

## Policies on the Approach to Corporate Governance

Kuroda Electric Co., Ltd. (the Company) has prepared corporate governance policies for the purpose of implementing and understanding its current status of implementation, corresponding to each principle of the Corporate Governance Code (“the CG Code”) set up by the Tokyo Stock Exchange for listed companies. The Company would like to share its views and efforts made on corporate governance with every stakeholder, and attempts to further enhance and improve its effort on corporate governance in the future.

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## Introduction Basic Policies and Principles

### 1. Basic Policies and Views on Corporate Governance

The Company has been fostering the corporate philosophy described in the next paragraph ever since its foundation in its corporate culture. With “the sustainable growth of the company and the creation of mid- to long-term corporate value” as the bedrock of business activities, we recognize corporate governance as a system to create consistent corporate value. We consider it highly important to enhance transparency in management and make quick decisions for higher corporate value, while making considerations for the creation of added value for all stakeholders surrounding the Company. For this reason, we have adopted a system of a company with nominating committee, etc. to enable flexible business execution and strengthen the management supervisory function carried out by the Board of Directors.

### 2. Corporate Philosophy

The Company considers the three pillars of “Life,” “Freedom,” and “Creativity” as the source of its corporate value, which has been the corporate philosophy ever since the foundation of the Company. The Company believes that appreciating the benefits received from society and the environment and continuing to develop business freely and creatively are the reasons the Kuroda Electric Group exists, and that this leads to the social responsibility of the Group. For human beings to live, basically, the most necessary and important factors are “Life” and “Freedom.” For a business to expand forever, “Life” and “Freedom” must be respected, realized and permeated in the company as a corporate culture. Our company maxim, “to draw on roots of life as deep as the earth and extend freedom as high as the sky,” was set up to encourage the three pillars in the following ways.

Life: A proactive approach and recognition of what we owe to the community and the environment

Freedom: Fostering the independence of each of our members by giving them autonomy and responsibility, while allowing them to develop their potential to the full

Creativity: Most of all, seeking constant evolution by taking on the challenge of unexplored fields and possibilities

### 3. Management Policies

The Company is under management in conformity with the aforementioned principles and basic policies related to corporate governance.

#### 4. Establishment, Amendment or Abolishment of the Policies

The Board of Directors shall determine the establishment, amendment or abolishment of the policies herein set forth.

The following chapters and items are described in the order of the contents of the “Corporate Governance Code” adopted by the Tokyo Stock Exchange in June 2015.

### Chapter 1 Securing the Rights and Equal Treatment of Shareholders

#### 1. Securing the Rights and Equal Treatment of Shareholders

For listed companies, shareholders are significant stakeholders. The Company develops an environment in which shareholders can exercise their rights in a proper manner. As the general meeting of shareholders is the most important opportunity for us to have dialogue with every shareholder, we give special consideration to the meeting, so that the shareholders’ exercising their rights as well as their equal treatment should not be impeded. Exercising voting rights at the general meeting of shareholders is the fundamental right of a shareholder, and we take proper measures to ensure that their rights can be practically exercised.

- a. If the Company’s proposal is approved at the general meeting of shareholders with a large number of dissenting votes, it is the Company’s policy to analyze the cause of the dissenting votes. Depending on the outcome of the analysis, we consider whether to seek dialogue with shareholders or other action plans.
- b. The Company adopted a system of a company with nominating committee, etc. and separated the management supervisory function and business execution function. Three committees have been set up, namely, the Nominating Committee, Compensation Committee and Audit Committee. Each of these committees is made up of a majority of outside directors and sufficiently fulfills its role and function related to corporate governance.
- c. The Company prepared enhanced information disclosure and designated a point of contact, etc., so that shareholders’ rights are not impeded. For the equal treatment of domestic and foreign investors in substance, information disclosure is prepared in English so that foreign shareholders, including institutional investors, may exercise their rights smoothly, as described in Chapter 3. Chapter 5 deals with the fact that the Company is engaged in IR activities for foreign investors as actively as for domestic investors.

