

# Denka Corporate Governance Guidelines

## (Preface)

Since its establishment in 1915, Denka Company Limited (the “Company”) has responded appropriately to market needs, starting with manufacturing and sale of calcium cyanamide (nitrogenous limestone), and followed by its advancement into acetylene carbide business, organic chemicals, cement business using Omi Industrial Complex, petrochemicals business at Chiba Plant, inorganic products and other electronic materials business at Omuta Plant, pharmaceuticals business, and various business fields, including vaccines and reagents, at Denka Seiken Co., Ltd.

In 2015, the Company celebrated its centennial. It recognizes that this achievement is due to the support and cooperation of its many shareholders and other stakeholders since its establishment.

Based on such support, all our executives and employees, through their consistent sincerity and diligence, which are in their genes, have overcome the difficult times we have experienced and welcome our current period of further growth.

By establishing these Corporate Governance Guidelines (“these Guidelines”), the Company, as a transparent and open global corporation, and based on the support and understanding of its shareholders and stakeholders, is promoting its further growth and business activities as a sustainable company that can contribute to society.

\* References in brackets “( )” after provisions of these Guidelines are to the respective corresponding provisions of Japan’s Corporate Governance Code, established by the Tokyo Stock Exchange.

## Chapter 1. General Provisions

### Article 1 (Purpose)

The purpose of these Guidelines is to gain the trust of the Company’s shareholders and all its other stakeholders and ensure the best corporate governance to achieve sustainable growth and increased corporate value over the medium- to long-term, based on the Corporate Philosophy referred to in Article 2.

(General Principle 2, General Principle 4)

### Article 2 (Corporate Philosophy, Denka Principles, and Management Plan)

1. The Company has formulated a management plan for its strategic vision based on the Denka Corporate Philosophy system, which consists of Denka Corporate Philosophy (mission) “Creating valuable things that benefit society from resources with advanced technologies,” the Denka Principles and Corporate Slogan. It aims to increase its corporate value by promoting activities for achieving the goals of its management plan.

(Principle 2.1, Principle 3.1 i), General Principle 4 (1), Principle 4.1, Principle 5.2)

### Denka Corporate Philosophy System

✧ Corporate Philosophy, “Creating valuable things that benefit society from resources with advanced technologies”

✧ Denka Principles

We:

- Boldly confront challenges with determination and sincerity.
- Think and take action today with the future in mind.
- Deliver new values, and inspire customers through innovative *monozukuri*.
- Respect the environment and create a cheerful workplace that prioritizes safety.
- Contribute to a better society, whilst taking pride in being a trusted corporate citizen.

✧ Corporate slogan  
“Possibility of Chemistry.”

2. The Company has established the Denka Group Ethics Policy, which includes compliance with laws and regulations, rules, the Articles of Incorporation, and social norms. With the Ethics Policy as the foundation of its daily activities, the Company strives

to carry out its social responsibilities and ensure compliance with the Ethics Policy broadly across the Company, including the front line of its domestic and global operations.

(Principle 2.2, Supplementary Principle 2.2.1, Principle 4.3, Supplementary Principle 4.3.2)

#### Article 3 (Basic Approach to Corporate Governance)

1. To respond to the expectations and trust of its many stakeholders, including shareholders, customers, local communities, and employees, the Company strives to increase its corporate value by strengthening its business base through expansion of its earnings power and business operations, while ensuring that it holds a stance to continue being a company that is able to gain the trust and sympathy of society.

As it considers corporate governance to be the foundation for this, the Company works to invigorate its Board of Directors, strengthen its audit system, optimize its management system, and enhance its compliance system.

Specifically, it has introduced an Executive Officer System to speed up its decision-making, and by delegating powers and roles in the execution of business to the Executive Officers, clearly separates the execution of business by executive officers and the overseeing and supervision of such execution by the Directors. In addition, it has strengthened its corporate governance system by in principle abolishing executive roles for Directors (such as senior managing director and managing director). In this way, it has established a system in which each Director oversees and supervises business execution from an equal position. Also, to promote flexibility of monitoring, it appoints Directors for one year terms.

