

# Corporate Governance Guidelines

July 1, 2022

**FUSO CHEMICAL CO., LTD.**

## Introduction

Since its foundation in 1957, FUSO CHEMICAL CO., LTD. has continued to expand into new business areas under the company motto of “Limitless Progress and Creation,” producing dye/pigment intermediates and pharmaceutical/agrochemical intermediates, resin additives, food additives with a focus on malic acid, and colloidal silica for the semiconductor industry. Furthermore, we have aimed to supply “gold medal” products that are No.1 in their market, rather than competing blindly for corporate scale. It takes a masterful balance of speed, cost, and quality to create gold medal products. By supplying gold medal products, the Company has built trust.

We recognize that our expansion into new business areas and the supply of gold medal products have been made possible with the support and cooperation of numerous stakeholders including shareholders based on their trust in us.

While taking pride in our history, we will always look to the future without satisfying with the status quo and strive to achieve sustainable growth and create corporate value by continuing activities that emphasize trust.

### General Principle 2, Supplementary Principle 4.2.2

#### Chapter 1 General Provisions

##### (Objective)

Article 1 The objective of these Guidelines is to set forth basic stance and frameworks for corporate governance of FUSO CHEMICAL CO., LTD. (the “Company”), thereby helping the Company achieve sustainable growth and increase corporate value while securing the trust of every stakeholder.

##### (Corporate Philosophy)

Article 2 The Company has the company motto and management philosophy set forth below as its corporate philosophy and promulgate them internally and externally.

##### Principle 2.1, Principle 3.1.( i )

- \* Company motto: “Limitless Progress and Creation”
- \* Management Philosophy
  - Value trust, and make it a principle to be reliable
  - Contribute to the nation and society through technology
  - Achieve employee fulfillment through prosperous business
- \* Quality Policy
  - Aim to win gold medals in speed, cost, and quality
- \* Environmental Policy
  - We supply high-quality products to the world through technology. At the same time, we are aware of our social responsibilities as an enterprise. We work to preserve the environment and prevent pollution, and our company motto is “Limitless Progress and Creation.”

(Basic Stance on Corporate Governance)

Article 3 The Company's basic approach is to establish structures for corporate governance and continuously improve and enhance the enforceability and effectiveness of corporate governance, with the objective of contributing to the nation and society, as well as achieving sustainable growth and increasing the corporate value of the Company, through business activities based on the corporate philosophy, quality policy, and environmental policy.

Principle 2.1, Principle 3.1.(ii)

(Basic Capital Policy)

Article 4 The Company aims to increase capital efficiency while giving consideration to financial stability, with the objective of increasing earnings power and corporate value over the medium to long term.

Principle 1.3

(Cross-Shareholdings)

Article 5 1. The Company acquires and holds shares for the purpose of cross-shareholdings if it is deemed to contribute to higher corporate value from a medium- to long-term perspective, taking into consideration the grounds therefor, such as maintaining and strengthening business relationships and the necessity for business operation. In addition, the Company will continue the transactions with cross-shareholdings upon careful examination of the underlying economic rationale, and will not engage in transactions with cross-shareholdings which may harm the interests of the Company or the common interests of its shareholders.

Principle 1.4, Principle 1.4.2

2. The Board of Directors annually assesses whether or not to hold each individual cross-shareholding, specifically examining whether the purpose is appropriate and whether the benefits and risks from each holding cover the company's cost of capital. The Company discloses the results of this assessment. In addition, if the importance of a cross-shareholding has declined, the Company will sell the shares held, keeping an eye on stock market moves.

Principle 1.4, Principle 1.4.2

3. If a company holding shares in the Company for the purpose of cross-shareholding indicates its intention to sell those shares, the Company will not imply a possible reduction of business transactions or otherwise hinder the sale of the cross-held shares.

