

Corporate Governance

I Corporate Governance System

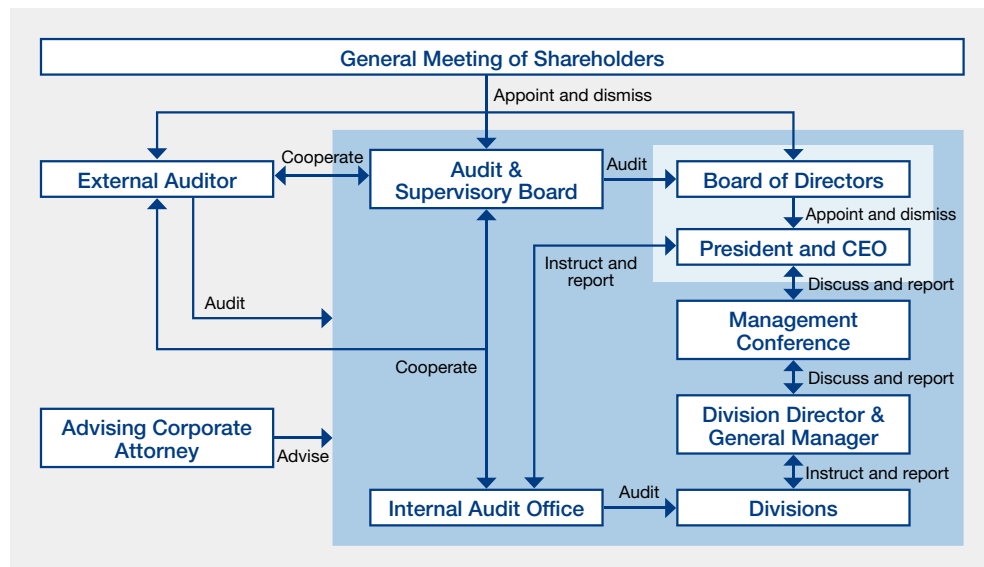
1. Outline of Corporate Governance System

The Company has a corporate governance system comprising a Board of Directors, Audit & Supervisory Board members, an Audit & Supervisory Board, and an external auditor.

The Company's Board of Directors has six directors, one of whom is an outside director. As the body making management decisions, the Board of Directors resolves important business decisions in accordance with the Board of Directors Regulations. The board meets once a month and as the need arises to supervise the execution of duties by directors based on monthly financial statements and other reports. It also invites the outside director to participate in board meetings in order to obtain the outside director's views on management from an objective perspective based on his extensive experience.

The Company's Audit & Supervisory Board has three members (including two outside members), comprising one full-time Audit & Supervisory Board member and two part-time Audit & Supervisory Board members. The Audit & Supervisory Board meets as necessary to share information between the Audit & Supervisory Board members and facilitate efficient audits.

In addition, the Company strives to promptly grasp information on business management by holding a Management Conference once a week, with mainly the directors and general managers in attendance. A schematic diagram of the Company's corporate governance system is presented below.



2. Number of Directors

The Company's Articles of Incorporation stipulate that the Board of Directors comprises a maximum of 10 directors.

3. Approval Criteria for the Appointment and Dismissal of Directors

The Company's Articles of Incorporation stipulate that the appointment of directors shall be approved by a majority of voting rights exercised at a meeting attended by shareholders holding at least one-third of all voting rights. The Articles of Incorporation also stipulate that the appointment of directors shall not be approved on the basis of cumulative voting.

The Articles of Incorporation also stipulate that the dismissal of a director shall be approved by two-thirds majority of voting rights exercised at a meeting attended by shareholders holding a majority of all voting rights.

4. Limited Liability Agreement

The Company has concluded an agreement limiting liability for damages with each director (excluding directors with executive responsibilities and similar posts) and each Audit & Supervisory Board member, pursuant to Article 423, Paragraph 1 of the Companies Act, based on the provisions in Article 427, Paragraph 1 of the same.

The liability for damages based on this agreement is limited to either an amount no larger than ¥1 million specified by the Company in advance, or the minimum liability amount as set forth by the law, whichever is higher.

The Company's Articles of Incorporation stipulate that "the Company can conclude an agreement limiting liability for damages with the external auditor, pursuant to Article 423-1 of the Companies Act, based on the provisions in Article 427-1 of the same. However, the upper limit of the liability amount under the contract shall be the amount provided in the law." As such, the Company's external audit contract with Toko Audit Corporation makes provisions for an article limiting liability. The limit on the amount of liability for damages in this contract is twice the amount of total remuneration for Toko Audit Corporation's auditing services.