With regard to its outside officers system, the Company appoints Outside Directors as well as Outside Audit & Supervisory Board Members prescribed by the Companies Act. Personnel appointed as outside officers are sufficiently independent and have extensive knowledge in their respective areas. In addition to carrying out supervision of management from an external perspective, they have established places for regular exchanges of opinions with top management. This enables them to provide sufficient advice through exchanges outside the Board of Directors meetings and enables the Company to monitor its management from an external perspective.

(Principle 3.1 ii)

2. The Company respects the rights of its shareholders. Together with ensuring fairness and transparency in management, it considers that an essential goal of corporate governance is to increase management vitality through an appropriate balance of proactiveness and prevention, and therefore the Company has formulated and strives to realize the following basic principles:

(Principle 3.1 ii)

#### (1) Relationship with Shareholders

- 1) We secure the rights and equal treatment of shareholders.

(General Principle 1, Principle 1.1)

- 2) We engage in constructive dialogue with shareholders.

(General Principle 5)

- 3) We build good relationships with shareholders and other stakeholders.

(General Principle 2)

- 4) We appropriately disclose financial and non-financial information and ensure transparency.

(General Principle 3)

#### (2) Basic System for Corporate Governance

- 1) The Company has chosen a company with Audit & Supervisory Board structure. The execution of duties by the Directors and Executive Officers is audited by Audit & Supervisory Board Members and the Audit & Supervisory Board.

- 2) The Company has adopted the Executive Officer System to separate management decision-making and supervisory functions from executive functions. The

decision-making and supervisory functions are the responsibility of the Board of Directors and the Directors comprising the Board, and the Executive Officers are responsible for the execution of business.

The scope of operations delegated by the Board of Directors to the Directors and Executive Officers is separately disclosed in summary form in Corporate Governance Reports in accordance with the Board of Directors Regulations and the Executive Officers Regulations.

(Supplementary Principle 4.1.1)

3) The Company has established a Management Committee comprised of Directors, Audit & Supervisory Board Members and selected Executive Officers for the purpose of deliberating and discussing important managerial issues to streamline discussion on important managerial matters and accelerate decision-making.

4) For reasons of management transparency and soundness, the Company appoints up to 10 Directors, and in order to build a management system that combines proactiveness and prevention, the Company ensures the appointment of at least two independent Outside Directors. Also, independent Outside Directors comprise at least one third of the Directors at the Board of Directors.

Furthermore, the Board of Directors as a whole is to possess a good balance of personnel with diverse knowledge, experience and skills due to the appointment of internal Directors from persons who have sufficient expert knowledge and business experience in the Company's business and administrative divisions and the appointment as Outside Directors of persons with the necessary high level of expertise and broad insight to increase the Company's corporate value.

(Principle 4.8, Principle 4.11, Supplementary Principle 4.11.1)

5) A round table conference of Directors and Audit & Supervisory Board Members is held once a month to promote more in depth discussion in relation to management matters of particular importance. The conference provides a place for uninhibited and constructive discussions, exchange of opinions and information, and enhancing of cooperation between internal and Outside Directors and Audit & Supervisory Board Members.

(Supplementary Principle 4.8.2, Principle 4.10, Supplementary Principle 4.10.1)

6) To strengthen its risk management and compliance systems, the Company appoints a Chief Compliance Officer (CCO) from among the Directors or Executive Officers.

(Principle 4.2, Principle 4.3, Supplementary Principle 2.3.1)

7) The Company has established a department in charge of Corporate Social Responsibility (CSR) to create broad recognition of and compliance with the Company's CSR, including at the front line of its domestic and global operations, and sincere handling of CSR throughout the Company.

(Supplementary Principle 2.3.1)

#### Article 4 (Positioning of these Guidelines)

These Guidelines are rules that rank next after the Companies Act, related laws and regulations, and the Articles of Incorporation, and they take precedence in application over other Company rules.

