Companies

Nomura Securities, the financial advisor for Alps Electric, and SMBC Nikko, the financial advisor for the Company, are independent from, and not related parties of, either Alps Electric or the Company and have no material relationship to be noted in connection with the Share Exchange.

### (B) Overview of the Analysis

#### (i) Overview of calculations made when the Share Exchange Agreement was concluded

For Alps Electric, Nomura Securities conducted (a) the average market share price analysis because shares of Alps Electric are listed on an financial instruments exchange and a market price is available for the Alps Electric Common Shares (using a reference date of July 25, 2017, which is the calculation reference date, the calculation was performed based on the average closing prices of Alps Electric Common Shares during the last six months from January 26, 2017 to the calculation reference date, the last three months from April 26, 2017 to the calculation reference date, the last one month from June 26, 2017 to the calculation reference date and the last one week from July 19, 2017 to the calculation reference date, as well as the closing price on the reference date of such shares, in each case on the First Section of the TSE), (b) the comparable company analysis because there are multiple listed companies that are comparable to Alps Electric and an analogical inference of the share value of Alps Electric is possible through the comparison to such comparable companies, and (c) the DCF Analysis in order to reflect the state of future business activities in the evaluation.

For the Company, Nomura Securities conducted (a) the average market share price analysis because shares of the Company are listed on an financial instruments exchange and a market price is available for the Company Common Shares (using a reference date of July 25, 2017, which is the calculation reference date, the calculation was performed based on the average closing prices of the Company Common Shares during the last six months from January 26, 2017 to the calculation reference date, the last three months from April 26, 2017 to the calculation reference date, the last one month from June 26, 2017 to the calculation reference date and the last one week from July 19, 2017 to the calculation reference date, as well as the closing price on the reference date of such shares, in each case on the First Section of the TSE), (b) the comparable company analysis because there are multiple listed companies that are comparable to the Company and an analogical inference of the share value of the Company is possible through the comparison to such comparable companies, and (c) the DCF Analysis in order to reflect the state of future business activities in the evaluation.

The calculation range of the Company is as follows, when the share value for one share of Alps Electric is deemed to be 1:

| Method of Analysis                  | Result of Calculation of the Share Exchange Ratio |
|-------------------------------------|---|
| Average market share price analysis | 0.51-0.54   |
| Comparable company analysis         | 0.59-0.66   |
| DCF Analysis                        | 0.55-0.78   |

For the calculation of the share exchange ratio above, Nomura Securities has used information provided by each of the Companies, public information as well as other information, and has assumed that all such materials and information are accurate and complete, and has not independently verified their accuracy or completeness. Also, Nomura Securities has not undertaken an independent evaluation, appraisal or assessment of any of the assets or liabilities (including contingent liabilities), including analysis and valuation of individual assets and liabilities, of the Companies or any of their respective affiliates, nor has it made any request to a third party institution for such appraisal or assessment. The calculation of the share exchange ratio by Nomura Securities reflects information and economic conditions available up to the calculation reference date, July 25, 2017, and Nomura Securities has assumed that the financial forecasts of each of the Companies (including profit plans and other information) have been reasonably considered or prepared based on the best currently available estimates and judgments of the managements of the Companies.

The profit plan of Alps Electric that Nomura Securities received from Alps Electric and used as a basis for its DCF Analysis does not contain any fiscal year in which a significant increase or decrease in profit is anticipated. On the other hand, the Company's profit plan that Nomura Securities received from Alps Electric and used as a basis for its DCF Analysis contains certain fiscal years in which a significant increase or decrease is anticipated. Specifically, a significant increase in operating profit of approximately 38.5% is anticipated for the fiscal year ending March 31, 2019 compared to the immediately preceding fiscal year. This is because net sales are expected to increase due to the number of orders for car navigation and automotive display products, primarily from automobile manufacturers, being expected to progress at a steady pace, and also the profit margin is expected to further improve because of increased efficiency in development investments. The period ending March 31, 2020 is also anticipated to see a significant increase in operating

profit of approximately 33.3% compared to the immediately preceding fiscal year. This is primarily because net sales are expected to increase due to the number of orders for car navigation products, primarily from automobile manufacturers, being expected to progress at a steady pace, and also the profit margin is expected to further improve primarily because of cost reductions. Such financial forecasts do not assume the consummation of the Share Exchange.

As described in “(3) Matters Considered to Ensure the Benefits of the Company’s Shareholders are Not Undermined i. Measures to Ensure Fairness” below, upon request from the Board of Directors of Alps Electric, Nomura Securities submitted to Alps Electric a written opinion (fairness opinion) dated July 26, 2017 to the effect that the share exchange ratio for the Share Exchange is appropriate for Alps Electric from a financial point of view based on the above assumptions as well as certain other assumptions.

On the other hand, for Alps Electric and the Company, SMBC Nikko conducted (a) a market share price analysis because their shares are listed on the TSE and market prices are available for their shares, (b) a comparable company analysis because there are multiple listed companies that conduct relatively similar businesses as the Companies and analogical inference of the share values of the Companies is possible through the comparison to such comparable companies, and (c) a DCF Analysis in order to assess the Companies’ intrinsic values based on their future business activities. The range in the number of the Company’s shares as a result of each analysis is as follows, when the share value for one Alps Electric Common Share is deemed to be 1:

| Method of Analysis          | Result of Calculation of the Share Exchange Ratio |
|-----------------------------|---|
| Market share price analysis | 0.51-0.53   |
| Comparable company analysis | 0.46-0.62   |
| DCF Analysis                | 0.50-0.85   |

In the market share price analysis, for Alps Electric, the financial analysis was conducted with July 25, 2017 as the calculation reference date, by using the simple average of the closing prices for the last one month, three months, and six months immediately prior to the calculation reference date on the First Section of the TSE. For the Company, the financial analysis was conducted with July 25, 2017 as the calculation reference date, by using the simple average of the closing prices for the last one month, three months, and six months immediately prior to the calculation reference date on the First Section of the TSE. Based on these results, the range of the share exchange ratio was analyzed to be between 0.51 and 0.53.

In the comparable company analysis, for Alps Electric, the range of the share exchange ratio was analyzed to be between 0.46 and 0.62 based on the results of using the multiples of EBITDA to the enterprise value after having selected Murata Manufacturing Co., Ltd., Nitto Denko Corporation, TDK Corporation, MinebeaMitsumi Inc., TAIYO YUDEN CO., LTD., Japan Aviation Electronics Industry, Limited for Alps Electric as the comparable listed companies that may be considered to have similarities with Alps Electric, and having selected Clarion Co., Ltd., Pioneer Corporation, JVC KENWOOD Corporation for the Company as the comparable listed companies that may be considered to have similarities with the Company.

In the DCF Analysis, for Alps Electric, its enterprise value was analyzed by discounting the future free cash flow based on the financial forecasts prepared by Alps Electric at a certain discount rate. In analyzing the terminal value for the DCF Analysis, the perpetual growth method and the multiple method were used. The discount rate used was between 8.30% and 9.30% and the perpetual growth rate used was 0%. In the multiple method, the EBITDA multiple used was between 6.4 and 7.4. For the Company, its enterprise value was analyzed by discounting the future free cash flow based on the financial forecasts prepared by the Company at a certain discount rate. In analyzing the terminal value for the DCF Analysis, the perpetual growth method and the multiple method were used. The discount rate used was between 7.71% and 8.71% and the perpetual growth rate used was 0%. In the multiple method, the EBITDA multiple used was between 3.6 and 4.6. Based on the results of such analysis, the range of the share exchange ratio was analyzed to be between 0.50 and 0.85.

The financial forecasts of Alps Electric that SMBC Nikko used as a basis for its DCF Analysis do not contemplate any significant increase or decrease in profit. However, the financial forecasts of the Company contemplate a significant increase in profit for the period ending March 31, 2019. Such increase is anticipated primarily because net sales are expected to increase due to the number of orders for car navigation and automotive display products, primarily from automobile manufacturers, being expected to progress at a steady pace, and also the profit margin is expected to further improve because of increased efficiency in development investments. Due to these factors, the operating profit for the period ending March 31, 2019 is anticipated to exceed that for the period ended March 31, 2018 by approximately 38.5%. Also, the financial forecasts of the Company anticipate a significant increase in profit for the period ending March 31, 2020. Such increase is



anticipated primarily because net sales are expected to increase due to the number of orders for car navigation products, primarily from automobile manufacturers, being expected to progress at a steady pace, and also the profit margin is expected to further improve primarily because of cost reductions. Due to these factors, the operating profit for the period ending March 31, 2020 is anticipated to exceed that for the period ending March 31, 2019 by approximately 33.3%. Such financial forecasts of the Companies do not assume the consummation of the Share Exchange.

As described in “(3) Matters Considered to Ensure the Benefits of the Company’s Shareholders are Not Undermined i. Measures to Ensure Fairness” below, upon request from the Board of Directors of the Company, SMBC Nikko submitted to the Company a written opinion (fairness opinion) dated July 26, 2017 to the effect that the share exchange ratio for the Share Exchange is fair to shareholders of the Company Common Shares, excluding the Controlling Shareholder and Others from a financial point of view based on the above assumptions as well as certain other assumptions.

Please refer to the Attachment 4 “Assumptions and Disclaimers, etc. of SMBC Nikko’s Analysis of Share Exchange Ratio and Fairness Opinion.”

## (ii) Overview of analyses for the Final Analysis

In the Final Analysis, SMBC Nikko conducted an analysis using the most recent financial forecasts of the Companies for the period from the fiscal year ending March 31, 2019 through the fiscal year ending March 31, 2021 as underlying conditions, and the Company received explanations on the methods and results of such analysis.