#### 2. General Meeting of Shareholders

The Company considers the general meeting of shareholders as an opportunity for constructive dialogue with shareholders, and thus makes sure that consideration is

made from the perspective of shareholders to ensure that they can exercise their rights

- a. The Company sets up an appropriate information disclosure system in compliance with the Timely Disclosure Rules of the Tokyo Stock Exchange.
- b. For the convenience of shareholders, the Company sends out the notice of convocation of the general meeting of shareholders earlier (approximately 3 weeks in advance) than required by the laws and ordinances. It is also disclosed early on stock exchange's website and the voting rights exercise platform for institutional investors, as well as on the Company's website.
- c. For scheduling of the general meeting of shareholders, including the date of the meeting, the Company makes every effort to offer information disclosure in advance to enhance constructive dialogue with shareholders.
- d. Voting rights may be exercised through the voting rights exercise platform for institutional investors, run by ICJ, Inc. The English version of the notice of convocation of the general meeting of shareholders is also prepared and disclosed.
- e. In case institutional investors, etc., who hold the Company's shares under the name of a trust bank, etc., request in advance to exercise their voting rights in lieu of the trust bank, etc., we would accommodate such requests after consultation with the trust bank, as required.

### 3. Basic Policies on Capital Management

As capital management directly affects stakeholder interests, commencing with shareholders, the Company considers capital management as one of the most important corporate governance issues and set up the basic policies as follows.

- (i) Maintaining the level of shareholder capital required for sustainable growth and increase in corporate value over the mid- to long- term for the Group.
- (ii) In doing so, the Company emphasizes so-called "capital productivity," and as its indicator, maintains the ROE (Return on Equity), at the level considered to exceed the cost of capital.
- (iii) As for shareholder returns, the Company focuses on the dividend policy with a high regard for its long-term sustainability, while taking into consideration the required and appropriate rate of shareholders' equity to total assets under (i), ROE, dividend on equity ratio, and competitive dividend yield. As required, the agile share buy-back may be implemented. Under the design of a system of a company with nominating committee, etc., decisions related to dividends and the agile share buy-back are delegated to the Board of Directors.
- (iv) The Company does not implement capital management that may not contribute to the long-term creation of shareholder value.

4. “Cross-Shareholdings” (translation used in the CG Code) of Listed Shares  
In overall consideration of establishing, maintaining or strengthening relationships with business partners, the Company may hold shares of other listed companies if it determines that holding such shares would contribute to higher corporate value of the Group in the mid- to long- term. The policy regarding the holding and maintaining shares is reviewed on a regular basis as our management strategy and other factors may change. Going forward, the policy is put into discussion once a year at the Board of Directors meeting, and if the holding of any shares is considered to bring no shareholder value in the long run from the perspective of economic rationality, such as risks and returns, the disposal of such shares shall be considered.  
Upon exercising the voting rights for the shares held by the Company, we would examine comprehensively whether the proposals would contribute to the appropriate maintenance of corporate governance or the higher corporate value of the issuing company, as well as that of the Company, in the mid- to long-term.
5. So-called Anti-Takeover Measures  
Currently, the Company has not adopted so-called anti-takeover measures, but in case a large acquisition of its shares occurred, to presumably harm the common interests of shareholders, the Board of Directors would appropriately deal with the situation to secure the Company’s corporate value and protect the interests of shareholders, including minority shareholders. If we were to adopt countermeasures, such as anti-takeover measures in the future, we would fully discuss the rationality and appropriateness of such measures at the Executive Board and the Board of Directors meetings, and make proposals to the general meeting of shareholders.
  - a. The Company shall make every effort to offer information necessary for shareholders to appropriately determine whether to accept a takeover bid in the case of a buy-out of the Company’s shares, and shall explain its policies and actions after full discussion at the Executive Board and the Board of Directors meetings.
6. Capital Management That May Harm Shareholders’ Interests  
In compliance with the basic policies on capital management (Chapter 1 -3), the Company does not implement capital management that may not contribute to the long-term creation of shareholder value. As for capital management that may possibly harm the interests of shareholders, the Company shall fully examine the necessity and rationality, to minimize the possibility of harming the interests of shareholders and provide a full explanation after ensuring appropriate procedures so that existing shareholders are not unfairly harmed.