#### Chapter 2. Relationships with Shareholders

##### Article 5 (Fiduciary Responsibility)

To fulfil their fiduciary responsibilities to shareholders, the Directors, Audit & Supervisory Board Members and the management of the Company act through appropriate cooperation with stakeholders for the improvement of common value of the Company and shareholders.

(Principle 4.5)

##### Article 6 (Respect for Voting Rights)

1. The Company recognizes that the General Meeting of Shareholders is a place for dialogue with shareholders and, from the perspective of shareholders, seeks to enable shareholders to appropriately exercise their rights.

(General Principle 1, Principle 1.1, Principle 1.2)

2. The Company establishes policies as set forth below for promoting constructive dialogue with shareholders and investors. It also works to gain the understanding of shareholders and investors by formulating management plans aimed at sustainable growth and increased corporate value over the medium- to long-term, setting up various opportunities and endeavouring to provide explanations.

(General Principle 5, Principle 5.1)

- (1) The Investor Relations Department and the Administrative Department are the points of contact for responding to shareholders and investors, and actions are taken under the supervision of the Executive Officer in charge.

(Supplementary Principle 5.1.1, Supplementary Principle 5.1.2)

- (2) Related departments actively cooperate in information sharing and other measures in order to provide timely and appropriate disclosure of information.
- (3) Results briefings for share analysts and institutional investors, as well as business briefings and tours of the Company's plants as appropriate, are held to promote fuller understanding of the Company's business structures, management plans and results by shareholders and investors. Also, yearly corporate briefings are held for individual investors.
- (4) Opinions and matters of concern communicated during dialogue with shareholders and investors are reported as appropriate to the Executive Officers in charge and, if necessary, to the Board of Directors.
- (5) The Company has established Regulations on Insider Information Management and Prevention of Insider Trading as measures for the management of insider information, and conducts appropriate information management based on these regulations.

3. The Company works to enable all its shareholders to appropriately exercise their voting rights.

Notices of Convocation of General Meetings of Shareholders and reference documents are sent, in principle, three weeks prior to the date on which the meeting is to be held. Also, to ensure that the shareholders have time to examine the contents, that information is disclosed on TDnet and the Company's website during the period between the Board of Directors' approval of convening of the General Meeting of Shareholders and the sending of the Notices of Convocation.

Furthermore, in keeping with the Company's shareholder composition, the Company participates in the Electronic Voting Platform, and the Notices of Convocation are translated into English and published on TDnet and the Company's website.

(Supplementary Principle 1.2.1, Supplementary Principle 1.2.2, Supplementary Principle 1.2.4)

#### Article 7 (General Meetings of Shareholders)

1. The time, date and place of the General Meetings of Shareholders are established by the Company with a view to enabling more shareholders to attend the meetings and greater reflection of shareholders' intentions.

(Supplementary Principle 1.2.3)

2. The Board of Directors analyses the voting results for proposals from the Company at General Meetings of Shareholders to obtain a detailed understanding of the reasons for approval or opposition to proposals, and it makes use of such analysis at constructive dialogue between management and shareholders and others.

(Supplementary Principle 1.1.1)

3. To foster a relationship of trust with shareholders, the Directors and Executive Officers provide sufficient explanations of the Company's policies and measures to the shareholders and do their best to respond to questions at General Meetings of Shareholders.

(Principle 1.1, Principle 1.2)

#### Article 8 (Returns to Shareholders)

1. Recognizing that profit sharing is a basic right of shareholders, the Company has established policies concerning dividends from surplus and other returns to shareholders which are disclosed on the Company's website.

(Principle 1.3)

2. In accordance with the Articles of Incorporation, interim dividends from surplus are decided by the Board of Directors, and policies for year-end dividends are decided by the Board of Directors, and they are then deliberated and determined by the General Meeting of Shareholders.