In the Final Analysis, SMBC Nikko conducted a market share price analysis, a comparable company analysis, and a DCF Analysis. The range in the number of the Company Common Shares as a result of each analysis is as follows, when the share value for one Alps Electric Common Share is deemed to be 1 (Note 1):

| Method of Analysis          | Result of Analysis of the Share Exchange Ratio |
|-----------------------------|--|
| Market share price analysis | 0.74-0.78                                      |
| Comparable company analysis | 0.53-0.73                                      |
| DCF Analysis                | 0.48-0.91                                      |

In the market share price analysis, for Alps Electric, the financial analysis was conducted with September 25, 2018 as the analysis reference date, by using the simple average of the closing prices for the last one month, three months, and six months immediately prior to the analysis reference date on the First Section of the TSE. For the Company, the financial analysis was conducted with September 25, 2018 as the analysis reference date, by using the simple average of the closing prices for the last one month, three months, and six months immediately prior to the analysis reference date on the First Section of the TSE. Based on these results, the range of the share exchange ratio was analyzed to be between 0.74 and 0.78.

In the comparable company analysis, for Alps Electric, Murata Manufacturing Co., Ltd., Nitto Denko Corporation, TDK Corporation, MinebeaMitsumi Inc., Taiyo Yuden Co., Ltd. and Japan Aviation Electronics Industry, Limited were selected as the comparable listed companies that may be considered to have similarities with Alps Electric. For the Company, Clarion Co., Ltd. and JVCKENWOOD Corporation were selected as the comparable listed companies that may be considered to have similarities with the Company. Using the enterprise value-to-EBITDA multiples of companies comparable to the Companies, the range of the share exchange ratio was analyzed to be between 0.53 and 0.73. With respect to Pioneer Corporation (“Pioneer”), which was selected as a comparable listed company in the comparable company analysis by SMBC Nikko as described in “(i) Overview of calculations made when the Share Exchange Agreement was concluded” above, the Company received explanation from SMBC Nikko that Pioneer was excluded from companies comparable to the Company because (a) the consolidated quarterly financial statements of Pioneer presented in its news release titled “Pioneer Announces Business Results for 1Q Fiscal 2019” dated August 6, 2018 contained a note regarding a situation generating substantial uncertainties about its going concern assumption and (b) there have been unstable fluctuations of its share price presumably caused by market speculations following news reports to the effect that Pioneer was considering a fundamental overhaul of its business through management revitalization (Note 2).

In the DCF Analysis, for Alps Electric, its share value was analyzed by discounting the future free cash flow based on the financial forecasts prepared by Alps Electric at a certain discount rate. To analyze the terminal value for the DCF Analysis, the perpetual growth method and the multiple method were used. The discount rate used was between 8.27% and 9.27% (Note 3). The perpetual growth rate used was 0%, and under the multiple method, the EBITDA multiple used was between 7.3 and 8.3. For the Company, its share value was

analyzed by discounting the future free cash flow based on the financial forecasts prepared by the Company at a certain discount rate. To analyze the terminal value for the DCF Analysis, the perpetual growth method and the multiple method were used. The discount rate used was between 5.97% and 6.97% (Note 3). The perpetual growth rate used was 0%, and under the multiple method, the EBITDA multiple used was between 4.6 and 5.6. Based on the results of the analysis, the range of the share exchange ratio was analyzed to be between 0.48 and 0.91.

SMBC Nikko appropriately reflected the cash and deposits held by the Companies (a total of cash and deposits and intergroup deposit, hereinafter the same) in the Final Analysis, with certain variations in the manner of treatment depending on the analytical method. In the comparable company analysis, since the amount of cash and deposits held by each comparable listed company, that is recognized on its balance sheet, was used in analyzing its enterprise value-to-EBITDA multiple, the amount of cash and deposits held by each of the Company and Alps Electric, that is recognized on their respective balance sheet, was used in analyzing each share value in order to make the analytical criteria consistent with the comparable listed companies, and therefore, the entire amount of such cash and deposits was taken into consideration as non-operating assets. On the other hand, in the DCF Analysis, the cash and deposits held by the Company or Alps Electric were categorized as either necessary operating cash or all other cash and deposits. In the process of the analysis, cash and deposits other than operating cash are treated as non-operating assets and added to the share value. In the comparable company analysis and the DCF Analysis, the impact of the Special Dividends was taken into consideration in the analysis of the share value of each of the Company or Alps Electric.

Moreover, the financial forecasts of the Companies that SMBC Nikko used as a basis for its DCF Analysis do not contemplate any significant increase or decrease in profit. Such financial forecasts of the Companies do not assume the consummation of the Share Exchange.

Please refer to the Attachment 5 “Assumptions and Disclaimers, etc. of SMBC Nikko’s Analysis of Share Exchange Ratio.”

(Note 1) For the Final Analysis, SMBC Nikko has in principle used information provided by each of the Companies, public information as well as other information as is, and has assumed that all such materials and information are accurate and complete and that there is no information yet to be disclosed to SMBC Nikko that could significantly affect the analysis of the Share Exchange Ratio, and SMBC Nikko has not independently verified their accuracy or completeness. Also, SMBC Nikko has not undertaken an independent evaluation, appraisal or assessment of any of the assets or liabilities (including contingent liabilities), including analysis and valuation of individual assets and liabilities, of the Companies or any of their respective subsidiaries or affiliates, nor has it made any request to a third party institution for such appraisal or assessment. SMBC Nikko has assumed that the financial forecasts of the Company to which SMBC Nikko referred in the analysis have been reasonably prepared based on the best estimates and judgments of the managements of the Companies available as of the analysis reference date, and such analysis reflects information and economic conditions available up to September 27, 2018.

(Note 2) According to SMBC Nikko, with respect to the selection (screening) of comparable companies in the comparable company analysis, for the purpose of proper analysis, SMBC Nikko has placed emphasis on whether the selection method is appropriate, logically consistent and based on objective criteria. Moreover, SMBC Nikko has informed the Company that in selecting comparable companies, SMBC Nikko has confirmed (i) similarity of business content and (ii) similarity of the business size, and then has confirmed regarding (iii) special circumstances such as irregularities in the generation of the share price.

With these criteria, in the Final Analysis, as described above, with respect to Pioneer, which was selected as a comparable listed company in the comparable company analysis by SMBC Nikko as described in “(i) Overview of calculations made when the Share Exchange Agreement was concluded” above, SMBC Nikko informed the Company that Pioneer has been excluded from companies comparable to the Company because (a) the consolidated quarterly financial statements of Pioneer presented in its news release titled “Pioneer Announces Business Results for 1Q Fiscal 2019” dated August 6, 2018 contained a note regarding a situation generating substantial uncertainties about its going concern assumption and (b) there have been unstable fluctuations of its share price presumably caused by market speculations following news reports to the effect that Pioneer was considering a fundamental overhaul of its business through management revitalization, and therefore Clarion Co., Ltd. and JVCKENWOOD Corporation have been selected as the comparable listed companies.

(Note 3) According to SMBC Nikko, the market share prices of the Companies have been significantly fluctuating due to the Share Exchange as well as various speculations since the date of publication of the Companies’ press release “Notice Regarding Business Integration between Alps Electric Co., Ltd. and Alpine Electronics, Inc. (Execution of Share Exchange Agreement between Alps Electric Co., Ltd. and Alpine Electronics, Inc. (Simplified Share Exchange), Reorganization into a Holding Company Structure through the Company Split of Alps Electric Co., Ltd., Change of Company Name and Partial Amendments to the Articles of Incorporation of Alps Electric Co., Ltd.)” dated July 27, 2017, and it is difficult to objectively consider that the beta ( $\beta$ ) value (value showing the correlation between fluctuations in share price of certain stock and fluctuations in the

Tokyo Stock Price Index (TOPIX)) of the Company since such date represents what it should be, and therefore SMBC Nikko has used median values of the beta values of the comparable listed companies selected in the comparable company analysis in analyzing the discount rates.

In addition, the Third-Party Committee obtained the Financial Analysis Report from YCG as stated in “A. Basis and Reasons for the Share Exchange Ratio” above. For details of the Financial Analysis Report, please refer to “(3) Matters Considered to Ensure the Benefits of the Company’s Shareholders are Not Undermined ii. Measures to Avoid Conflicts of Interest A. Obtaining a Written Report (*toshinsho*) from the Third-party Committee with No Interest” below.

### (iii) Overview of calculations in the Alps Electric’s Examination

In the course of the Alps Electric’s Examination, for Alps Electric, Nomura Securities conducted (a) the average market share price analysis because shares of Alps Electric are listed on a financial instruments exchange and a market price is available for Alps Electric Common Shares, (b) the comparable company analysis because there are multiple listed companies that are comparable to Alps Electric and an analogical inference of the share value of Alps Electric is possible through the comparison to such comparable companies, and (c) the DCF Analysis in order to reflect the state of future business activities in the evaluation.

For the Company, Nomura Securities conducted (a) the average market share price analysis because shares of the Company are listed on a financial instruments exchange and a market price is available for the Company Common Shares, (b) the comparable company analysis because there are multiple listed companies that are comparable to the Company and an analogical inference of the share value of the Company is possible through the comparison to such comparable companies, and (c) the DCF Analysis, in order to reflect the state of future business activities in the evaluation.

In the comparable company analysis, using a reference date of July 25, 2017 (the “Reference Date (1)”), which is the date set forth in the financial analysis report on the financial exchange report that Alps Electric received from Nomura Securities on July 26, 2017, which the Board of Directors meeting of Alps Electric held on July 27, 2017 used as reference in passing the resolution, and which is considered not to have been affected by the Share Exchange, the calculation was performed based on the average closing prices of the Alps Electric Common Shares and the Company Common Shares during the last six months from January 26, 2017 to the Reference Date (1), the last three months from April 26, 2017 to the Reference Date (1), the last one month from June 26, 2017 to the Reference Date (1) and the last one week from July 19, 2017 to the Reference Date (1), as well as the closing price on the Reference Date (1) of such shares, in each case on the First Section of the TSE (the “Average Market Share Price Analysis (1)”). In addition, using a reference date of September 25, 2018 (the “Reference Date (2)”), which is the date immediately preceding the resolution of the Board of Directors meeting of Alps Electric based on the Alps Electric’s Examination, the calculation was performed based on the average closing prices of the Alps Electric Common Shares and the Company Common Shares during the last six months from March 26, 2018 to the Reference Date (2), the last three months from June 26, 2018 to the Reference Date (2), the last one month from August 27, 2018 to the Reference Date (2) and the last one week from September 19, 2018 to the Reference Date (2), as well as the closing price on the Reference Date (2) of such shares, in each case on the First Section of the TSE (the “Average Market Share Price Analysis (2)”).