## 7. Related-Party Transactions

When a director or an executive officer of the Company is engaged in a transaction with the Company, or when the Company is engaged in a transaction with major shareholders, etc., the matter shall be fully discussed and resolved at the Board of Directors meeting. The content of such transaction shall be reported to the Board of Directors after the completion of the transaction.

## Chapter 2 Appropriate Cooperation with Stakeholders Other Than Shareholders

### 1. Business Principles as the Foundation of Corporate Value Creation over the Mid- to Long-Term

Based on the corporate philosophy (Introduction-2) since its foundation, the Company shall pursue further growth potential and profitability, develop business operations with a global perspective, and enhance corporate value consistently over the mid- to long-term. The Company recognizes that sustainable growth and the creation of mid- to long-term corporate value that it strives for are made possible through cooperation with all stakeholders, and thus shall appropriately maintain such cooperative relationships. For this reason, we shall make all efforts in building and maintaining good long-lasting relationships with stakeholders other than shareholders, including clients, employees, business partners and the local community, etc. In addition, in accordance with the Company's CSR policies, we consider our social responsibility to be a fiduciary responsibility to all of our stakeholders, and carry out the responsibilities with much consideration for the environment, human rights, etc., from a global perspective.

### 2. Development and Implementation of the Code of Conduct

Based on the belief that corporate activities of the Company and each one of the Group companies shall always bring "trust" to the parties involved and contribute to the benefit of all stakeholders including shareholders, investors, employees, business partners and people in the local community, the "Group Compliance Code of Conduct" is set up for and has been informed to all employees including officers, regular employees, advisors, temporary workers, seasonal employees and part-time workers.

- a. The Board of Directors periodically reviews and audits the operation of the "Group Compliance Code of Conduct." To facilitate action plans of compliance and risk management in specific terms and on a regular basis, the Corporate Action Committee is set up to coordinate with the Board of Directors.

### 3. Issues Surrounding Sustainability Including Social and Environmental Matters

The Company officially participated in the UN Global Compact in March 2011. In accordance with the Company's CSR policies based on the corporate philosophy, we consider our social responsibility to be a fiduciary responsibility to all of our stakeholders, and carry out the responsibilities with much consideration for the environment, human rights, etc., from a global perspective. The details are provided in the CSR reports, which are available on the Company's website.

- a. For issues surrounding social and environmental sustainability, the Company sets up a specialized department and puts a target action plan into practice.

### 4. Ensuring Diversity within the Company, Including Promoting Women's Participation

In order to create a work environment in which female employees can keep working actively and in diversified fields, and to realize a work-life balance, the Company sets up the following measures.

- a. Raising awareness within the company for plans to promote women's participation
- b. Preparing a system to support employees who both manage work and raise children or nurse their relatives after work, etc., and promote the use of the system by employees including male
- c. Providing wider occupational fields and categories for female employees
- d. Promoting less overtime
- e. Promoting to ensure diversity in the company

### 5. Whistle-Blowing

A whistle-blowing system is set up and in operation for all employees of the Group companies. The status of operation of the system is reported to the Audit Committee as needed or on a regular basis. The Committee shall supervise and take actions so that the whistle-blowing system practically functions.

- a. The Company adopts an external informing system and attempts to protect the informer by stipulating the privacy and the prohibition of unfair treatment of the informer in the related rules. In addition, the contact persons include external lawyers.

## Chapter 3 Appropriate Information Disclosure and Transparency

### 1. Basic Policies Related to Information Disclosure

Financial information that represents a company's financial position and management performance and non-financial information that provides management strategies and business trends are useful for shareholders, and thus

they are disclosed in a timely and appropriate manner in compliance with laws and regulations as well as the stock exchange regulations.