Principle 1.4.1

4. The Company exercises voting rights of cross-held shares in accordance with the following standards to ensure that they are exercised appropriately:Principle 1.4

- (i) Examine the details of proposals and decide whether they contribute to increasing the corporate value of the Company as a shareholder;
- (ii) Vote against proposals that are damaging to the corporate value of the Company as a shareholder, whether they are company proposals or shareholder proposals; and
- (iii) Vote against proposals for election of directors or other officers in the case of a company on which investment returns have continuously been extremely low and whose performance have continuously been poor with no indication of improving, or in the case of directors or other officers who have committed an anti-social act or law violation.

Principle 1.4.2

## Chapter 2 Relationships with Shareholders

### (Fiduciary Responsibility of Directors)

Article 6 The Directors of the Company have fiduciary responsibility being entrusted with management by its shareholders. In order to fulfill their fiduciary responsibility, the Company's Directors fulfill their accountability to relevant stakeholders by striving to disclose necessary information to win the trust of the stakeholders, and act for the Company or the common interests of shareholders while securing appropriate cooperation with the stakeholders.

Principle 4.5

### (Protection of Shareholder Rights)

Article 7 1. The Company secures the effective exercise of shareholder rights by all shareholders including minority shareholders and foreign shareholders. In addition, the Company treats shareholders equally, without providing any special favor to specific shareholders, except for restrictions on shareholder rights according to the number of shares held.

General Principle 1, Principle 1.1

2. When the Company carries out capital policy that results in the change of control or significant dilution such as share offering, its Board of Directors will sufficiently discuss the necessity thereof and then promptly disclose necessary information.

Principle 1.6, Supplementary Principle 4.8.3

3. The Company establishes procedures and other documents, including Share Handling Rules, so that its shareholders can smoothly exercise their rights.

Supplementary Principle 1.1.2, Supplementary Principle 1.1.3

(Identifying Shareholder Ownership Structure)

Article 8 The Company identifies its shareholder ownership structure by analyzing the shareholder registry as of the end of March and the end of September each year, and at any point in time when the Company deems it necessary.

Supplementary Principle 5.1.3

(Anti-Takeover Measures)

Article 9 1. The Company will not adopt anti-takeover measures against a case that does not run contrary to securing or increasing the Company's corporate value or the common interests of its shareholders.

2. If a tender offer for shares of the Company is made, it is considered to have a significant impact on the interests of its shareholders; therefore, the Company will publish the position of its Board of Directors including any proposals for counteroffers.

However, the Company will not prevent its shareholders from tendering their shares in response to the tender offer or otherwise trade their shares.

Principle 1.5, Supplementary Principle 1.5.1

(Related Party Transactions)

Article 10 1. The Company establishes and implements procedures for managing transactions with its related parties, including Directors or major shareholders, and their family members, to protect the interests of its shareholders.

2. The Company engages in a transaction with a related party upon obtaining prior approval of its Board of Directors in accordance with the Rules on Related Party Transactions.

3. At the beginning of each fiscal year, the Board of Directors investigates whether there has been any transaction with related parties and checks for the necessity to continue such transactions.

Principle 1.7

(Dialogue with Shareholders)

Article 11 The Company promotes constructive dialogue with shareholders in accordance with the following policies and strives to gain the understanding of shareholders:

(i) The Company's Director in charge of the administration division serves as the Director in charge of investor relations, with the person responsible for investor relations placed in the administration division;

(ii) In principle, at least semiannually the Company holds a result briefing for securities analysts and institutional investors, and visits their premise.

In the results briefing, the Company reports on its management strategy, management plan figures, and the progress thereof based on materials;

(iii) The Company discloses the materials used at the results briefing on its

- website after close of the briefing;
- (iv) The person responsible for investor relations in the administration division responds to individual requests for dialogue from shareholders or other persons, including coordination as to who will handle the dialogue, after determining the purpose of the request and the importance of having dialogue;
  - (v) The person responsible for investor relations puts together comments and requests from shareholders and institutional investors, and reports them through the Director in charge of investor relations to the Board of Directors to reflect them in management;
  - (vi) The Company ensures to control insider information. To secure equality for shareholders, the Company designates the period from the day following quarterly closing date to announcement date of financial results as a quiet period and refrains from disclosing any information that affects the financial results during the period; and
  - (vii) Each division of the Company cooperates for appropriate disclosure of information.