Furthermore, in the comparable company analysis and the DCF Analysis, Nomura Securities factored into account the amount of cash outflows to the Company shareholders associated with the Special Dividends from the respective share value of Alps Electric and the Company.

The calculation range of the Company is as follows, when the share value for one share of the Alps Electric is deemed to be 1:

| Method of Analysis                      | Result of Calculation of the Share Exchange Ratio |
|---|---|
| Average Market Share Price Analysis (1) | 0.51-0.54   |
| Average Market Share Price Analysis (2) | 0.74-0.78   |
| Comparable company analysis             | 0.57-1.13   |
| DCF Analysis                            | 0.56-0.79   |

For the calculation of the share exchange ratio above, Nomura Securities used information provided by each of the Companies, public information as well as other information, and assumed that all such materials and information are accurate and complete, and did not independently verify their accuracy or completeness. Also, Nomura Securities did not undertake an independent evaluation, appraisal or assessment of any of the assets or liabilities (including contingent liabilities), including analysis and valuation of individual assets and

liabilities, of the Companies or any of their respective affiliates, nor did it make any request to a third party institution for such appraisal or assessment. The calculation of the share exchange ratio by Nomura Securities reflects information (including the Special Dividends) and economic conditions available up to the calculation reference date of September 25, 2018, and Nomura Securities assumed that the financial forecasts of each of the Companies (including profit plans and other information) were reasonably considered or prepared based on the best currently available estimates and judgments of the managements of the Companies.

The profit plans of Alps Electric and the Company that Nomura Securities used as a basis for its DCF Analysis did not contain any fiscal year in which a significant increase or decrease in profit was anticipated. Such financial forecasts did not assume the consummation of the Share Exchange.

As described in “A. Basis and Reasons for the Share Exchange Ratio” above, Nomura Securities has not submitted to Alps Electric any written opinion (fairness opinion) to the effect that the Share Exchange Ratio is fair for Alps Electric from a financial point of view in connection with the Alps Electric’s Examination.

## (2) Reason for Choosing the Property of this Type as the Exchange Consideration

The Company believes that in light of the fact that the Alps Electric Common Shares, which will be allotted to the shareholders of the Company through the Share Exchange, will continue to be listed on the First Section of the TSE, even after the delisting of the Company, the shares’ liquidity and cash convertibility will be retained, and the opportunity to trade the shares is ensured. The Company also believes that the shareholders of the Company who will come to hold shares of Alps Electric Common Shares, will be able to enjoy the synergy effects resulting from the Share Exchange. Accordingly, the Company deems the Alps Electric Common Shares to be a suitable consideration for the Share Exchange.

## (3) Matters Considered to Ensure the Benefits of the Company’s Shareholders are Not Undermined

### i. Measures to Ensure Fairness

Alps Electric already holds 28,215,417 of the Company Common Shares (40.43% of the 69,784,501 total issued shares of the Company as of March 31, 2017 (rounded off to two decimal places; the same applies to the calculation of the ownership ratio hereafter)) and the Company is a consolidated subsidiary of Alps Electric. Therefore, Alps Electric and the Company determined that it was necessary to ensure fairness of the share exchange ratio for the Share Exchange and have taken the following measures to ensure fairness:

#### A. Obtaining Financial Analysis and Fairness Opinions from the Third-party Financial Advisors

In order to ensure fairness and appropriateness of the share exchange ratio for the Share Exchange, Alps Electric received a financial analysis report with respect to the share exchange ratio for the Share Exchange from Nomura Securities, its third-party financial advisor, and obtained an opinion (fairness opinion) dated July 26, 2017 to the effect that, based on the factors and assumptions set forth in that opinion by Nomura Securities, the share exchange ratio for the Share Exchange is fair from a financial point of view to Alps Electric as of that day.

In order to ensure fairness and appropriateness of the share exchange ratio for the Share Exchange, the Company received a financial analysis report with respect to the share exchange ratio for the Share Exchange from SMBC Nikko, its third-party financial advisor, and obtained an opinion (fairness opinion) dated July 26, 2017 to the effect that, based on the factors and assumptions set forth in that opinion by SMBC Nikko, the share exchange ratio for the Share Exchange is fair from a financial point of view to shareholders of the Company Common Shares other than the controlling shareholders and other persons as of that day.

#### B. Advice from Independent Law Firms

Alps Electric appointed Mori Hamada & Matsumoto as its legal advisor and has obtained advice on the various procedures for the Share Exchange, the methods and process of decision-making of the Board of Directors, and other factors, from a legal point of view. The Company appointed TMI Associates as its legal advisor and has obtained advice on the various procedures for the Share Exchange, the methods and process of decision-making of the Board of Directors, and other factors, from a legal point of view.

Mori Hamada & Matsumoto and TMI Associates are independent from Alps Electric and the Company. Neither of them has any material interest in Alps Electric or the Company.

### ii. Measures to Avoid Conflicts of Interest

Alps Electric already holds 28,215,417 shares of the Company Common Shares (40.43% of the total issued shares of the Company, 69,784,501 shares, as of March 31, 2017) and is the controlling shareholder of the Company. Therefore, the Company has taken the following measures to avoid conflicts of interest.

A. Obtaining a Written Report (*toshinsho*) from the Third-party Committee with No Interest

On March 31, 2017, in order to eliminate conflicts of interest in the Share Exchange and ensure fairness and transparency of the Share Exchange, the Board of Directors of the Company established the Original Third-Party Committee. In giving consideration to the Share Exchange, the Company asked for the opinions of the Original Third-Party Committee as to (a) whether the purpose of the Share Exchange was reasonable (including whether the Share Exchange would contribute to the improvement of corporate value of the Company), (b) whether the fairness of the terms and conditions of the Share Exchange (including the Share Exchange Ratio) has been ensured, (c) whether attention has been paid to the interests of the minority shareholders of the Company in the Share Exchange through fair procedures, and (d) whether the resolution of the Board of Directors of the Company for the Share Exchange is not disadvantageous to the minority shareholders of the Company in light of (a) through (c).

The Original Third-Party Committee held a total of seven meetings between March 31, 2017 and July 26, 2017 and carefully considered the above matters by, among others, collecting information and having discussions whenever necessary. For the purpose of giving such consideration, the Original Third-Party Committee received explanations from the Company concerning the purpose of the Share Exchange, the background that led to the Share Exchange, the views of Alps Electric and the Company on the Share Exchange, the terms and conditions of the Share Exchange, the decision-making process for such terms and conditions, and other related matters. The Original Third-Party Committee also received explanations from SMBC Nikko concerning the financial analysis of the Share Exchange Ratio of the Share Exchange. Also, the Original Third-Party Committee received explanations from TMI Associates, the legal advisor of the Company, concerning the method and process of decision-making of the Board of Directors of the Company and other related matters on the Share Exchange. Given the above, on the premise of those explanations, the results of financial analysis and other materials examined, the Original Third-Party Committee submitted the Original Written Report to the Board of Directors of the Company on July 26, 2017, stating that the resolution by the Board of Directors of the Company to approve the Share Exchange was not disadvantageous to the minority shareholders of the Company. The contents of the Original Written Report are substantially as follows.

- (a) The Original Third-Party Committee examined and verified the legitimacy of the purpose of the Share Exchange from various perspectives such as the current environment surrounding the Companies, in particular the demand for next-generation automotive products, the specific details of issues taken the above as a given, the activity of competitors in the industry, the content of technologies that the Companies recognize as their strengths, specific examples of next-generation products utilizing those strengths, the benefits from collaboration, and specific cases where independence of the capital relationship poses an impediment. As a result, the Original Third-Party Committee concluded that the Share Exchange would contribute to the improvement of the corporate value of the Company and confirmed both that there were sufficient reasonable grounds for implementing the Share Exchange at the present time as well as that the purpose of the Share Exchange was reasonable.
- (b) Given that (i) the financial analysis report on the Share Exchange Ratio that the Company obtained from SMBC Nikko, a third-party financial advisor, on July 26, 2017, states that the Share Exchange Ratio exceeds the respective upper limits of the range of the Share Exchange Ratio obtained by the comparable company analysis and the market share price analysis while being close to the median value of the range obtained by the DCF Analysis, and, furthermore, the Company has obtained an opinion (fairness opinion) from SMBC Nikko, its third-party financial advisor, to the effect that the share exchange ratio for the Share Exchange is fair to shareholders of the Company Common Shares, excluding the controlling shareholders and other persons, from a financial point of view, and (ii) the premium offered with respect to the Share Exchange Ratio is significantly higher than the average premium offered in similar business integration cases of other companies, and (iii) as described below in (c), the Share Exchange Ratio was determined also taking into account the result of a negotiation process in which fairness had been ensured, the Original Third-Party Committee considered that the fairness of the terms and conditions of the Share Exchange has been ensured.
- (c) Given that (i) in considering the Share Exchange, the Company carefully considered various factors such as whether attention has been paid to the interests of the minority shareholders of the Company through fair procedures while obtaining advice from SMBC Nikko (the financial advisor) and TMI Associates (the legal advisor), which are independent from Alps Electric and the Company, (ii) in response to the Share Exchange Ratio presented by Alps Electric, the Company presented a Share Exchange Ratio that would serve as a counterproposal from the perspective of protecting the interests of minority shareholders, and conducted multiple rounds of substantive discussions and negotiations in a bid to raise the Share Exchange Ratio, and (iii) in the course of discussing, examining and negotiating the Share Exchange, there is no fact suggesting that the Company side had been affected by Alps Electric or a person with a special interest in

Alps Electric, the Original Third-Party Committee considered that attention has been paid to the interests of the minority shareholders of the Company in the Share Exchange through procedures that were fair.