#### Article 9 (Protection of Shareholders' Rights)

As the Board of Directors and the Audit & Supervisory Board have fiduciary responsibilities to all the shareholders, before implementing a capital policy resulting in a change of control or significant dilution, the Company examines the policy carefully to avoid unfairly harming the interests of existing shareholders, makes sure that the appropriate procedures are taken, and provides sufficient explanations to the shareholders.

(Principle 1.6)

#### Article 10 (Basic Strategy for Capital Policy)

1. The Company holds shares in cases where it judges that doing so is in accordance with the creation of stable business relationships and will maintain and strengthen business alliances in line with growth strategies and contribute to increased corporate value over the medium- to long-term.
2. Regarding the exercising of voting rights in relation to shares held as strategic shareholdings, in principle, the Company respects the business policies and strategies of the issuing company. After consideration of the issuing company's management situation by the department in charge of the management of those shares, the Company carefully examines proposals individually from the perspective of whether they will ultimately contribute to increased shareholder value before making its decision for or against the proposals.

(Principle 1.4)

3. The Company does not implement the so-called anti-takeover measures. In the case of tender offers, the Company sufficiently and clearly explains the position of the Board of Directors and takes appropriate procedures in accordance with the Basic Policies regarding the Control of the Company previously decided by the Board of Directors.

(Principle 1.5)

#### Article 11 (Securing Equal Treatment of Shareholders)

The Company treats all shareholders equally according to the features and number of their shares, and does not provide property benefits or other special benefits to specific shareholders.

#### Article 12 (Prevention of Transactions that are Contrary to Shareholders' Interests)

1. To protect the interests of shareholders, the Company strives to prevent abuse of their positions by its Directors, Executive Officers, employees and other related parties and transactions that are contrary to the interests of the Company and the shareholders.

(Principle 4.3)

2. The Company requires, in the Board of Directors Regulations, that the prior consent of the Board of Directors must be obtained for any competing transactions and self-dealing matters by Directors and the results must be reported afterwards. In the case of continuing transactions, the results of competing transactions and self-dealing in the previous fiscal year are reported to the Board of Directors once a year, and prior approval for the current fiscal year is sought.

Also, related party transactions are determined in the same way as general transaction terms, and are disclosed in the notes to financial statements and securities reports in accordance with laws and regulations.

(Principle 1.7)

3. The Company appropriately discloses material facts concerning the transactions set forth in the preceding paragraph.

(General Principle 3, Principle 4.3)

4. To prevent insider trading by persons related to the Company, the Company has established and strictly enforces regulations concerning the handling of undisclosed material facts.

(Principle 4.3)

### Chapter 3. Appropriate Cooperation with Stakeholders other than Shareholders (for sustainable enhancement of corporate value)

#### Article 13 (Appropriate Cooperation)

1. The Company fully recognizes that its sustainable growth and creation of corporate value over the medium- to long-term are the result of the provision of resources and contributions by its various stakeholders, including employees, customers, business partners, creditors and local communities, and it endeavours to appropriately cooperate with these stakeholders.

The Company's Directors and Executive Officers exercise leadership in establishing a corporate culture and climate of respect for the rights and positions of stakeholders and sound business ethics.

(General Principle 2)

2. To gain the support of shareholders, employees, customers, business partners, creditors, local communities and other stakeholders when addressing sustainability issues, including those social and environmental, the Company handles those matters with sincerity and fairness broadly across the Company, including the front line of its domestic and global operations, based on the Denka Principles set forth in Article 2.

(Principle 2.3, Supplementary Principle 2.3.1)

3. For its sustainable growth, the Company promotes diversity (utilization of diverse human resources), based on the basic principle that it is necessary for each of our employees with their diverse personalities and values to fully demonstrate their abilities.

(Principle 2.4)

4. The Company has established the Denka Group Ethics Policy to enable itself to identify and mend organizational issues that may arise, and has set up the Ethics Committee to ensure thorough compliance with the Ethics Policy and oversee compliance. The Committee quickly and appropriately addresses reports received through the Compliance Hotline.