General Principle 5, Principle 5.1, Supplementary Principle 5.1.1, Supplementary Principle 5.1.2, Principle 5.2, Supplementary Principle 5.2.1

(General Meeting of Shareholders)

Article 12 1. Based on the recognition that the General Meeting of Shareholders is the highest decision-making organ of the Company, the Company establishes an environment for its shareholders to exercise their voting rights appropriately, as follows:

Principle 1.2

- (i) Provide accurate information to shareholders in order to facilitate appropriate decision-making at the General Meeting of Shareholders;

Supplementary Principle 1.2.1

- (ii) Determine the venue and date of a General Meeting of Shareholders appropriately so that as many shareholders as possible can attend the General Meeting of Shareholders; and

Supplementary Principle 1.2.3

- (iii) Prepare a convocation notice of General Meeting of Shareholders as early as possible in compliance with the time period specified by law, and disclose the notice on the website early before dispatching it.

Supplementary Principle 1.2.2

- 2. The Company has the basic concept that only shareholders recorded in the shareholder registry may exercise their voting rights at a General Meeting of Shareholders. Therefore, the Company does not allow any direct exercising of voting rights by an institutional investor holding shares in street name of a trust

bank/custodial institution.

The Company, however, will discuss with the trust bank/custodial institution if it expresses its desire to observe the General Meeting of Shareholders through a shareholder on the registry.

Supplementary Principle 1.2.5

3. The Company tallies the voting results after a General Meeting of Shareholders and determines the ratio of votes for and against proposals. If many votes are considered to have been cast against a proposal, the Company will analyze factors for opposition by such means as checking the results against voting standards published by institutional investors, to use as a reference for items for reporting and resolution in subsequent fiscal years.

Supplementary Principle 1.1.1

Chapter 3 Relationships with Stakeholders

(Code of Conduct)

- Article 13
1. Based on its corporate philosophy, the Company establishes and internally promulgates “FUSO CHEMICAL Group Code of Conduct” that emphasizes compliance and sets forth co-existence with the global environment, as well as with customers, suppliers, industries, employees, society, governments, and other parties.

Principle 2.2

2. Executive Directors of the Company respect the rights and standpoints of stakeholders and strive to foster a corporate culture that places emphasis on healthy corporate ethics.

General Principle 2

(Information Disclosure)

- Article 14
1. The Company works to actively disclose information, whether financial or non-financial information, in order to gain the trust of all stakeholders, including shareholders and investors in and outside Japan, and build favorable collaborative relationships with them.

General Principle 3, Supplementary Principle 5.2.1

2. If forms or formats are specified or recommended by laws and regulations for information disclosure, the Company will use such forms or formats. If such forms or formats are not specified or recommended, the Company will strive to use expressions and formats that clearly and accurately convey the information.

Supplementary Principle 3.1.1

3. The Company strives to disclose information in English or other languages other than Japanese as much as possible to the extent that is reasonable.

Supplementary Principle 1.2.4, Supplementary Principle 3.1.2

(Sustainability)

Article 15 Based on its corporate philosophy and the like, the Company sincerely respond to issues that concern its business activities in regards to protecting the global environment and achieving a sustainable society.

Principle 2.3, Supplementary Principle 2.3.1, Supplementary Principle 3.1.3,  
Supplementary Principle 4.2.2

(Suppliers)

Article 16 The Company promotes procurement activities that pay attention to the environment and human rights, in addition to complying with laws and regulations.

(Diversity)

Article 17 The Company works to secure diversity in its human resources including the empowerment of women, foreigners, mid-career hires, and people with disabilities, through establishment of various programs and coordination with its subsidiaries outside Japan.

Principle 2.4, Supplementary Principle 2.4.1

(Corporate Pension)

Article 18 1. The Company entrusts its corporate pension to an asset manager that has expressed acceptance of Japan's Stewardship Code.  
2. The Company receives regular reports from the asset manager with a dedicated division of the Company monitoring such points as whether investment targets are sufficiently achieved, whether the asset mix is reviewed where necessary, and whether conflicts of interest are appropriately managed, and encourages efforts to make improvements on issues to be addressed.  
3. The Company internally discloses the overview of operations relating to its defined benefits corporate pension once a year.