- (d) The Original Third-Party Committee considered that the resolution of the Board of Directors of the Company for the Share Exchange was not disadvantageous to the minority shareholders of the Company in light of (a) through (c) above and other matters.

In the course of the Re-examination and the Structure Change, as described in “(1) Matters Concerning Appropriateness of Total Number of Shares and the Total Price of Exchange Consideration ii. Basis for the Calculation of the Share Exchange Ratio of the Share Exchange, etc. A. Basis and Reasons for the Share Exchange Ratio” above, the Company established the Original Third-Party Committee again on February 2, 2018 and, on February 26, 2018, obtained from the Original Third-Party Committee a written report (*toshinsho*) stating that there would be no change in its opinion expressed in the Original Written Report as a result of the Revisions to Earnings Forecasts and a written report (*toshinsho*) stating that there would be no change in its opinion expressed in the Original Written Report as a result of the Structure Change. The contents of the written reports (*toshinsho*) are substantially as follows.

(A) Written Report (*toshinsho*) Stating that There Would Be No Change in the Opinion Expressed in the Original Written Report as a Result of the Revisions to Earnings Forecasts

- (a) Given that Alps Electric also revised, on the same date as the Revisions to Earnings Forecasts, its full-year earnings forecasts (the “Alps Electric Revisions to Earnings Forecasts”) as announced in the press release titled “Official Announcement Regarding Revisions to Financial Results Forecast and Dividend Forecast for the Fiscal Year Ending March 31, 2018” dated January 30, 2018, from the perspective of examining the fairness of the Share Exchange conditions again in conjunction with the Revisions to Earnings Forecasts, it is believed that not only the examination of the Company’s most recent financial forecasts reflecting the Revisions to Earnings Forecasts but also the examination of Alps Electric’s most recent financial forecasts incorporating the Alps Electric Revisions to Earnings Forecasts is necessary. In this regard, SMBC Nikko conducted simulations using the DCF Analysis on the basis of reasonably expected assumptions, employing the Companies’ most recent financial forecasts reflecting the Revisions to Earnings Forecasts and the Alps Electric Revisions to Earnings Forecasts as underlying conditions. The simulations showed that, even if the simulation is performed concerning the Share Exchange Ratio on the basis of whichever of the reasonably expected assumptions while employing the Companies’ most recent financial forecasts reflecting their respective revisions as underlying conditions, the results of the simulation will sufficiently support the Share Exchange Ratio which was calculated using the DCF Analysis and in the manner set out in the financial analysis report concerning the share exchange ratio submitted by SMBC Nikko on July 26, 2017. Therefore, it is judged that the impact of the Revisions to Earnings Forecasts on the financial forecasts of the Companies is not as material as to make it necessary for the Company to request Alps Electric to revise the Share Exchange Ratio.
- (b) Given that (i) in conducting the Re-examination, the Company carefully considered various factors such as whether attention has been paid to the interests of the minority shareholders of the Company through fair procedures while obtaining advice from SMBC Nikko (the financial advisor) and TMI Associates (the legal advisor), which are independent from both of the Company and Alps Electric, and (ii) in the course of the Re-examination, there are no facts suggesting that the Company side had been affected by Alps Electric or a person with a special interest in Alps Electric, the Original Third-party Committee considered that, in the Re-examination, attention has been paid to the interests of the minority shareholders of the Company through procedures that were fair.
- (c) In light of (a) and (b) above and other matters, the Original Third-Party Committee concludes that there would be no change in its opinion expressed in the Original Written Report as a result of the Revisions to Earnings Forecasts.

(B) Written Report (*toshinsho*) Stating that There Would Be No Change in the Opinion Expressed in the Original Written Report as a Result of the Structure Change

- (a) After confirming and examining the purpose of the Business Integration, environment surrounding the Companies centering on the automotive market, circumstances leading to and reasons for the Structure Change, it has been shown that the Share Exchange conditioned on the Structure Change will contribute to the increase of the corporate value of the Company;
- (b) (i) in the financial forecasts of the Companies that were used as the basis for the calculation using the DCF Analysis in the financial analysis report dated July 26, 2017 concerning the share exchange ratio that the Company received from SMBC Nikko, a third-party financial advisor, the implementation of the Share Exchange was not assumed and (ii) after careful consideration, taking into account such matters as the calculation by DCF Analysis in the cases of other companies, it has been confirmed that the Structure

Change does not have an impact on the Companies' financial forecasts that were the basis for the calculation of the share exchange ratio that was agreed in the Share Exchange Agreement;

- (c) given that (i) in considering the Structure Change, the Company carefully considered various factors such as whether attention has been paid to the interests of the minority shareholders of the Company through fair procedures while obtaining advice from SMBC Nikko (the financial advisor) and TMI Associates (the legal advisor), which are independent from both of Alps Electric and the Company, and (ii) the Original Third-Party Committee considered that, in the course of the consultations, considerations and negotiations concerning the Structure Change, there are no facts suggesting that the Company side had been affected by Alps Electric or a person with a special interest in Alps Electric, the Original Third-Party Committee concludes that attention has been paid to the interests of the minority shareholders of the Company through fair procedures with regard to the Structure Change; and
- (d) in light of (a) to (c) above and other matters, the Original Third-Party Committee concluded that the resolution by the Board of Directors of the Company to execute a memorandum of understanding to amend the Share Exchange Agreement to implement the Structure Change is not disadvantageous to the minority shareholders of the Company, and there is no change to the content of its opinion expressed in the Original Written Report.

Furthermore, in the course of the Final Examination, as described in “(1) Matters Concerning Appropriateness of Total Number of Shares and the Total Price of Exchange Consideration ii. Basis for the Calculation of the Share Exchange Ratio of the Share Exchange, etc. A. Basis and Reasons for the Share Exchange Ratio” above, the Board of Directors of the Company established the Third-Party Committee on July 27, 2018 and asked for its opinions as to (a) whether the purpose of the Share Exchange was reasonable (including whether the Share Exchange would contribute to the improvement of corporate value of the Company), (b) whether the fairness of the terms and conditions of the Share Exchange (including the Share Exchange Ratio) has been ensured, (c) whether attention has been paid to the interests of the minority shareholders of the Company in the Share Exchange through fair procedures, and (d) whether the Share Exchange is not disadvantageous to the minority shareholders of the Company in light of (a) through (c).

In order to examine the fairness of the Share Exchange Ratio in a more multifaceted manner, the Third-Party Committee decided to analyze the Share Exchange Ratio separately and independently from the analysis by SMBC Nikko described in “(1) Matters Concerning Appropriateness of Total Number of Shares and the Total Price of Exchange Consideration ii. Basis for the Calculation of the Share Exchange Ratio of the Share Exchange, etc. B. Matters Concerning Financial Analysis (B) Overview of the Analysis (ii) Overview of analyses for the Final Analysis” above. The Third-Party Committee appointed, from among multiple specialized institution candidates, YCG, which is independent from both of the Company and Alps Electric, as its own third-party financial advisor to conduct an analysis of the share exchange ratio in the Share Exchange. The Third-Party Committee received the Financial Analysis Report and a fairness opinion regarding the Share Exchange Ratio (such fairness opinion, the “Opinion,” and the Financial Analysis Report and the Opinion, collectively, the “Financial Analysis Documents”) from YCG. In addition, YCG factored in the impact of the Special Dividends in analyzing the respective share values of the Companies in the Financial Analysis Documents.

The Third-Party Committee held a total of eleven meetings between July 27, 2018 and September 20, 2018 and carefully considered the above matters by, among others, collecting information and having discussions whenever necessary. For the purpose of giving such consideration, the Third-Party Committee conducted question-and-answer sessions with the Company and Alps Electric with respect to the contents of the most recent financial forecasts of each of the Companies that the Companies prepared. In addition, the Third-Party Committee received explanations from YCG concerning the method and results of the analysis of the share exchange ratio by YCG and conducted sufficient question-and-answer sessions with YCG with respect to its explanations. The Third-Party Committee also received explanations from TMI Associates concerning such matters as the method and process of decision-making of the Board of Directors of the Company with respect to the Final Examination.

Under such circumstances, on the premise of those explanations, the financial analysis report received from YCG and other materials it reviewed, the Third-Party Committee submitted a written report (*toshinsho*) to the Board of Directors of the Company on September 26, 2018 substantially to the following effect.

(a) Purpose of the Share Exchange

The Third-Party Committee examined various documents and also conducted a detailed question-and-answer session with the Company to understand the matters surrounding the Companies such as the current business environment and the business challenges. Based on that, there are no circumstances where it should be considered that the purpose of the Share Exchange has been particularly changed from the purpose set forth in “1. Reason for the Share Exchange” above and there are no circumstances either where it should be considered that the purpose of the Share Exchange is unreasonable in light of such matters as the current business environment and business challenges, and the Share Exchange would contribute to the improvement

of corporate value of the Company. Therefore, the Third-Party Committee has concluded that the purpose of the Share Exchange is reasonable.

(b) Fairness of the Terms and Conditions of the Share Exchange

(i) Obtaining the Financial Analysis Documents of YCG

The contents of the Financial Analysis Documents are as follows (Note).

(A) Financial Analysis Report

YCG conducted a DCF Analysis to evaluate intrinsic value of the Companies based on the status of their future business activities. The range in the number of the Company Common Shares as a result of the analysis is as follows, when the share value for one Alps Electric Common Share is deemed to be one.