- (i) What the company strives for (management principles, etc.), management strategies and business plans are disclosed on the Company's website.
- (ii) Basic principles and policies regarding corporate governance, based on each principle of the Code are also disclosed on the Company's website.
- (iii) Compensation for management personnel and directors are determined by the Compensation Committee, which is composed of a majority of independent outside directors, in accordance with the basic policies already set. ("Independent outside directors" means those designated as "independent officers" defined by Securities Listing Regulations of the Tokyo Stock Exchange and filed as such to the Tokyo Stock Exchange. Please refer to Chapter 4 -7, 8 and 9 for their roles in the Company.)
- (iv) The appointment of directors and executive officers is carried out by the Nominating Committee, composed of a majority of independent outside directors. Candidates are selected in overall consideration of personal character, knowledge, experience and achievements, etc. appropriate for the position.
- (v) The reasons for selecting the candidates for directors are described in the notice of convocation of the general meeting of shareholders.
  - a. The "Corporate philosophy," "Corporate governance" and "Midterm Business Plan" are disclosed for the users on the Company's website.
  - b. In light of the increasing shareholding ratio of foreign investors, major documents disclosed on the Company's website are available in English. Materials in English are offered through the voting platform as well, including the notice of convocation of the general meeting of shareholders.

## 2. External Accounting Auditor

The Company and the external accounting auditor ensure appropriate audits, while recognizing their responsibilities to shareholders and investors.

- a. (i) The Audit Committee comprehends and evaluates the operational status through audits implemented by the external accounting auditor and audit reports, etc. At present, we have not fixed clear standards relating to the evaluation of candidates for the external accounting auditor. The Committee shall develop, from now on, policies and standards for the appropriate selection and evaluation of the candidates for external accounting auditor.
- (ii) The Audit Committee examines the independence and professional expertise of the external accounting auditor through the exchange of opinions with the external accounting auditor and the audit implementation status, etc. The Company's present external accounting auditor, KPMG AZSA LLC, is



recognized to have no problem in terms of independence and professional expertise, and we receive reports from KPMG AZSA LLC a “result of examination by Certified Public Accountants and Audit Oversight Board”

- b. (i) The external accounting auditor enters into an audit contract after consultation with the Audit Committee, to secure sufficient audit time based on the audit policy of each term.  
  
(ii) Information provided by the external accounting auditor shall be shared with management via the Audit Committee. Each year, the external accounting auditor has an opportunity to interview a representative officer to share information.  
  
(iii)-(iv) The external accounting auditor shall establish a cooperative relationship that enables free discussion on sharing awareness and action plans, by means of exchanging relevant information with the Audit Committee and the Internal Audit Department (Audit Office) and attending the Audit Committee, etc., as needed.

#### Chapter 4 Responsibilities of the Board of Directors, etc.

##### 1. Roles and Responsibilities of the Board of Directors (1)

The Board of Directors supervises management based on the management principles and strategic direction it establishes, for sustainable growth and the creation of mid- to long-term corporate value. The Board is well aware of its fiduciary responsibility and accountability to shareholders, and fulfills the roles and responsibilities described below, including the role of deciding on the items defined in the Articles of Incorporation. The Board establishes highly effective corporate governance as a company with nominating committee, etc. defined and required by the Companies Act.

- 1) Determining allocation of important management resources and indicating the direction of management strategies
- 2) Developing a supporting environment for appropriate risk taking
- 3) Ensuring fairness and transparency in management using the supervisory function over management in general
- a. (Delegation of Business Execution) The Company separates management oversight and business execution, and adopts a system of a company with nominating committee, etc. for more transparency in management.  
The Board of Directors concentrates on the supervisory function of management through deliberations of resolution matters based on the rules of the Board, while the execution of business is largely delegated to executive officers.

The duties delegated to the Executive Board and executive officers are determined by the decision of the Board of Directors, and their roles are clearly defined by the internal rules.

As for executive officers, including the representative officers, each officer's authorities and responsibilities are clearly defined in the rules of the Executive Board, based on the decision by the Board of Directors, and in authority rules, in conjunction with the authority standards set forth in accordance with the rank and duties.