Reports are received from internal administrative office as well as from the Audit & Supervisory Board Members Department and the labor union, which operate on a neutral basis. Whistleblowers can also make reports to an independent law firm. Furthermore, the Company clearly states in the Denka Group Ethics Policy that whistleblowers must not be subject to any discriminatory treatment or disadvantage due to their actions.

(Principle 2.5, Supplementary Principle 2.5.1)

### Chapter 4. Ensuring Appropriate Information Disclosure and Transparency

#### Article 14. Information Disclosure

1. To build long-term relationships of trust with domestic and overseas shareholders, institutional investors and all its other stakeholders, the Company's basic policy is to disclose and promptly, accurately, fairly and equally communicate not only statutory disclosure matters but also management policies and financial information, information about business initiatives, and information which includes non-financial information, such as the management environment, necessary for investment decisions.

(General Principle 3)

2. The Company discloses, in Corporate Governance Reports, policies and outlines of procedures decided upon by the Board of Directors for remuneration of Directors and Executive Officers.

(Principle 3.1 iii))

3. The Company discloses, in Corporate Governance Reports, policies and procedures for the nomination of Director and Audit & Supervisory Board Member candidates and the appointment of Executive Officers by the Board of the Directors. Based on this, to explain the appointment and nomination of individual Director and Audit & Supervisory Board Member candidates, the reasons for the appointment of outside officers and the career record of internal officers are included in the reference documents for General Meetings of Shareholders.

(Principle 3.1 iv), Principle 3.1 v))

4. Due to the percentage of overseas investors included among its shareholders, the Company endeavours as much as possible to disclose and provide information in English to a reasonable extent.

(Supplementary Principle 3.1.2)

#### Chapter 5. Responsibilities of the Board of Directors, etc.

##### Article 15 (Roles and Responsibilities of the Board of Directors)

1. As one of the roles and responsibilities of the Board of Directors is the making of strategic proposals for the realization of the Company's Corporate Philosophy (mission), the Board formulates management plans, etc. and makes decisions for the execution of important business based on those plans, etc. Also, in the event that the goals of the management plans are not achieved, the Board of Directors is responsible for analysing the causes and providing clear explanations to the shareholders, which are reflected in the plans for the following fiscal years.

(General Principle 4, Principle 4.1, Supplementary Principle 4.1.2)

2. The Board of Directors makes decisions on important matters stipulated in laws and regulations, the Articles of Incorporation and the Board of Directors Regulations, and supervises the execution of business by the Directors and Executive Officers.

(Supplementary Principle 4.1.1)

3. To increase management vitality by enhancing the agility and flexibility of business execution, the Board of Directors resolves on the assignment of duties and authority of the Executive Officers responsible for business execution. As well as delegating business execution to Executive Officers within that scope, the Board of Directors receives reports on status of their execution of business. It also assists in the execution of business by creating an environment that supports risk-taking.

(General Principle 4 (2), Supplementary Principle 4.1.1, Principle 4.2)

4. The Board of Directors exercises supervision to ensure that timely and accurate information disclosure is provided, and appropriately establishes the internal control and risk management systems.

(Principle 4.3)

5. The Board of Directors recognizes that it also has responsibilities in terms of management for the future, and based on the Company's Corporate Philosophy and changing trends in the future economic environment, it shares information on and appropriately supervises succession planning for the President & CEO.

(Supplementary Principle 4.1.3)

6. The Board of Directors endeavours to create an environment where there is always a free exchange of opinions and positive debate, and it respects the raising of issues by Outside Directors.