In the analysis, YCG used the most recent financial forecasts of the Companies for the period from fiscal year ending March 31, 2019 through fiscal year ending March 31, 2021 as underlying conditions.

| Method of Analysis | Result of Financial Analysis of the Share Exchange Ratio |
|--------------------|--|
| DCF Analysis       | 0.45-0.65  |

In the DCF Analysis mentioned above, for Alps Electric, in order to analyze the range of values per Alps Electric Common Share, Alps Electric's corporate value and share value were analyzed by making certain financial adjustments to the business value obtained by discounting the future free cash flow expected to be generated by Alps Electric, based on the future revenue projections of Alps Electric, to its current value using a certain discount rate. Such future revenue projections took into consideration various factors such as the business plan, prepared by Alps Electric, for the period from the fiscal year ending March 31, 2019 through the fiscal year ending March 31, 2021, recent earnings trends, and public information. The discount rate used was between 5.57% and 6.81% and the perpetual growth rate used was 0%. For the Company, in order to analyze the range of values per the Company Common Share, the Company's corporate value and share value were analyzed by making certain financial adjustments to the business value obtained by discounting the future free cash flow expected to be generated by the Company, based on the future revenue projections of the Company, to its current value using a certain discount rate. Such future revenue projections took into consideration various factors such as the business plan, prepared by the Company, for the period from the fiscal year ending March 31, 2019 through the fiscal year ending March 31, 2021, recent earnings trends, and public information. The discount rate used was between 7.07% and 8.64% and the perpetual growth rate used was 0%. Based on the results of such analysis, the share exchange ratio was indicated to be between 0.45 and 0.65.

Moreover, the financial forecasts of the Companies that YCG used as a basis for its DCF Analysis do not contemplate any significant increase or decrease in profit. Such financial forecasts of the Companies do not assume the implementation of the Share Exchange.

YCG also considered using the methods of market share price analysis and comparable company analysis in the analysis described above, but used neither of them for the following reasons.

• Market share price analysis

In conducting market share price analyses, it is generally thought that unless the most recent share prices are used, the valuation would not reflect various factors surrounding the subject companies as of the analysis reference dates, and as a result the share prices during the last six months are used. However, the Company's share prices following the announcement of the Share Exchange have been affected by various speculations related to the Share Exchange and it is likely that the formation of price deviated from the fundamentals of the Company (e.g., earnings and financial condition). Therefore, it is not appropriate to use the Company's share prices during such period as a basis for the share value analysis. For this reason, a market share price analysis was not used.

• Comparable company analysis

The comparable listed companies that are assumed to have similarities with the Company include Clarion Co., Ltd., JVC KENWOOD Corporation and Pioneer. With respect to Clarion Co., Ltd., variables such as profit, shareholders' equity, and EBITDA did not show appropriate correlation with its business value. Moreover, with respect to Pioneer, (a) the news release titled "Pioneer Announces Business Results for 1Q Fiscal 2019" dated August 6, 2018 contains a note to its consolidated quarterly financial statements that there are substantial uncertainties about the going concern assumption and (b) there have been significant fluctuations of its share price presumably caused by market speculations



following news reports to the effect that Pioneer was considering a fundamental overhaul of its business aimed at a management improvement plan and recovery of profitability. Therefore, both Clarion Co., Ltd. and Pioneer are not appropriate as comparable listed companies. As a result, JVC KENWOOD Corporation is the only company, that it would be appropriate to treat as a comparable listed company. However, only one company would not be a sufficient number of comparable companies to appropriately conduct a comparable company analysis. For this reason, the comparable company analysis was not used.

(B) Opinion

The Third-Party Committee received an opinion from YCG on September 26, 2018 to the effect that the Share Exchange Ratio is fair from a financial point of view to shareholders of the Company Common Shares other than the Company's controlling shareholder and others.

(Note) The Financial Analysis Documents submitted by YCG are based on the following assumptions.

- In submitting the Financial Analysis Documents, YCG has in principle used without modification information provided by each of the Companies, public information as well as other information, and has assumed that all such materials and information are accurate and complete and that there is no information yet to be disclosed to YCG that could significantly affect the analysis of the respective values of the shares of common shares of the Companies, and has not independently verified the accuracy or completeness of such information.
- YCG has not undertaken an independent evaluation or assessment of any of the assets or liabilities (including off-balance sheet assets, off-balance sheet liabilities and contingent liabilities) of the Companies or any of their respective related companies, and has analyzed other information used as a basis for its examination subject to certain restrictions. In addition, YCG has assumed that the business plans of the Companies have been reasonably prepared based on the best estimates and judgments of the respective managements of the Companies available as of the analysis reference date.
- YCG is not aware of any discrepancy to arise between the share exchange ratio analyzed in the Financial Analysis Report and the share exchange ratio to be actually used by the Company and Alps Electric in the future, and YCG assumes no liability for such discrepancy.
- The share exchange ratio analyzed in the Financial Analysis Report has been analyzed based on the respective share values of the Companies as of the financial analysis reference date, and although the contents of the Financial Analysis Report may be affected by certain factors, including the future changes in the financial or capital markets or the business environment surrounding the Companies as well as the changes to the financial positions or business performances of the Companies, YCG assumes no obligation to modify or amend the contents of the Financial Analysis Report. The Opinion is limited to the scope of information available to YCG as of the date of submission of the Opinion. Although the contents of the Opinion may be affected by subsequent events, YCG assumes no obligation to update, revise or supplement the contents of the Opinion due to such subsequent events.
- The Opinion only expresses YCG's opinion that the Share Exchange Ratio is fair from a financial point of view to shareholders of the Company Common Shares, and does not express any opinion as to the Company's decision regarding the Share Exchange. Moreover, the Opinion does not express YCG's opinion concerning the price at which the Company Common Shares would be traded in the future.
- The Financial Analysis Documents do not make any recommendation to any party as to sale or purchase of the shares of the Companies or the Share Exchange, or otherwise make any solicitation or recommendation to any party as to the matter related to them.

(ii) Consideration of the Financial Analysis Documents by the Third-Party Committee

(A) Results of the analysis by YCG

The Third-Party Committee received detailed explanations from YCG concerning the method and the rationality of the analysis used in the Financial Analysis Report, followed by a sufficient question-and-answer session with YCG with respect to such explanations. The Third-Party Committee also received detailed explanations from employees in charge at the Companies concerning the contents of the business plans of the Companies which were used as a basis for the financial analysis and the rationality of the business plans, followed by sufficient question-and-answer sessions with those employees with respect to such explanations.

According to the explanations and answers from YCG, the market share price analysis is generally conducted in practice based on the share prices during the last six months because it is considered to be desirable to conduct the analysis using the latest share prices. In this regard, in analyzing the share prices of the Companies following the announcement of the Share Exchange, the share price of the Company in particular has fluctuated irrespective of intrinsic share value during the period of over a year since the Companies announced the Share Exchange Ratio of 1:0.68 on July 27, 2017, due to such factors as speculations on the feasibility of the Share Exchange and the revision to the Share Exchange Ratio, and it

is strongly presumed that the formation of price deviated from the fundamentals of the Company (e.g. earnings and financial condition). Given that, the share prices of the Company during the last six months of the date of submission of the Financial Analysis Report may not appropriately reflect the share value of the Company and are therefore not appropriate to be used as a basis for the share value analysis.

Moreover, when the comparable company analysis is used in the share value analysis, it is generally desirable to compare with about four to seven comparable companies to ensure the reliability of multiples, and unless there are at least two comparable companies, in general the comparable company analysis is not used.

In addition to the above explanations from YCG, the Third-Party Committee carefully considered and concluded that there is nothing unreasonable about the reason for YCG not using the market share price analysis and the comparable company method in the financial analysis described above or the process leading to that judgment.

The Third-Party Committee also conducted a detailed question-and-answer session with YCG, based on which the Third-Party Committee carefully considered, but did not find anything unreasonable as to the analysis method and other matters in the Financial Analysis Report.

According to the Financial Analysis Report, the share exchange ratio was analyzed to be between 0.45 and 0.65 based on the DCF Analysis, when the share value for one Alps Electric Common Share is deemed to be one, and the Share Exchange Ratio exceeds the upper limit.

#### (B) Other matters considered

In light of the facts, among other things, that certain of the shareholders of the Company has expressed the opinions as to the method of analyzing the share value of the Company using the DCF Analysis, the Third-Party Committee considered the following.

- Necessary operating cash

In analyzing the business value of the Company using the DCF method, necessary operating cash was considered to be approximately 34.4 billion yen, which is equivalent to one and a half times the amount of monthly sales of the Company. On this point, according to the explanations from YCG, it is common in theory and practice to treat cash necessary for business operations as operating cash and surplus cash as non-operating assets, and the level of operating cash varies among industries, companies, economic environments and other factors such that it is not possible to set a uniform standard for it. Moreover, the levels of necessary operating cash of the Companies are at levels that cannot be considered unreasonable in terms of practice based on the question-and-answer sessions with the respective employees in charge at the Companies and other facts.

The Third-Party Committee carefully considered the treatment of necessary operating cash in the analysis of the Company's business value using the DCF Analysis, taking into consideration matters such as the explanations from YCG and the employees in charge at the Company, and concluded that such treatment of necessary operating cash is not unreasonable.

In addition, in the DCF Analysis, while necessary operating cash was taken into consideration in analyzing the business values of not only the Company but also Alps Electric, a hypothetical analysis where the necessary operating cash of the Companies were assumed to be zero (where all cash and deposits were treated as non-operating assets) indicated the share exchange ratio to be between 0.50 to 0.70. It is considered that the Share Exchange Ratio is close to the upper limit of the range obtained by the hypothetical analysis, and the Third-Party Committee therefore does not believe that the size of necessary operating cash would raise doubt about the fairness of the calculation of the Share Exchange Ratio using the DCF Analysis.

- Perpetual growth rate

In the DCF Analysis of the business value of the Company, the perpetual growth rate used was 0%. According to the explanations from YCG, even in recent corporate reorganizations and MBOs in Japan, the perpetual growth rate used in the DCF Analysis of the business value of the target company is often 0% or somewhere between -0.25% and 0.25% or -0.5% and 0.5%, making the median value 0% (approximately 75% of over ten samples from recent published cases in Japan used a perpetual growth rate of 0%), and therefore it is common practice to use the perpetual growth rate of 0% for going concerns like the Company.