- b. (Midterm Business Plan) The Board of Directors, the Executive Board and executive officers shall make all efforts in realizing the midterm business plan, as it is a part of the commitment made to stakeholders, including shareholders. The Company offers disclosures and briefings on the midterm business plan, based on the disclosure policies. The outcome, progress and degree of achievement are periodically analyzed at least once a year. The analysis, including problems found as a result of the analysis and action plans thereof, shall be disclosed on the Company's website, and explained in financial results briefings and in the general meeting of shareholders.
- c. (Succession Plan) The Board of Directors assumes a role to select and discharge management personnel, and at the same time discusses as necessary and appropriately supervises the succession plan of representative officer, based on the Company's corporate philosophy and management strategies.

2. Roles and Responsibilities of the Board of Directors (2)

The Board of Directors considers demonstrating a healthy entrepreneurial spirit by the executive officers and management personnel and developing an environment to support appropriate risk-taking challenges are in line with the Company's corporate philosophy that raises "Life" and "Freedom." Based on such belief, the Board recognizes its roles and responsibilities and implements appropriate monitoring and incentives, utilizing the three committees of Nominating, Compensation and Audit.

- a. (Management Compensation System) The Company's current compensation for executive officers consists of fixed salaries and performance-based annual bonuses. As part of the compensation system based on mid- to long-term achievement, we are contemplating introducing a stock-based compensation system.

3. Roles and Responsibilities of the Board of Directors (3)

The Board of Directors effectively supervises directors and executive officers from an independent and objective perspective, appropriately evaluates their performances and reflects them on human resources management. In addition to providing appropriate information disclosure, the Board also prepares internal controls and risk management systems.

- a. (Selection and Discharge of Management Personnel) The Board of Directors shall follow fair and highly transparent procedures upon selecting or discharging management personnel, based on the corporate performance.
  - b. (Compliance and Risk Management) The Board of Directors shall establish a compliance system, an internal control system and a risk management system, as a basis of risk-taking challenges for business operations.
  - c. Together with the independent outside directors, the Board of Directors establishes a system that enables appropriate control over potential conflicts of interest between the Company and management or related parties, such as controlling shareholders, etc.
4. Roles and Responsibilities of Audit Committee

The Company's Audit Committee consists of a majority of independent outside directors. From its independent and objective position, the Committee participates actively, makes questions and proposals, etc., at the Board of Directors meetings, and audits the execution of duties by executive officers and directors.

  - a. Each of the Company's independent outside directors, who are appointed as a member of the Audit Committee, has professional expertise in either legal, financial accounting or corporate management. With the cooperation of the internal secretariat, they utilize the Company's internal control system and demonstrate their high ability in gathering information and making proposals.
5. Fiduciary Responsibility of Directors

Directors and executive officers recognize their fiduciary responsibilities to shareholders in each of their duties, and thus act for the common interests of the Company and shareholders while securing appropriate cooperation with stakeholders.
6. Management Oversight and Execution

Under the system of "Company with nominating committee, etc." the Company separates management oversight and business operations to enable executive officers to make timely management decision while three committees, Nominating Committee, Compensation Committee, and Audit Committee, each comprised of majority of Independent Outside Directors ensure transparency and fairness in the decision-making process and effectiveness of management oversight. Audit committee enhances the effectiveness of oversight functions of the Board with close cooperation with the internal audit department and a financial audit firm.

## 7. Roles and Responsibilities of Independent Outside Directors

A system is set up so that independent outside directors, who are registered as “independent officers” with the stock exchange, can fulfill the following roles and responsibilities.

- (i) Increasing the effectiveness of the Board of Directors through activities as a member of the three committees; the Nominating Committee, Compensation Committee and Audit Committee. (Including the following roles and responsibilities)
- (ii) With respect to management policies and improvement of management, providing advice from the perspective of “facilitating the sustainable growth of the company and enhancing corporate value over the mid- to long-term,” based on their own insights while keeping the fiduciary responsibility to shareholders in mind.
- (iii) Supervising management through decision-making at the Board of Directors meetings.
- (iv) Overseeing conflicts of interest between the Company and the officers (or management) or controlling shareholders, etc.
- (v) Appropriately reflecting the opinions of stakeholders, including minority shareholders, from an independent position from the officers (or management), controlling shareholders, and major shareholders, etc. in the Board of Directors meetings.