5. Exemption of Directors and Audit & Supervisory Board Members from Liability

Pursuant to the provisions on liability set forth in Article 423-1 of the Companies Act, the Company's Articles of Incorporation stipulate that the Board of Directors may resolve to exempt a director (including past directors) or Audit & Supervisory Board member (including past Audit & Supervisory Board members) from their liability within the limit set forth by the law, provided that that person had acted in good faith and was not grossly negligent.

The aim of this provision is to enable the directors and Audit & Supervisory Board members to fulfill their roles to the fullest extent, and to enable the Company to appoint experienced and knowledgeable personnel to the Board of Directors and Audit & Supervisory Board.

6. Body Making Decisions to Pay Dividends and Other Distributions from Surplus

In order to flexibly return profits to shareholders, the Company's Articles of Incorporation stipulate that the Board of Directors may resolve to pay an interim dividend to the shareholders and registered pledgees of the Company's shares, listed or recorded in the final register of shareholders as of May 31 each year.

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II Establishment of an Internal Control System

The Company has developed Company-wide internal rules governing all business operations, and executes business with proper separation of management based on these rules. At the same time, the Company has built an approval system based on rules governing the authorization of duties and the circular approval of decisions. In order to evaluate the effectiveness and sustainability of the Company's internal control system, the Internal Audit Office audits each business division to ensure that their important business duties are being executed both efficiently and accurately.

III Status of Internal Audits, Audit & Supervisory Board Audits and Accounting Audits

Each Audit & Supervisory Board member attends the Board of Directors meetings to audit the execution of duties by directors. The members also exchange information as required with the president and directors of the Company to share an understanding of the management priorities and issues. In addition to auditing the Company's minutes, circular approval documents, contracts, and business transaction records, the full-time Audit & Supervisory Board member is mainly responsible for interviewing relevant personnel, observing accounting audits, and conducting on-site surveys, as well as attending other important meetings apart from the Board of Directors.

The Company's Internal Audit Office, comprising one person in charge, cooperates with the Audit & Supervisory Board members throughout the year to conduct the required internal audits based on an internal audit plan. Results of the internal audits are reported in writing to the president and confirm the status of specific advice and recommendations given to the divisions receiving audits as well as the improvements they have made.

The Company has also concluded an external auditor contract with Toko Audit Corporation, under which it periodically receives accounting audits.

The Internal Audit Office, Audit & Supervisory Board members, and external auditor cooperate with one another to conduct audits effectively and efficiently. To this end, they strive to conduct proper audits and confirm the status of improvements in response to the findings and issues they raise by exchanging information and opinions and sharing what they find.

IV Development Status of the Risk Management System

The Company's risk management system has rules that were developed based on the International Organization for Standardization (ISO) from the standpoint of preventing risks. When there is information thought to represent a market, credit, business, or management risk, the Management Conference confirms the status of compliance with laws and regulations of the Company and Group companies. At the same time, executives in charge of each division strive to raise risk awareness by rigorously disseminating information considered to represent a risk within their respective divisions. The Company is also striving to strengthen its legal risk management system by concluding an advisory contract with a law firm so that it can receive timely advice and instruction on legal risks of high importance, particularly the protection of personal information, statutory regulations, and so forth.

Internal audits are conducted periodically to verify that there are no problems with the Company's risk management system and compliance with laws and regulations.

V Status of Development of a System for Ensuring the Appropriateness of the Operations of Subsidiaries of the Company

The subsidiaries of the Company have adopted the basic policy of maintaining their independence by making management decisions autonomously in light of the characteristics of each company, such as the scale of operations, business characteristics and design of governing bodies, in tandem with maintaining cooperation and information sharing with the Company. Meanwhile, with regard to important matters concerning management at the Company's subsidiaries, the subsidiaries are requested to seek the approval of these matters from the Company or report them to the Company, based on internal rules. In parallel, subsidiaries regularly report on the status of business execution, financial condition and other matters to the Company. Moreover, the Internal Audit Office audits transactions between the Company and its subsidiaries.

VI Compensation of Corporate Officers

1. Total Compensation by Corporate Officer Position, Type of Compensation, and Number of Eligible Officers

Position	Total compensation (Thousands of yen)	Total by type of compensation (Thousands of yen)				Number of eligible officers
		Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (excluding outside directors)	8,964	7,243	1,721	-	-	5
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	1,200	1,200	-	-	-	1
Outside officers	3,000	3,000	-	-	-	4

Notes: 1. The Extraordinary General Meeting of Shareholders, held on October 25, 2017, resolved that the total compensation for the Company's directors (excluding salary as an employee) shall be limited to within ¥100 million per year. Separately from the above, the 35th Ordinary General Meeting of Shareholders, held on February 26, 2019, resolved that the total compensation in stock options shall be limited to within ¥100 million per year.