The Third-Party Committee carefully considered the treatment of the perpetual growth rate as being 0% in the DCF Analysis of business value of the Company, taking the above explanations from YCG into consideration, and concluded that such treatment of perpetual growth rate is not unreasonable.

- Period covered by financial forecasts

The DCF Analysis of business value of the Company is conducted based on the financial forecasts for the period of three years.

According to the explanations from YCG about the period of the financial forecasts used for the DCF Analysis, it is common practice to adopt periods over which forecasts can reasonably be made with a certain degree of confidence when analyzing corporate value. In recent corporate reorganizations and MBOs in Japan, the DCF Analysis of business value of the target company is often based on the financial forecasts for three to five years, and in light of the situations of such cases of other companies, it is not believed to be particularly unreasonable to use the financial forecast for three years as a basis for the analysis of the Company's business value.

In this regard, in the question-and-answer session with the employees in charge at the Company, the Third-Party Committee was explained that the Company normally formulates medium-term business plan for a period of three years regardless of the Share Exchange, and any plan for a period of over three years could raise doubt about confidence in the plan, and there was nothing unreasonable about such explanation from the Company.

Given the above, the Third-Party Committee carefully considered the use of the financial forecast for three years as a basis for the DCF Analysis of business value of the Company, and concluded that such treatment of the financial forecast is not unreasonable.

Taking the above into account, the Third-Party Committee concluded that the fairness of the terms and conditions of the Share Exchange has been ensured.

#### (c) Fairness of the procedure

##### (i) Procedures until the Final Examination

Given that in the consideration and examination by the Company of the Share Exchange until the Final Examination, (i) the Company carefully considered various factors such as whether attention has been paid to the interests of the minority shareholders of the Company through fair procedures while obtaining advice and opinions from SMBC Nikko and TMI Associates, which are independent from the Companies, and (ii) in the course of discussing, examining and negotiating the Share Exchange, there is no fact suggesting that the Company side had been affected by Alps Electric or a person with a special interest in Alps Electric, it is believed that, in the consideration and examination by the Company of the Share Exchange until the Final Examination, attention has been paid to the interests of the minority shareholders of the Company through fair procedures.

##### (ii) Procedures of the Final Examination

###### (A) Obtainment of advice from external experts who are independent from the Companies

In the Final Examination, the Company carefully considered various factors such as whether attention has been paid to the interests of the minority shareholders of the Company through fair procedures while obtaining advice and opinions from SMBC Nikko and TMI Associates, which are independent from the Companies.

###### (B) Discussions with Alps Electric

While it is believed that even if the Special Dividends are not paid, there are no circumstances where it should be considered that the Share Exchange Ratio is unfair, the Company has requested Alps Electric to discuss the terms and conditions of the Business Integration with the Company, and as a result of such discussions, the Company has decided to pay the Special Dividends that will benefit its minority shareholders. It is therefore considered that the Company has made efforts to pay the maximum attention to the interests of its minority shareholders.

###### (C) No involvement of a person with a special interest in the Final Examination

Of the officers and employees of the Company, Mr. Masataka Kataoka, who also serves as a Director at Alps Electric, was not involved in the Final Examination on behalf of the Company.

Although Mr. Shinji Inoue, a Director of the Company, does not serve as a Director at Alps Electric, in light of the fact that he had been a Director at Alps Electric until June 2016 and it could not be established that the consideration of the Share Exchange, including preliminary consideration, had not commenced by that time in June 2016, from the perspective of avoiding any potential conflicts of interest with the minority shareholders of the Company to the extent possible, he was not involved in the Final Examination on behalf of the Company.

Moreover, since Mr. Nobuhiko Komeya, the President of the Company, and Mr. Koichi Endo, Ms. Satoko Hasegawa, Mr. Shinji Maeda and Mr. Satoshi Kinoshita, Directors of the Company, are expected to assume the offices of Directors but not Audit and Supervisory Committee Members or Directors who are Audit and Supervisory Committee Members of Alps Electric after the Business Integration on the effective date of the Share Exchange, subject to the Share Exchange taking effect, and it cannot be denied that they could be considered to have actual or potential conflicts of interest concerning the Share Exchange, none of those Directors are expected to participate in the discussion or the resolution at the Company's Board of Directors meeting related to the Final Examination as the means to take a cautious approach.

None of the above nor other facts suggest that the Company side had been affected by Alps Electric or a person with a special interest in Alps Electric in the course of the Final Examination.

Given the above, after carefully considering the procedures of the Final Examination, the Third-Party Committee concluded that the attention has been paid to the interests of the minority shareholders of the Company in the Share Exchange through fair procedures.

(d) Whether the Share Exchange is not disadvantageous to the minority shareholders of the Company

On the premise of (a) through (c) above and other matters, after carefully considering the procedures of the Final Examination, the Third-Party Committee concluded that the Share Exchange is not disadvantageous to the minority shareholders of the Company.

B. Unanimous Approval by the Directors of the Company with No Interest

At the meeting of the Board of Directors of the Company held on July 27, 2017, the resolution of the Share Exchange was unanimously approved by all Directors (13 Directors (including 4 Directors who are Audit and Supervisory Committee Members)) excluding Mr. Masataka Kataoka and Mr. Shinji Inoue.

Mr. Kataoka, a Director who is not an Audit and Supervisory Committee Member, has served as a Director at Alps Electric concurrently. Mr. Inoue, a Director who is not an Audit and Supervisory Committee Member, was a Director at Alps Electric during the business year before the consideration of the Share Exchange began. Since they have conflicts of interest or potential conflicts of interest concerning the Share Exchange, Mr. Kataoka and Mr. Inoue did not participate in the deliberation or resolution concerning the Share Exchange at the Board of Directors Meeting described above or in the discussion or negotiation with Alps Electric concerning the Share Exchange as persons of their respective positions in the Company.

Furthermore as a result of the Re-examination, at the Company's Board of Directors meeting held on February 27, 2018, a resolution to not request that Alps Electric revise the Share Exchange Ratio and a resolution to conclude a memorandum of understanding to amend the Share Exchange Agreement to implement the Structure Change were passed by unanimous decision of all Directors (12 Directors (including 3 Directors who are Audit and Supervisory Committee Members), excluding Mr. Kataoka, Mr. Inoue and Mr. Kojima.

Mr. Kataoka, a Director but not an Audit and Supervisory Committee Member, serves as a Director at Alps Electric concurrently. Mr. Inoue, a Director but not an Audit and Supervisory Committee Member, was a Director at Alps Electric during the business year before the consideration of the Share Exchange began. Since they have conflicts of interest or potential conflicts of interest concerning the Share Exchange, Mr. Kataoka and Mr. Inoue were not involved in the Re-examination concerning the Share Exchange at the Board of Directors meeting described above or participate in the discussion and the resolution described above concerning the Re-examination. Also, Mr. Kojima, who serves as both a Director and an Audit and Supervisory Committee Member, was absent from the Board of Directors meeting of the Company held on the same day for the need of attention to business operations, however, it has been confirmed separately that Mr. Kojima approves that the Company will not request a revision of the Share Exchange Ratio.

Furthermore, at the Company's Board of Directors meeting held on September 27, 2018, a resolution of the Board of Directors based on the Final Examination was passed unanimously by all Directors (8 Directors (including 2 Directors who are Audit and Supervisory Committee Members) excluding Mr. Komeya, Mr. Endo, Mr. Inoue, Mr. Kataoka, Ms. Hasegawa, Mr. Maeda, and Mr. Kinoshita.

Since Mr. Komeya and Mr. Endo, Directors but not Audit and Supervisory Committee Members, and Ms. Hasegawa, Mr. Maeda and Mr. Kinoshita, Directors who are Audit and Supervisory Committee Members, are expected to assume the offices of Directors but not Audit and Supervisory Committee Members or Directors who are Audit and Supervisory Committee Members of Alps Electric after the Business Integration on the effective date of the Share Exchange, subject to the Share Exchange taking effect, and it cannot be denied that they could be considered to have actual or potential conflicts of interest concerning the Share Exchange, none of those Directors

participated in the discussion or the resolution at the Board of Directors meeting described above as the means to take a cautious approach.

Mr. Kataoka, a Director but not an Audit and Supervisory Committee Member, serves as a Director at Alps Electric concurrently. Mr. Inoue, a Director but not an Audit and Supervisory Committee Member, was a Director at Alps Electric during the business year before the consideration of the Share Exchange began. Since they have conflicts of interest or potential conflicts of interest concerning the Share Exchange, neither of Mr. Kataoka nor Mr. Inoue participated in the discussion or the resolution at the Board of Directors meeting described above.

#### (4) Matters Concerning Appropriateness of the Provisions Regarding Amounts of Stated Capital and Capital Reserves of Alps Electric

The amounts of the stated capital and capital reserves of Alps Electric that will be increased in the Share Exchange are as set out below:

- i. Increase in stated capital: 0 yen
- ii. Increase in capital reserves: such amount as separately determined by Alps Electric in accordance with Article 39 of the Regulation on Accounting of Companies
- iii. Increase in retained earnings reserves: 0 yen

The above treatment is considered appropriate as it is based on the Regulation on Accounting of Companies and other fair accounting standards. It was also determined based on a comprehensive judgment of the capital situation of Alps Electric and various other circumstances.

#### 4. Reference Material Concerning the Exchange Consideration

##### (1) Provisions of Articles of Incorporation of Alps Electric

As stipulated by laws and regulations and by the Company's Articles of Incorporation, the Articles of Incorporation of Alps Electric has been posted on the Company's website.

##### (2) Matters Concerning the Method of Calculating the Exchange Consideration

- i. Market on which Exchange Consideration is Traded  
The Alps Electric Common Shares are traded on the First Section of the TSE.
- ii. Party Conducting Intermediation, Brokerage or Agency for Trading of the Exchange Consideration  
Intermediation and brokerage for the Alps Electric Common Shares are carried at each securities company in Japan.
- iii. Details of Restrictions on the Transfer, etc. of Exchange Consideration  
Not applicable.