## 8. Effective Use of Independent Outside Directors

The Company selects two or more outside directors, who are qualified to fulfill roles and responsibilities to contribute to facilitating the sustainable growth of the company and enhance corporate value over the mid- to long-term.

- a. The Company shall promote to exchange and share information and awareness collectively by independent outside directors from their objective perspective.
- b. As for the placement of a “chief of independent outside directors,” who assumes a leading role to organize and facilitate the exchange of opinions among independent outside directors and constructive dialogue with shareholders, the Company has currently postponed it as a future topic, since each of the Company’s current independent outside directors has various professional expertise, and each one effectively leads the discussion in his or her professional fields.

## 9. Independence Criteria and Qualification for Independent Outside Directors

Upon selecting independent outside directors, in addition to complying relevant laws and regulations, the Company determines whether a candidate can fulfill a management supervisory function from an independent position. As a standard to determine independence, one should be unlikely to have conflicts of interest with the

general shareholders of the Company. The details of the criteria are provided in the Appendix titled “Policies and Standards on the Composition of the Board of Directors and the Selection of Outside Officers.” Candidates are nominated by the Nominating Committee, based on the overall consideration of credentials such as wider knowledge, high professional expertise, sufficient experience and sufficient understanding of the Company’s business, management principles and business activities, besides the independence criteria. The policies and standards on selecting the Company’s outside officers, as well as the credentials of outside officers, are provided in Appendix 1.

10. Use of Optional Arrangements

As a company with nominating committee, etc., the Company has three committees, the Nominating Committee, Compensation Committee and Audit Committee. The Company also makes use of optional committees, conferences and arrangements, for enhancing risk management and compliance, with the “Corporate Action Committee” as a pivotal example, and intends to further improve the governance function.

11. Preconditions for Ensuring the Effectiveness of the Board of Directors and the Audit Committee

The composition of the Board of Directors shall be well-balanced overall in terms of knowledge, experience and abilities so that the roles and responsibilities expected of the Board can be effectively fulfilled. Specifically, directors appointed as members of the Audit Committee shall include one or more directors who are appropriately experienced in finance and accounting.

a. For the purpose of enhancing management supervisory function, the Company selects directors with different backgrounds in terms of knowledge and experience, and limits the number of Board members up to 11, so that the Board of Directors functions efficiently and substantive discussion and appropriate deliberation are put into practice. The selection of candidates for Board members is considered based on appropriateness, etc., and resolved by the Nominating Committee, composed of a majority of outside directors.

b. When directors or executive officers hold cross-appointments with other listed companies, the number of cross-appointments (the number of companies) should be restricted to a reasonable number, and the Company discloses the status of cross-appointments. All directors of the Company are subject to re-election every year. If any director cannot attend more than 80% of the Board of Directors meetings sufficiently prepared and cannot fully participate in important discussions due to the cross-appointment status, the number of cross-appointments is considered unreasonable, and the Nominating Committee

shall deliberate whether to re-elect such director as a candidate for the next term.

- c. The effectiveness of the Board of Directors is evaluated in overall consideration of the rate of attendance by all directors, the quality and quantity of discussion, efficiency, the content of responses to questions from the outside directors, and the reflection of constructive opinions from shareholders, etc. We have recently included the self-assessment of each director in the new analysis and evaluation of effectiveness, a summary of which is to be disclosed from fiscal 2016.

#### 12. Active Deliberation at the Board of Directors Meetings

The Company applies its corporate philosophy in the operation of the Board of Directors meetings, trying to establish an environment for free, open and constructive discussions and the exchange of opinions.