2. The 22nd Ordinary General Meeting of Shareholders, held on June 29, 2006, resolved that the total compensation for the Company's Audit & Supervisory Board members shall be limited to within ¥50 million per year.

2. Breakdown of Compensation by Corporate Officer

Omitted from record in this report as there were no corporate officers receiving ¥100 million or more in total compensation.

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3. Material Information on Salary as an Employee for Corporate Officers Serving Concurrently as Employees

No items to report

4. Policy on Determining the Amount and Calculation Method of Corporate Officer Compensation

The Company has not established policies on the amount or calculation method of compensation for corporate officers.

VII Outside Director and Outside Audit & Supervisory Board Members

1. Functions and Roles Relating to Corporate Governance

The Company has appointed one outside director and two outside Audit & Supervisory Board members.

Outside Director Katsumi Kitamura has extensive experience and specialized knowledge as a lawyer. Mr. Kitamura was appointed because his experience and knowledge is expected to help the executive officers to ensure that the Company's operations as a whole satisfy the basic principles required by Japan's Corporate Governance Code. There are no conflicts of interest between this individual and the Company.

Outside Audit & Supervisory Board member Mitsutoshi Urano possesses the extensive experience and knowledge needed to perform audit operations based on his past and current positions as a certified tax accountant, representative director, and Audit & Supervisory Board member. Mr. Urano was appointed because his experience and knowledge are expected to help strengthen the Company's audit team. There are no conflicts of interest between this individual and the Company.

Outside Audit & Supervisory Board member Kazuhisa Nagabuchi currently serves as chairman of a non-profit organization, and has ample knowledge needed to audit and supervise corporate management. Mr. Nagabuchi was appointed because his knowledge is expected to help strengthen the Company's audit team. There are no conflicts of interest between this individual and the Company.

Based on the above, the outside director and outside Audit & Supervisory Board members have no noteworthy vested interests in the Company from the standpoint of conflict of interest with general shareholders. Furthermore, they are expected to supervise and audit the execution of duties by the Company's directors from an independent position posing no risk of a conflict of interest with general shareholders, since they are expected to apply an outsider's perspective, drawing on their professional expertise and experience and knowledge working for other companies, in offering impartial advice and opinions to the Company.

2. View Concerning the Appointment Status of the Outside Director and Audit & Supervisory Board Members

The Company has no standards or policies regarding independence from the Company for the appointment of outside directors and outside Audit & Supervisory Board members. However, as noted above, the Company recognizes that the outside director and outside Audit & Supervisory Board members are fulfilling their functions and roles as expected and judges that there is no problem with their appointment status.

3. Supervision and Audit by the Outside Director and Audit & Supervisory Board Members and Internal Audit, Their Mutual Cooperation in Audit & Supervisory Board Audits and Accounting Audits, and Relationship with the Internal Control Division

The Company's outside director voices timely opinions at Board of Directors meetings based on high-level knowledge and ample experience, and fulfills the functions of supervising and checking management from an independent position from the Company's management team.

The outside Audit & Supervisory Board members provide opinions and advice based on professional expertise and ample experience at the Company's Board of Directors and Audit & Supervisory Board meetings. They also maintain and strengthen the compliance of Company divisions with laws and regulations by deliberating and exchanging information with the Internal Audit Office and an external auditor, as well as by receiving reports from them.

[Details of Compensation for the External Auditor and Their Staff]

(Thousands of yen)

Classification	Fiscal 2018		Fiscal 2019	
	Compensation paid for audit certification activities	Compensation paid for non-audit activities	Compensation paid for audit certification activities	Compensation paid for non-audit activities
Reporting company	12,000	–	36,000	–
Consolidated subsidiaries	25,200	–	–	–
Total	37,200	–	36,000	–

Board of Directors and Audit & Supervisory Board Members

■ Representative Director and President	Tsukasa Akiyama
■ Representative Director and Vice President	Naoki Ishihara
■ Director	Osamu Fukami
■ Director and General Manager, Administration Division ...	Yosuke Saito
■ Director	Wei Zhang
■ Director	Katsumi Kitamura
■ Full-Time Audit & Supervisory Board Member	Hiroshi Sasaki
■ Audit & Supervisory Board Member	Mitsutoshi Urano
■ Audit & Supervisory Board Member	Kazuhisa Nagabuchi