##### (3) Matters Concerning Market Price of Exchange Consideration

The one-month, three-month, and six-month average closing prices of the Alps Electric Common Shares on the First Section of the TSE when the date of reference is the business day before the day on which the conclusion of the Share Exchange Agreement was announced (July 27, 2017) are 3,212 yen, 3,181 yen, and 3,201 yen, respectively.

The most recent market price of the Alps Electric Common Shares on the First Section of the TSE can be viewed from the website of the Japan Exchange Group, Inc. (<http://www.jpx.co.jp/>)

##### (4) Balance Sheets of Alps Electric for Each Fiscal Year with Closing Date in the Last Five Years

As Alps Electric has filed annual securities reports in accordance with the provisions of Article 24, paragraph 1 of the Financial Instruments and Exchange Act for each of the fiscal years, this information is omitted.

#### 5. Matters Concerning Appropriateness of the Provisions of Share Acquisition Rights in Relation to the Share Exchange

Through the Share Exchange, Alps Electric will deliver to the holders of the share acquisition rights that have been issued by the Company and are listed in (i) to (v) of Section 1 of the table below the respectively allocated Alps Electric's share acquisition rights that are listed in (i) to (v) of Section 2 of such table of the same number as the total number stated or recorded in Alps Electric's share acquisition rights registry on the record date in exchange for such share acquisition rights held by them.

As the share acquisition rights listed in Section 2, whose conditions have been made equivalent to the share acquisition rights listed in Section 1, have been determined based on the details of the mentioned share acquisition rights and the Share Exchange Ratio, Alps Electric and the Company have decided that one share subscription right listed in Section 2 will be allocated for every one share subscription right listed in Section 1 in order to ensure that the holders of the share acquisition rights listed in Section 1, even after the Share Exchange, keep as close as possible rights that are equivalent to the rights held before. The Companies have determined these details to be appropriate.

The Company has not issued any convertible bond-type bonds with share acquisition rights.

|       | Section 1  |  | Section 2  |  |
|-------|--|--|--|--|
|       | Share acquisition rights issued by the Company                     |  | Share acquisition rights to be delivered by Alps Electric  |  |
|       | Title  | Terms  | Title  | Terms  |
| (i)   | Alpine Electronics, Inc. First Series of Share Acquisition Rights  | Set forth in Exhibit 1-1 of the Share Exchange Agreement | Alps Electric Co., Ltd. Fifth Series of Share Acquisition Rights (ALPS ALPINE CO., LTD. Sixth Series of Share Acquisition Rights)    | Set forth in Exhibit 1-2 of the Share Exchange Agreement |
| (ii)  | Alpine Electronics, Inc. Second Series of Share Acquisition Rights | Set forth in Exhibit 2-1 of the Share Exchange Agreement | Alps Electric Co., Ltd. Sixth Series of Share Acquisition Rights (ALPS ALPINE CO., LTD. Seventh Series of Share Acquisition Rights)  | Set forth in Exhibit 2-2 of the Share Exchange Agreement |
| (iii) | Alpine Electronics, Inc. Third Series of Share Acquisition Rights  | Set forth in Exhibit 3-1 of the Share Exchange Agreement | Alps Electric Co., Ltd. Seventh Series of Share Acquisition Rights (ALPS ALPINE CO., LTD. Eighth Series of Share Acquisition Rights) | Set forth in Exhibit 3-2 of the Share Exchange Agreement |
| (iv)  | Alpine Electronics, Inc. Fourth Series of Share Acquisition Rights | Set forth in Exhibit 4-1 of the Share Exchange Agreement | Alps Electric Co., Ltd. Eighth Series of Share Acquisition Rights (ALPS ALPINE CO., LTD. Ninth Series of Share Acquisition Rights)   | Set forth in Exhibit 4-2 of the Share Exchange Agreement |
| (v)   | Alpine Electronics, Inc. Fifth Series of Share Acquisition Rights  | Set forth in Exhibit 5-1 of the Share Exchange Agreement | Alps Electric Co., Ltd. Ninth Series of Share Acquisition Rights (ALPS ALPINE CO., LTD. Tenth Series of Share Acquisition Rights)    | Set forth in Exhibit 5-2 of the Share Exchange Agreement |

(Note) For the specific details of the above share acquisition rights, please see Exhibits 1-1 to 4-2 of Attachment 1 “Share Exchange Agreement” and Exhibits 5-1 to 5-2 of Attachment 3 “Memorandum of Understanding Concerning Amendments to Share Exchange Agreement.”

## 6. Matters Concerning the Financial Statements, etc.

### (1) Details of the Financial Statements, etc. of Alps Electric for the Most Recently Ended Fiscal Year

As stipulated by laws and regulations and by the Company’s Articles of Incorporation, the financial statements, etc. of Alps Electric for the most recently ended fiscal year are available on the Company’s website.

### (2) Disposal of Material Assets, Assumption of Material Liabilities and Other Events that Would Materially Impact the Status of Company Assets Occurring After the Closing Date of the Final Fiscal Year for Companies Conducting Share Exchange

#### i. Alps Electric

Not applicable.

#### ii. The Company

##### A. Payment of the Special Dividends

The Company has resolved at its Board of Directors meeting held on September 27, 2018 to submit a proposal regarding the Special Dividends to the Extraordinary General Meeting of Shareholders, subject to the condition that the proposal for the approval of the Share Exchange Agreement will be approved at the Extraordinary General Meeting of Shareholders. For details on the Special Dividends, the reason for paying the Special Dividends and other pertinent information, please refer to Proposal 2 “Appropriation of Surplus.”

## **Proposal 2: Appropriation of Surplus**

Although no particular circumstances that give rise to doubt about fairness of the Share Exchange Ratio were initially identified in the course of the Final Examination, which was conducted without taking the impact of the Special Dividends into consideration, in light of various factors such as opinions expressed by certain minority shareholders of the Company, including the voting outcome at the 52nd Ordinary General Meeting of Shareholders of the Company held on June 21, 2018, and the latest trends of share prices of the Companies, on September 4, 2018, the Company officially requested Alps Electric to discuss the terms and conditions of the Business Integration with the Company in order to pursue the possibility for the Business Integration to be conducted on even more favorable terms and conditions to its minority shareholders. After that, while discussing with Alps Electric, the Company also continued careful consideration at its Board of Directors meetings, and as a result, on September 14, 2018, the Company stated to Alps Electric that it would like to pay the Special Dividends and, from the same day, started discussions on the payment of the Special Dividends with Alps Electric. As a result of those discussions, the Company obtained the agreement from Alps Electric as to the payment of the Special Dividends and that there would be no revision to the Share Exchange Ratio despite the payment of the Special Dividends. Accordingly, the Company decided to pay the Special Dividends.

The Company has set the amount of dividend per share for the Special Dividends at ¥100 in light of such factors as the amount of operating cash necessary for the Company's business operations, the recent business conditions of each of the Companies, the difference between the financial forecasts of the Companies which were used as a basis for the DCF Analysis, and to which the Companies referred in executing the Share Exchange Agreement on July 27, 2017, and the actual operating results of the Companies for the fiscal year ended March 31, 2018, and the impact of the Special Dividends on the Share Exchange Ratio.

On condition that "Proposal 1 Approval for the Share Exchange Agreement between the Company and Alps Electric Co., Ltd." is approved as proposed, the Company will pay the Special Dividends as described below.

- (1) Type of dividend  
Cash
- (2) Allocation and the total amount of dividends  
¥100 per share of common stock of the Company  
The total amount of dividends: ¥6,895,226,000
- (3) Effective date of dividend payment from surplus  
December 27, 2018

### Shareholder Proposal (Proposal 3)

Proposal 3 is a proposal made by a shareholder. The summary of the proposal and reason for the proposal stated below have been transcribed, without alteration of semantic content, as stated in the letter of shareholder proposal (including later revisions) submitted by the proposing shareholder.

**The Board of Directors stands opposed to this proposal. Details of the opinions of the Company's Board of Directors with respect to the shareholder proposal is stated subsequent to each proposal.**

#### Proposal 3: Appropriation of Surplus

##### (1) Summary of the Proposal

Subject to the condition that the proposal for the approval of the Share Exchange Agreement (as defined below) will be disapproved, the Company will appropriate surplus to the shareholders or the registered pledgees of shares who are entered or recorded in the final shareholders register of the Company as of October 15, 2018 as follows.

##### A. Matters concerning the dividend

The dividend will be paid as follows.

##### (i) Type of dividend

Cash

##### (ii) Allocation and the amount of dividend

¥300 per common share of the Company

Total amount: The amount obtained by multiplying ¥300 by the total number of outstanding common shares of the Company (excluding treasury shares) as of October 15, 2018

##### (iii) Effective date of dividend payment from surplus

December 27, 2018

##### B. Matters concerning other appropriation of surplus

In order to apply to the payment of dividends, the Company will conduct reversal of the general reserve as follows.

##### (i) Item and the amount of surplus to reduce

General reserve ¥31,452,000,000

##### (ii) Item and the amount of surplus to increase

Retained earnings brought forward ¥31,452,000,000

##### (2) Reason for the Proposal

On July 27, 2017, the Company announced that it had decided to conduct a business integration (the "Business Integration") that involves a reorganization into a holding company structure with Alps Electric Co., Ltd. ("Alps Electric") which is its parent company and holds 41.15% of the shares in the Company on a voting-right ownership basis. As a part of the Business Integration, it would conduct a share exchange through which Alps Electric will be the wholly owning parent company and Alpine will become the wholly owned subsidiary (the "Share Exchange," and the share exchange agreement regarding the Share Exchange between the Company and Alps Electric, the "Share Exchange Agreement"). For the Share Exchange, the two companies have agreed on the share exchange ratio being 0.68 shares of the Alps Electric common shares to be allocated and delivered for each share of the Company common shares.

The Proposal is to propose the payment of the dividends of ¥300 per common share of the Company on the condition that the proposal for the approval of the Share Exchange Agreement will be disapproved.