- a. The Company and the Board of Directors attempt to invigorate deliberation, with the following points in mind.
  - (i) Distributing in advance deliberation materials for the Board of Directors meetings
  - (ii) Providing information required, as needed, other than the deliberation materials
  - (iii) Setting an annual meeting schedule
  - (iv) Setting the appropriate frequency of the meeting and the deliberation agenda for each meeting
  - (v) Securing adequate deliberation time for each meeting
- b. The Company provides an environment in which some of the Audit Committee members, including the outside directors, can always observe the Executive Board meetings so that they can grasp the activities of the actual execution of duties at all times, in an attempt to substantiate the Board of Directors discussion and execution oversight.

#### 13. Information Gathering and Support Structure

An environment is set up so that directors and Audit Committee members can proactively obtain company information. In addition, a secretariat of the Audit Committee is established in the Legal Department in order to assist directors.

- a. As directors contribute to fair, transparent and swift decision-making for the company, they may request necessary information from the company, as needed.
- b. Directors and Audit Committee members may seek advice from specialists outside the company at the company's expense, as deemed necessary.
- c. Directors, Audit Committee members and the Audit Office (Internal Audit Department) are ensured to have mutual collaboration.

#### 14. Training for Directors

The Company encourages directors and executive officers to participate in external seminars for obtaining knowledge required for their roles and responsibilities, and offers necessary information.

- a. When a new director or executive officer holds an office, executive training shall be carried out so that he or she has an opportunity to obtain necessary information about the company and fully understand his or her role and responsibilities.
- b. The Company shall offer opportunities, as needed, for directors and executive officers to obtain knowledge required for their roles and responsibilities, and let them attend external training.

### Chapter 5 Dialogue with Shareholders

#### 1. Policies on Constructive Dialogue with Shareholders

For the Company's sustainable growth and the enhancement of mid- to long-term corporate value, the Company, including management personnel and directors, makes an effort to have constructive dialogue with shareholders in addition to the general meeting of shareholders. Through these opportunities, the Company seeks to provide clear explanations on its management policies to shareholders to offer them a deeper understanding.

The Company shall develop IR activities to pursue good interactive dialogue with fairness, accuracy and consistency in mind, in providing information on management strategies, business strategies, capital management and financial information. The President & Chief Operating Officer, Accounting Officer, Business Planning and IR persons are in charge actively involved in the dialogue. Such IR activities are carried out mainly for institutional investors in Japan and overseas.

- a. Upon demand from shareholders, management personnel shall have direct dialogue with shareholders to the extent reasonable and possible.
- b. (i) The President & Chief Operating Officer and Accounting Officer are the designated management in charge of dialogue with shareholders.  
(ii) Through coordination with management and all departments, the IR persons in charge and the IR Department shall appropriately collect internal information, such as management information, etc., for timely, accurate and fair disclosures, and for constructive dialogue with shareholders and investors.  
(iii) - (iv) Feedback and opinions from shareholders, institutional investors, analysts, etc., are timely and properly communicated to management, and reported to the Board of Directors on a regular basis along with the general

report on IR activities. They serve as materials for management decisions for all directors, including the outside directors.

(v) Insider information is controlled in compliance with relevant laws and regulations, and the method of handling insider information is repeatedly communicated within the Company Group on a regular basis. In having dialogue with shareholders and investors, insider information is also under strict control.

- c. The Company keeps track of the shareholder composition in coordination with the shareholder registry administrator. The information is used for facilitating IR activities and constructive dialogue with shareholders in an efficient manner.
- d. Excessive information disclosure or contact with particular shareholders, which would compromise fairness with other shareholders, shall be avoided as a rule.

## 2. Development and Announcement of Management Strategies and Planning

The Company makes official announcements and explains management strategies and plans at financial results briefings and the general meeting of shareholders, etc. When a midterm business plan is prepared, it is also announced and explained in a similar manner. The outline is also disclosed and available to the public on the Company's website.