(Principle 4.12)

7. The Board of Directors encourages active deliberation by ensuring the following matters in the operation of Board of Directors meetings:

(Supplementary Principle 4.12.1)

- (1) Prior distribution of materials for Board of Directors meetings. This includes ensuring that materials relating to agenda items to be resolved are distributed to Directors and Audit & Supervisory Board Members, including Outside Directors and Audit & Supervisory Board Members, in advance to allow sufficient time for examination so that vigorous debate can take place on the day of the meeting.
- (2) Providing Directors with sufficient information from the Company other than the materials for the Board of Directors meetings as necessary. Also, the Board of Directors confirms that information is smoothly provided by the Company.
- (3) Deciding in advance on the yearly schedule for the Board of Directors meetings.
- (4) Appropriate setting of the number of agenda items for deliberation and the frequency of Board of Directors meetings.
- (5) Ensuring more deliberation time mainly for vigorous discussions with Outside Directors in relation to agenda items to be resolved.
- (6) Promptly incorporating suggestions and requests from Outside Directors and Audit & Supervisory Board Members into the operation of the Board of Directors.

#### Article 16 (Roles and Responsibilities of Directors)

1. Directors are appointed each year at the General Meeting of Shareholders for a term of one year.
2. Directors have a duty of loyalty and a duty to act with the due care of a prudent manager.
3. In the execution of their duties, the Directors take the utmost care to gather full information, request explanations at the Board of Directors meeting, do their best to actively express and discuss their opinions with other Directors, and exercise their voting rights after ensuring that the decision-making process is reasonable.
4. The Directors seek to resolve management issues of the Company that have come to their knowledge by exercising their rights to propose agenda items for Board of Directors meetings and request the convening of Board meetings in a timely and appropriate manner.

#### Article 17 (Common Roles and Responsibilities of Directors and Audit & Supervisory Board Members)

1. In order that Directors and Audit & Supervisory Board Members focus on carrying out their roles and responsibilities, any posts concurrently held by them as officers of other listed companies are disclosed in reference documents for General Meetings of Shareholders and business reports in accordance with laws and regulations.  
(Supplementary Principle 4.11.2)
2. In order for Directors and Audit & Supervisory Board Members to carry out their roles and responsibilities, in cases where they judge that they have insufficient information, they may ask the Executive Officer in charge of the relevant department to provide additional information. Also, if considered necessary, they may seek the opinions of lawyers or other external experts at the Company's cost.  
(Principle 4.13, Supplementary Principle 4.13.1, Supplementary Principle 4.13.2)
3. For both Outside Directors and Outside Audit & Supervisory Board Members, the Company selects candidates for appointment as independent officers based on judgement focused on substantiality, such as whether they can be expected to contribute to increasing the Company's corporate value. Details are specified in the Attachment and are based on the externality requirements prescribed in the Companies Act and the independence criteria set by the Tokyo Stock Exchange.  
(Principle 4.9)
4. The Company conducts tours of its offices and plants and training sessions about the Company's business, particularly for newly-appointed Outside Directors and Outside Audit & Supervisory Board Members, to enable them to gain information about the Company. Also, all newly appointed Directors and Audit & Supervisory Board Members, including outside officers, are encouraged to participate in external seminars to learn necessary legal and other knowledge for the purpose of increasing their understanding of the roles and responsibilities required of them. In addition to providing and arranging these opportunities and assisting with the costs, the Company provides training in the same way to incumbent officers as necessary in order to continually update their knowledge.  
(Principle 4.14, Supplementary Principle 4.14.1, Supplementary Principle 4.14.2)

#### Article 18 (Roles of Executive Officers)

1. Executive Officers are appointed for a term of one year. Each year, candidates for appointment as Executive Officers are recommended by the President & CEO, and the Board of Directors then deliberates on the candidates and makes the appointments.
2. Executive Officers are appointed in accordance with the appointment criteria set out in the Executive Officers Regulations (1. Abundant business experience and familiarity with the business of the Company; 2. Excellent management sense; 3. Superior guidance, leadership, vitality and planning abilities; 4. Personality and insight suited to an Executive Officer; and 5. Good physical and mental health).  
(Principle 3.1 iv))
3. Executive Officers who concurrently serve as Directors have supervisory responsibilities, in their capacity as Directors, in relation to the overall management of the Company, and



as Executive Officers are responsible for the execution of business of which they are in charge.