Principle 2.6

(Whistleblowing)

Article 19 1. The Company operates a whistleblowing system in order to detect and correct acts that violate laws and regulations at an early stage.

The system and its operation is provided for in the Rules on Whistleblowing.

Principle 2.5

2. In addition to an internal hotline, an external legal counsel and a labor and social security attorney serve as the point of contact for whistleblowing.

Also, the Company will not treat whistleblowers disadvantageously: if a whistleblower so wishes, the Company will take protective measures such as protecting the anonymity of the whistleblower.

Supplementary Principle 2.5.1

## Chapter 4 Corporate Governance Structure

### (Composition of the Board of Directors)

Article 20 1. In accordance with the Articles of Incorporation, the Board of Directors is composed of ten or less Directors who are not Audit and Supervisory Committee Members, and seven or less Directors who are Audit and Supervisory Committee Members.

2. The Board of Directors is composed of Directors who have expert knowledge in the Company's business and are engaged in business execution, External Directors who have knowledge in such fields as corporate management and corporate legal affairs, and Directors who are Audit and Supervisory Committee Members.

Principle 4.11, Supplementary Principle 4.11.1

3. External Directors and Directors who are Audit and Supervisory Committee Members express their views and findings based on their respective expertise and ensure independent and objective oversight of the management by the Board of Directors.

Principle 4.6

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

Article 21 In order to achieve the Company's sustainable growth and increase its corporate value over the medium to long term, the Board of Directors implements the following measures:

(i) Develop corporate strategies and management plans to achieve the Company's corporate philosophy as well as quality policy and environmental policy;

General Principle 4, Principle 4.1

(ii) Clarify the responsibilities and authority of positions including those of Executive Directors and of organizations including the Board of Directors by establishing the Board of Directors Regulations, the Rules on Division of Duties, the Rules on Delegation of Authority, and other rules and regulations;

(iii) Oversee the status of delegating operations to Executive Directors and execution by them;

General Principle 4, Principle 4.1, Supplementary Principle 4.1.1,

Principle 4.2

(iv) Report the progress of management plans to shareholders and, if targets are not achieved, provide them with an explanation and present new tasks to be addressed;

Supplementary Principle 4.1.2

(v) Review the development of people to succeed to the positions of Executive Directors, including the Chief Executive Officer;

Supplementary Principle 4.1.3

- (vi) Exercise oversight to ensure timely and accurate information disclosure;
- (vii) Establish systems for internal control and risk management; and
- (viii) Manage and oversee conflicts of interest that arise between related parties and the Company.

Principle 4.3

(Operation of the Board of Directors)

Article 22 1. The Company implements the following measures to make deliberations by the Board of Directors active:

- (i) The Board of Directors meets according to an annual schedule of its meetings;  
Where necessary, the Board of Directors will meet on an as-needed basis by electromagnetic or other means, regardless of the annual schedule of meetings;
- (ii) Send a convocation notice stating agenda items and materials related thereto prior to a meeting of the Board of Directors, by a prescribed date; and
- (iii) The Board of Directors fully discusses matters for deliberation.

Supplementary Principle 4.12.1

2. Each Director strives to foster a climate where free, open, and constructive discussions and exchanges of views take place.

Principle 4.12

3. Full-time Directors (including Directors who are Audit and Supervisory Committee Members) meet to examine the appropriateness of agenda items to be submitted to the Board of Directors before its meeting and checks for any insufficiency in materials. In case of any insufficiency in the materials, they instruct the secretariat of the Board of Directors to prepare additional materials. In addition, the full-time Directors check for any omission of agenda items that should be submitted to the Board of Directors.

Principle 4.13

(Evaluation of the Board of Directors)

Article 23 1. The Board of Directors annually analyzes and evaluates its effectiveness as a whole, taking into consideration the self-evaluation of each Director.

The Company discloses the summary of the evaluation results.

2. The Representative Directors are in charge of, and the Director in charge of the administration division is responsible for, the implementation of the evaluation of the Board of Directors.