The Company announced on September 27, 2018 to pay the dividends of ¥100 per common share of the Company on the condition that the proposal for the approval of the Share Exchange Agreement will be passed. On the same day, Alps Electric clarified its policy to proactively buy back its own shares by stating "giving consideration to the possibility that while [Alps Electric's] financial conditions are expected to further improve from the current conditions as a result of the Business Integration, an increase in [Alps Electric's] common stock as a result of the Share Exchange may lead to a certain level of dilution. [Alps Electric] has decided to set a basic policy to proactively introduce measures to return profits to shareholders, including a share buyback, depending on the degree of excess capital and financial surplus" in the press release titled "Notice Regarding the Basic Policy on Shareholder Returns under the Holding Company Structure." In addition, Alps Electric indicated at the



last investor meeting that Alps Electric would utilize the Company's cash and deposits as the funds for a buyback.

The Company proposed the dividends of ¥15 per common share of the Company at the 52nd ordinary general meeting of shareholders held on June 21, 2018 (the "Ordinary General Meeting of Shareholders"), which was approved. Oasis, on the other hand, submitted a shareholder proposal to pay the dividends of ¥325 per common share of the Company which includes the amount proposed by the dividends proposal made by the Company, but the Company opposed to Oasis's shareholder proposal on the ground that the Company must maintain cash and deposits at hand as necessary operating cash and that the payment of dividends, which was proposed by Oasis, could impair stable sustainability of the Company's business.

However, as described above, the Company itself has announced to submit a proposal of the payment of the dividends of ¥100 per common share of the Company to the Extraordinary General Meeting of Shareholders, and Alps Electric has implied that if the Share Exchange is implemented, it would buy back its own shares by utilizing cash and deposits held by the Company. It means there was no necessity for the Company to maintain cash and deposits at hand. It has therefore been clarified that the Company's explanation at the Ordinary General Meeting of Shareholders was not true.

If the dividends of ¥300 per common share of the Company are paid, the total dividend amount will be approximately ¥20.7 billion. Even if the dividends of that amount is paid, the Company will still hold cash and deposits of approximately ¥33.1 billion and a large amount of cross-held shares available for sale (e.g., shares in Honda Motor Co., Ltd. and shares in and capital contribution to Neusoft Corporation in China) and even it can utilize interest-bearing debts. Accordingly, even if the Company pays the dividends of ¥300 per common share of the Company, it will still hold sufficient funds for overseas expansion and more effective strategic collaborations than the Business Integration with Alps Electric.

If the proposal for the approval of the Share Exchange Agreement is disapproved, the Company will continue operating as an independent listed company, but the management of the Company must improve the corporate value for all stakeholders, rather than Alps Electric alone.

If the dividends of ¥300 per common share of the Company are paid, the Company's ROE will improve, and this will benefit all shareholders of the Company. As is evident from the above, the Company has a solid financial base on which stable sustainability of the Company's business will not be impaired by the dividends payment of an amount even greater than ¥300 per common share, let alone ¥300 per common share, of the Company. Oasis firmly believes that a disapproval of the proposal for the approval of the Share Exchange Agreement and an approval of this proposal will contribute to the improvement of the corporate value of the Company over the short, medium and long term.

#### **■ Opinion of the Company's Board of Directors**

**The Company's Board of Directors is opposed to this proposal (the Shareholder Proposal).**

##### **(1) Reason for the Opposition**

The current automobile industry has entered an era of great change, which some people say occurs once a century. Particularly, in four areas called CASE (Connected, Autonomous, Shared & Services, Electric), significant changes that are unseen in other industries are taking place in a short period of time, including a constant connection to the Internet (Connected), autonomous driving (Autonomous), car-sharing services (Shared & Services) and the shift to electrically driven vehicles such as hybrid cars and EV (electric vehicles) (Electric). In addition, as epitomized by the advancement of IT companies into the automobile industry, movement of alliances beyond the framework of the automobile industry is being accelerated much more dramatically than before.

In having contact with its customers, automotive manufacturers, the Company has come to realize that the concentration of management resources into CASE (Connected, Autonomous, Shared & Services, Electric) will continue to be a trend in the entire automobile industry in the fiscal 2018 and the following years, and suppliers of HMI (human machine interface), etc. are even expected to propose HMI systems for the entire vehicle, rather than just delivering module products.

In light of this rapidly changing market environment for automotive equipment, the Company believes that the early realization of synergies through the business integration with Alps Electric is essential not only for improving shareholder value over a medium- to long-term but also meeting the expectations of its customers and

employees, and further, the Company believes that it is the best measure for all stakeholders, including those of the Company's minority shareholders.

On the contrary, the assertion in the Shareholder Proposal that the rejection of the proposal concerning the approval of the Share Exchange Agreement contributes to the improvement of the corporate value of the Company is contrary to the opinion of the Company based on the business environment surrounding the Company. Therefore, the Company opposes the Shareholder Proposal.

As described in “(2) A. The Company's Views on the Capital Policy” below, the Company believes it must maintain at hand a certain level of cash and deposits in promoting business as necessary operating cash and funds for other purposes such as to realize sustainable growth over a medium- to long-term. Among those funds, the Company considers that the amount of necessary operating cash would be approximately ¥35.0 billion in light of the sales volume in the fiscal year ended March 31, 2018. If the Company pays dividends as asserted in the Shareholder Proposal (totaling approximately ¥20.7 billion), taking into account the Company's current funding requirements, it poses the risk of a shortfall in operating cash, and even if it did not create an immediate shortfall in operating cash, a loss of reserves to cover risks for credit shrinkage on a crisis event could result in stable sustainability of the Company's business being impaired.

Accordingly, from the perspective of securing stable sustainability of the Company's business and improving medium- to long-term corporate value, the Company believes it is inappropriate to pay the dividends pertaining to the Shareholder Proposal.

## (2) Supplemental Explanation for the Reason of the Opposition

### A. The Company's Views on the Capital Policy

- (a) In the Company, the collection of accounts receivable peaks at the end of each month, while the payment of accounts payable peaks around the 20th day of each month. Accordingly, the amount of cash and deposits normally tends to peak at month-end. Looking at operating cash on a consolidated earnings basis for the past five years, the account-receivable turnover period was 1.5 to 2.0 months, inventory turnover period was 1.0 to 1.5 months and account-payable turnover period was 1.0 to 1.5 months. Therefore, the Company considers the standard period for securing operating cash to be around 1.5 to 2.0 months. This standard is equivalent to approximately ¥35.0 billion to ¥46.0 billion in the sales volume in the fiscal year ended March 31, 2018.
- (b) Given that the Company is operating globally in the regions such as the Americas, Europe, Asia (as of March 31, 2018, the Company has 42 group companies (36 subsidiaries and 6 affiliates) in 14 countries) and its overseas sales are over 85% of the total sales, in order to smoothly and flexibly facilitate the sales, production, procurement and other operational activities in those regions, the Company considers it necessary to have its major overseas subsidiaries secure a certain level of operating cash in multiple currencies, including U.S. dollars, euros, yuan and yen. Of the cash and deposits provided in the consolidated balance sheet as of the end of the first quarter of the fiscal year ending March 31, 2019 (approximately ¥51.6 billion), the percentage of cash and deposits held in Japan is approximately 30%.
- (c) The Company considers it necessary to secure a certain level of cash and deposits to pay dividends and taxes and be ready for responding to troubles and other issues which are unique to the in-car equipment industry.
- (d) Most of the automobile manufacturers request their business partners to provide financial data on a regular basis and therefore it is a requisite to secure stable financial footing for maintaining ongoing transaction relationships. This is especially the case with the Company's OEM business, which sells its products to automobile manufacturers around the world that demand even better quality, lower prices and shorter deadlines amid the global competition for survival. In order to meet such demand, the Company considers it essential that it maintains its financial strength at a high level.
- (e) The Company also considers it important to secure the cash funding in order to cover for any needs for potential M&A and other activities for the Company's further growth. Specifically, it is becoming ordinary activities to consider M&A deals of up to ¥10.0 billion that mainly target Japanese and overseas software development companies and audio device companies.

### B. Details of the Special Dividends Proposed by the Company

As the means to take a cautious approach to protect the interests of its minority shareholders, the Company carefully discussed and considered whether the Share Exchange is not disadvantageous to the minority shareholders of the Company, taking into consideration various factors such as the confirmation of the details

including the updated factors concerning the revised financial forecasts of the Company and Alps Electric and the examination of the appropriateness, as well as the details of the analysis by SMBC Nikko Securities Inc. of the Share Exchange Ratio, the legal advice from TMI Associates, and the written report (*toshinsho*) received on September 26, 2018 from the Third-Party Committee consisting of five members, to which two new members were added. As a result, even on the assumption that the Share Exchange Ratio is fair where the Special Dividends are not paid, in light of various factors such as opinions expressed by certain minority shareholders of the Company, including the voting outcome at the 52nd ordinary general meeting of shareholders of the Company held on June 21, 2018, and the latest trends of share prices of the Companies, the Company has concluded that it is appropriate to conduct the business integration on even more favorable terms and conditions to its minority shareholders by way of the Special Dividends. Accordingly, the Company resolved at its Board of Directors meeting held on September 27, 2018 to submit a proposal for the approval of the distribution of the Special Dividends to the Extraordinary General Meeting of Shareholders, subject to the condition that the proposal of the Share Exchange Agreement will be approved at the Extraordinary General Meeting of Shareholders.

The Company set the amount of dividend per common share for the Special Dividends at ¥100 in light of such factors as the amount of operating cash necessary for the Company's business operations, which is set forth in "A. The Company's Views on the Capital Policy" above, the recent business conditions of each of the Companies, the difference between the financial forecasts of the Companies which were used as a basis for the DCF analysis, and to which the Companies referred in executing the Share Exchange Agreement on July 27, 2017, and the actual operating results of the Companies for the fiscal year ended March 31, 2018, and the impact of the Special Dividends on the Share Exchange Ratio.