4. The number of Executive Officers appointed is the appropriate number that can most efficiently and effectively deliver the execution of business functions in accordance with the decisions of the Board of Directors.

#### Article 19 (Roles and Responsibilities of Outside Directors)

1. The main roles of Outside Directors for the sustainable growth and medium- to long-term increase of corporate value of the Company are as follows:
  - (1) Providing advice in relation to overall management, based on their abundant experience and broad insight;
  - (2) Monitoring the Board of Directors and the execution of business by Executive Officers;
  - (3) Monitoring conflicts of interest between the Company and its Directors, Executive Officers and other persons; and
  - (4) Reflecting the views of minority shareholders and other stakeholders to the Board of Directors.

(Principle 4.6, Principle 4.7)
2. The Outside Directors are continually provided with information regarding the status of changes to the Company's Corporate Philosophy, corporate culture, management environment and other matters through the Board of Directors Administrative Office (Administrative Department).

(Principle 4.13)
3. As appropriate, Outside Directors strives to hold meetings consisting solely of outside officers to exchange information and develop a shared awareness about matters concerning the Company's corporate governance and business.

(Supplementary Principle 4.8.1)

#### Article 20 (Roles and Responsibilities of Audit & Supervisory Board Members and the Audit & Supervisory Board)

1. Audit & Supervisory Board Members and the Audit & Supervisory Board conduct audits in relation to the execution of duties by Directors, internal control, operations and accounting by exercising authorities in relation to requests for Company business reports, investigations relating to operations and accounting, and the appointment, dismissal and remuneration of the external accounting auditor, in accordance with laws and regulations.

(Principle 4.4)
2. When carrying out their roles and responsibilities referred to in the preceding paragraph, based on their fiduciary responsibilities to shareholders, Audit & Supervisory Board Members and the Audit & Supervisory Board take objective positions, make appropriate decisions, and actively state their opinions at the Board of Directors meetings and others.

(Principle 4.4)
3. In order for Audit & Supervisory Board Members and the Audit & Supervisory Board to carry out their roles and responsibilities, the Company selects Audit & Supervisory Board Member candidates based on the judgment that at least one of the Audit & Supervisory Board Members has finance and accounting expertise.

(Principle 4.11)
4. To carry out their roles and responsibilities, Audit & Supervisory Board Members and the Audit & Supervisory Board obtain reports relating to necessary matters in a timely and appropriate manner from the Company's Directors, Executive Officers, employees and the external accounting auditor, and strive to share necessary information with the external accounting auditor and internal audit organizations to improve auditing quality and ensure the efficiency of audits.

(Supplementary Principle 3.2.2, Principle 4.13, Supplementary Principle 4.13.3)
5. The Audit & Supervisory Board establishes the necessary basic policies, regulations and procedures for the execution of its duties.
6. To ensure the objectivity of audits, staff of the Audit & Supervisory Board Members Department who perform duties based on resolutions of the Audit & Supervisory Board and directions of Audit & Supervisory Board Members are guaranteed independence

from the management of the Company, such as Directors and Executive Officers, in terms of operational directions, orders and personnel evaluations.

(Principle 4.13)

7. The Audit & Supervisory Board mutually supplements the independence of the Outside Audit & Supervisory Board Members and the information gathering ability of the full-time Audit & Supervisory Board Members to increase its effectiveness. The Audit & Supervisory Board Members and the Audit & Supervisory Board also secure the cooperation with the Outside Directors to assist the Outside Directors in the carrying out of their roles and responsibilities.

(Supplementary Principle 4.4.1)

#### Article 21 (Information Gathering System)

1. The Company's internal auditing organizations provide reports to the Board of Directors in relation to internal control, and regularly exchanges information with the full-time Audit & Supervisory Board Members.

(Supplementary Principle 4.13.3)

2. The Secretary Department, Audit & Supervisory Board Members Department, Internal Auditing Department and Administrative Department cooperate with each other and provide necessary information to Outside Directors and Outside Audit & Supervisory Board Members.