Principle 4.11.3

(Roles and Responsibilities of Directors)

- Article 24 1. Given the fiduciary responsibility to shareholders, Directors assume the duty of care and the duty of loyalty.
2. Directors endeavor to collect sufficient information to carry out their duties. If information provided by the Company is considered insufficient, Directors may request the submission of additional information with the secretariat of the Board of Directors acting as the point of contact.
- In addition, Directors may receive advice of external experts if it is deemed necessary. In this case, the Company bears the expenses incurred.
- Principle 4.13, Supplementary Principle 4.13.1,  
Supplementary Principle 4.13.2
3. Based on the information collected, Directors actively express their views, have full discussions, and adopt resolutions. Principle 4.12

(Independent External Directors)

- Article 25 1. The Company designates Directors who satisfy the Independence Criteria for External Directors (see Exhibit 1) as Independent External Directors.
- Principle 4.9
2. The Company appoints multiple Independent External Directors who satisfy the independence standards for independent directors/auditors prescribed by the Tokyo Stock Exchange, are in effect unlikely to have conflicts of interest with general shareholders, and able to contribute to strengthening the Company's governance from an objective standpoint.
- Principle 4.8, Principle 4.9
3. The secretariat of the Board of Directors is engaged in coordination between Independent External Directors and Executive Directors/Directors who are Audit and Supervisory Committee Members.
- Supplementary Principle 4.8.2

(Roles and Responsibilities of Independent External Directors)

- Article 26 1. In addition to the roles and responsibilities of Directors provided in Article 25, Independent External Directors in particular serve the following roles as independent directors in order to contribute to the Company's sustainable growth and increasing its corporate value over the medium to long term:
- (i) Providing advice on the Company's management policy and for improving management based on their expertise;
  - (ii) Exercise oversight of the management through involvement in important decision-making by the Board of Directors;
  - (iii) Exercise oversight over conflicts of interest between the Company and Directors/major shareholders;
  - (iv) Express views on behalf of minority shareholders and other stakeholders;

and

Principle 4.7

- (v) When decisions are made on the appointment of Directors or determination of their remuneration, express views in light of business performance and other aspects.

Supplementary Principle 4.3.1, Supplementary Principle 4.10.1

2. Independent External Directors meet other Independent External Directors and Directors who are Audit and Supervisory Committee Members on a regular and ad-hoc basis, to exchange information and share understanding.

Supplementary Principle 4.4.1, Principle 4.8.1

(Composition of Audit and Supervisory Committee)

- Article 27 1. In accordance with the Articles of Incorporation, the Audit and Supervisory Committee of the Company is composed of seven or less Directors.
2. The majority of Audit and Supervisory Committee Members must be External Directors. In addition, full-time members are appointed by resolution of the Audit and Supervisory Committee.
3. At least one of the Directors must have appropriate expertise on finance, accounting, and legal affairs.

Principle 4.11

(Responsibilities of Audit and Supervisory Committee)

- Article 28 1. As an organ that has the authority to investigate into matters concerning operations and accounting, the Audit and Supervisory Committee audits the execution of duties by Directors.
2. Full-time Directors who are Audit and Supervisory Committee Members increase the effectiveness of their audit by collecting information through attendance to various meetings, as well as coordination with the internal audit division, external accounting auditors and External Directors.
- In addition, the full-time Directors who are Audit and Supervisory Committee Members audit the design and operation of internal control systems, including internal control over financial reporting.

Principle 4.4, Supplementary Principle 4.4.1

(Training for Directors)

- Article 29 1. The Company provides training and other programs like the following so that Directors can fulfill their roles and responsibilities:
- (i) Provide training sessions for new Directors on legal knowledge, compliance, governance, finance and accounting matters that Directors must comply with; provided, however, that certain training sessions may be omitted if the Director already has expertise on the relevant matters;

- (ii) Provide training and other programs on the industry to which the Company belongs, as well as equipment, technologies, and the like held by the Company, for Directors invited from outside of the Company; and
  - (iii) Provide training sessions by external experts and other professionals on specific themes including current topics once or twice a year.
2. Directors strive to increase and update their knowledge and build personal contacts by attending external seminars and study sessions as necessary.
  3. The Company bears expenses necessary for training and other programs for Directors.