## Appendix 1

### Policies and Standards on the Composition of the Board of Directors and the Selection of Outside Officers

1. Policies on the Composition of the Board of Directors
  - 1) The composition of the Company's Board of Directors shall be well balanced in terms of gender, age, nationality, professional field, etc., and shall consist of individuals with good personal character, knowledge, ability, and rich experience, as well as high ethical standards.
  - 2) The Articles of Incorporation of the Company limits the number of directors to be up to 11 persons.
  - 3) Candidates for directors shall include an appropriate ratio of independent outside directors, as a basic policy.
  - 4) All independent outside directors at the Company shall serve as a member of at least one of the three committees; the Nominating, Compensation and Audit Committees (multiple posts are allowed). By comprising the majority of each Committee, the objectivity of the corporate governance function of the Company is increased and enhanced.
  - 5) At least one candidate for independent outside director in the Audit Committee is required to be an expert in finance and accounting.
  - 6) As stipulated in the Articles of Incorporation of the Company, all directors, including the independent outside directors, are subject to re-election at the general meeting of shareholders every year.
  
2. Policies and Standards on the Qualification, Diversity and Appropriateness of the Candidates for Outside Directors
  - 1) The candidates for the Company's outside directors shall have expertise in corporate management, corporate governance, corporate finance and accounting or laws and legal systems, and be individuals with good personal character, knowledge, ability, and rich experience, as well as high ethical standards. The Nominating Committee shall select individuals satisfying the independence criteria described in item 3 below.
  - 2) It is the Company's policy to promote diversity in the composition of outside directors as well. But currently, the upmost consideration is made to ensure diversity in terms of professional fields.
  - 3) A background suggesting a relationship with anti-social forces or doubtful ethical views or a record of dispute is deemed as an indication of inappropriateness as a candidate.

### 3. Independence Criteria for a Candidate for Outside Director

A candidate who satisfies the independence criteria for the Company's outside directors shall meet the following criteria.

- 1) The candidate has never served and never serves as a director (excluding outside director), a statutory auditor (excluding outside statutory auditor), an executive officer, an officer or an employee of the Company or of its consolidated subsidiaries at present or in the past, and was never a director (excluding outside director), a statutory auditor (excluding outside statutory auditor), an executive officer, an officer or an employee of the Company in the past.
- 2) The candidate was not a major shareholder (holding over 10% of all voting shares in substance) of the Company during any time in the past 5 fiscal years, or was not a relative within the second degree of kinship of such major shareholder, or in case such major shareholder was a corporation, he or she was not an officer or employee of such corporation or a relative within the second degree of kinship of the officer or employee of such corporation.
- 3) The candidate has never been an officer or employee of a corporation for which the Company is a major shareholder.
- 4) The candidate is not an officer or an employee of the Company's major business partner or customer (with the amount of payment to the business partner or the amount received from the customer for transactions with the Company exceeding 2% of the consolidated sales figure of the Company or of such party (including its parent and major subsidiaries) in the last fiscal year and the last 3 fiscal years).
- 5) The candidate is not a trustee, an officer or an employee of a corporation or an organization that receives a large donation from the Company (in an amount greater amount than either an annual average of 10 million yen or more over the last 3 fiscal years or over 2% of the consolidated sales or the total revenue of the party in the last 3 fiscal years).
- 6) No director, statutory auditor, executive officer or officer is assigned to and/or from the Company.
- 7) The candidate was never a representative partner, a professional, a partner or an employee of the Company's present accounting audit firm in the last 5 years.
- 8) The candidate is not a lawyer, a certified public accountant, or a consultant, who receives a large monetary consideration or other goods from the Company, other than the director's compensation (for an individual, over 10 million yen on

average per year, or for an organization, over 2% of the consolidated sales of the organization, for the last 3 fiscal years).

- 9) The candidate is not a spouse, a relative within the second degree of kinship, a relative living together or a relative of the same household of the Company's director, executive officer or manager above departmental head.
- 10) The candidate has never been nominated as a candidate for outside director, by a shareholder proposal made in the past or present by the Company's major shareholder.
- 11) When re-elected, the candidate would not serve as an outside director for more than consecutive 6 years as a general rule.

«Revision history»

1. December 18th, 2015 established
2. March 29th, 2016 revised
3. July 31th, 2017 revised