(Supplementary Principle 4.13.3)

#### Article 22 (Internal Control System)

1. Recognizing that enhancement of the Company's internal control is an important element in gaining the trust of all its stakeholders including shareholders, the Board of Directors has established the Basic Policy Concerning Internal Control in accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act.

(Principle 4.3, Supplementary Principle 4.3.2)

2. In accordance with the Basic Policy Concerning Internal Control and other resolutions of the Board of Directors relating to internal control, the Executive Officers in charge have established the system necessary for compliance with laws and regulations, ethical norms and codes of conduct, business effectiveness and efficiency and reliability of financial reports, and they ensure that it functions effectively, including at the front line of the Company's domestic and global operations.

(Principle 2.2, Principle 4.3)

#### Article 23 (External Accounting Auditor)

1. To ensure the reliability and effectiveness of financial reports and the conducting of appropriate audits, the Company takes the following measures in relation to the external accounting auditor:

- (1) It ensures that there is sufficient time for auditing;
- (2) Regular meetings are held between the external accounting auditor and the President & CEO and Executive Officers in charge;
- (3) The external accounting auditor and the Internal Auditing Department cooperate with each other in relation to the provision of information about the activities of the Audit & Supervisory Board, accounting and internal control; and
- (4) If a report is received from the external accounting auditor to the effect that misconduct or material facts in violation of laws and regulations or the Articles of Incorporation have been discovered, the Company ensures that the appropriate procedures are taken by the Audit & Supervisory Board.

(Principle 3.2, Supplementary Principle 3.2.2)

2. The Audit & Supervisory Board formulates policies concerning the appointment and dismissal of the external accounting auditor, and evaluates the external accounting auditor through confirmation in the process of receiving financial and other reports.

(Supplementary Principle 3.2.1)

## Chapter 6. Other Provisions

### Article 24 (Exemptions)

In the event that an exemption from these Guidelines is necessary, the Board of Directors must specify the reason and make it clear that appropriate measures are being taken in accordance with the intent of these Guidelines.

### Article 25 (Amendments)

Amendments to these Guidelines are to be made by the resolution of the Board of Directors.

Established on November 9, 2015

(Attachment)

### Independence Standards for Outside Officers

The independence standards for the Company's Outside Directors and Outside Audit & Supervisory Board Members are that they must be persons who do not fall under any of items 1 to 5 below.

1. An operating officer(\*1) of a main customer(\*2), main supplier(\*3) or main lender(\*4) that is a main business partner of the Company.
2. A consultant, accountant, lawyer or the like who has received money or other property from the Company exceeding a yearly amount of 10 million yen, other than officer's remuneration, in the most recent fiscal year.
3. In the event that the party receiving the property referred to in item 2 above is an organization, a person belonging to an organization in which the amount paid by the Company to that organization in the most recent fiscal year comprised 2% or more of that organization's net sales or gross revenue.
4. A person who fell under items 1 to 3 above within the period of the past year.
5. A person who is the spouse or a relative within the second degree of kinship of a person listed below (excluding immaterial persons):
  - (1) A person falling under items 1 to 4 above;
  - (2) A person who is currently, or was within the period of the past year, an operating officer at the Company or a subsidiary of the Company; or
  - (3) A person who is currently, or was within the period of the past year, a non-executive director of the Company or a subsidiary of the Company (limited to cases of Outside Audit & Supervisory Board Members).

\*1 Operating officer: an Executive Director, Operating Executive, Executive Officer, or other employee or the like.

\*2 Main customer: a customer that paid to the Company an amount that comprised 2% or more of the Company's net sales in the most recent fiscal year.

\*3 Main supplier: a supplier to which the Company paid an amount that comprised 2% or more of that supplier's net sales in the most recent fiscal year.

\*4 Main lender: a lender that, at the end of the most recent fiscal year, was essential to the Company's financing and is relied upon by the Company to the extent that there is no substitute.