Principle 4.14, Supplementary Principle 4.14.1, Supplementary Principle 4.14.2

(Disclosure of Concurrent Positions held by Directors)

Article 30 The Company discloses the status of positions concurrently held by Directors in the convocation notice for the General Meeting of Shareholders or by other means.

Supplementary Principle 4.11.2

(Remuneration of Directors)

Article 31 1. The Company determines remuneration for Directors, taking into consideration its business performance, economic situations, and other factors, within the maximum total amounts of remuneration resolved at the General Meeting of Shareholders respectively for Directors who are not Audit and Supervisory Committee Members and the Directors who are Audit and Supervisory Committee Members. The Representative Directors and the Director in charge of the administration division prepares a proposal on Directors' remuneration, and refers it to the HR and Remuneration Committee. The results of this is reported to the Board of Directors and the proposal is decided by resolution of the Board of Directors.

Principle 3.1.(iii)

2. The Company's remuneration for Directors consists of base remuneration and bonuses that vary according to annual business performance.

Principle 4.2, Supplementary Principle 4.2.1

(Appointments and Dismissals of Directors)

Article 32 1. When appointing Directors of the Company, the preconditions are that they have high standards of morality in addition to compliance with laws, understand and have a sense of fulfilling Director duties, and have time and energy to fulfill the duties of Directors.

2. When selecting Director candidates, the Company takes into consideration the balance among knowledge on business, corporate management, finance, legal affairs, and other fields possessed by the Board of Directors as a whole.

3. The Representative Directors and the Director in charge of the administration division consider appointments and dismissals of Directors. The Board of Directors then consults the HR and Remuneration Committee which consists of a majority of External Directors, explaining the reasons for nomination or dismissal and the background therefor and other relevant matters to the Committee. The HR and Remuneration Committee deliberates on the appointment or dismissal objectively from an independent standpoint and reports to the Board of Directors. The Board of Directors deliberates on the details of the report from the Committee and adopts a resolution on the appointment or dismissal. Appointments of Audit and Supervisory Committee Member candidates requires consent of the Audit and Supervisory Committee.

Principle 3.1. (iv), Principle 3.1.(v), Supplementary Principle 4.3.3,  
Supplementary Principle 4.11.1, Supplementary Principle 4.11.2

(External Accounting Auditor)

Article 33 1. The Company takes the following measures for the external accounting auditor to carry out audits:

- (i) Discuss with the external accounting auditor to secure enough time for auditing;
- (ii) Secure time for meetings with the Representative Directors or Executive Directors if the external accounting auditor so wishes;
- (iii) When the external accounting auditor carries out an audit, Directors who are Audit and Supervisory Committee Members, the internal audit division, and the accounting division cooperate through provision of information and meetings; and
- (iv) Any deficiency or fraud pointed out by the external accounting auditor is reported to the Board of Directors through the Director in charge of the administration division, and mainly Directors in charge of the relevant operations correct the deficiency or fraud. The Audit and Supervisory Committee or the internal audit division checks the appropriateness and effectiveness of the correction made.

Principle 3.2, Supplementary Principle 3.2.2

2. The Audit and Supervisory Committee develops standards for evaluating the external accounting auditor based on guidelines and the like of Japan Audit & Supervisory Board Members Association, and evaluates the external accounting auditor through interviews and audit reports. Supplementary Principle 3.2.1

(Voluntary Framework: Compliance Committee)

Article 34 The Company establishes the Compliance Committee that is comprised of the Representative Directors, who serve as the chairperson, Executive Directors, full-time Directors who are Audit and Supervisory Committee Members, and

Executive Officers and engaged in the following activities:

Principle 4.10

(i) Review the status of establishing and operating internal control and risk management systems, and maintain and manage their effectiveness;

Supplementary Principle 4.3.2

(ii) Review the status of practicing the Code of Conduct, covering the standpoint of embedding the underlying principles of the Code of Conduct; and

Supplementary Principle 2.2.1

(iii) Upon receiving a whistleblowing report, oversee the investigation into necessary matters and the development and implementation of countermeasures; Principle 2.5

(Voluntary Framework 2: Sharing Internal Audit Information)

Article 35 1. The Director in charge of the administration division, full-time Directors who are Audit and Supervisory Committee Members, and the internal audit division meet on a regular basis, sharing information the internal audit division has collected through auditing (including information on the establishment of internal control and company-wide risk management systems).

2. External Directors may, on an as-needed basis, receive from the internal audit division information it holds.

Principle 4.10, Supplementary Principle 4.3.4, Supplementary Principle 4.13.3

Supplementary Provisions

Article 1 These Guidelines come into effect on July 1, 2022.

Article 2 Any revision or abolition of these Guidelines is by resolution of the Board of Directors.

However, changes incidental to matters resolved by the Board of Directors and minor changes such as changes to wordings to clarify descriptions are made by approval of the Representative Director & President.

## Exhibit 1: Independence Criteria for External Directors/Auditors

If the Company finds that an External Director/Auditor does not fall under any of the following items as the result of an investigation it conducts to the extent that is reasonably possible, the Company considers that the Director/Auditor is unlikely to have conflicts of interest with general shareholders and therefore files the External Director/Auditor as an independent director/auditor as prescribed by the Tokyo Stock Exchange:

- (i) A person who is an executive (Note 1) of the Company or its subsidiary (the “Group”) or was an executive of the Group in the past 10 years;
- (ii) A party whose major client or supplier is the Group (Note 2) or an executive thereof;
- (iii) A major client or supplier of the Group (Note 3) or an executive thereof;
- (iv) A consultant, accounting professional, or legal professional who receives a large amount of money or any other property (Note 4) from the Group besides director remuneration (if the recipient is a corporation, partnership or any other type of organization, any person who belongs to that organization);
- (v) A certified public accountant who belongs to an audit corporation that serves as an accounting auditor of the Group;
- (vi) A major shareholder of the Group (directly or indirectly holding 10% or more of the voting rights of the Company) or, if the major shareholder is a corporation, an executive of that corporation;
- (vii) An executive of a company whose major shareholder is the Group (directly or indirectly holding 10% or more of voting rights);
- (viii) An executive of a major financial institution (Note 5) from which the Group borrows or a parent or subsidiary thereof;
- (ix) A party that received from the Group more than a certain amount (an annual average of 10 million yen in the past three years) in donation or subsidy (if the recipient is a corporation, partnership, or any other type of organization, an executive of that organization);
- (x) An executive of a company that receives a director from the Group (whether full time or part time), or a parent or subsidiary thereof;
- (xi) A person who falls under any of (ii) through (x) above in the past three years; and
- (xii) The spouse or a relative within the second degree of kinship of a person that falls under any of (i) through (xi) above (limited to important persons (Note 6)).

Note 1: An executive as defined in Article 2, paragraph 3, item (vi) of the Regulation for Enforcement of the Companies Act including an employee as well as an executive director. (A company auditor is not included.)

Note 2: A party that provides products or services to the Group and received payments exceeding 2% of the party’s annual consolidated net sales in the most recent fiscal year from the Group.

Note 3: A party to which the Group provides products or services and whose transaction amount exceeds 2% of the annual consolidated net sales of the Group in the most recent fiscal year.

- Note 4: (i) If that party is an individual, the number of payments received from the Group besides director remuneration is 10 million yen or more in the most recent fiscal year, or (ii) if that party is a corporation or any other type of organization, the amount of money or any other property received exceed 2% of that organization's total revenue in its most recent fiscal year.
- Note 5: A financial institution is a major financial institution if the total amount of borrowings exceed 2% of the Company's consolidated total assets at the end of the most recent fiscal year.
- Note 6: An important person means (i) a director, executive officer (*shikkoyaku* and *shikkoyakuin*) among executives, or (ii) in the case of a law firm or the like, a certified public accountant, lawyer, or director or officer that belongs to the firm, as well as persons who are objectively or reasonably considered to be important.