

December 23, 2021
SUNCORPORATION
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<https://www.sun-denshi.co.jp/>

The status of the Company's corporate governance is as follows.

I. Corporate Governance Basic Policy on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information

1. Basic Policy

We believe it is important to enhance corporate governance in order to meet the wide range of trust and expectations of our shareholders, customers, and all segments of society.

To do so, we are implementing various measures based on the following basic ideas.

- (1) Ensure soundness and transparency of management
- (2) Compliance with laws and regulations
- (3) Clarification of the decision-making process
- (4) Appropriate business execution
- (5) Timely and appropriate information disclosure
- (6) Group-wide risk management

[Reasons for not implementing the following principles of the Corporate Governance Code]

The information below is based on the revised Code of June 2021.

Supplemental Principle 1-2 ④

Although the Company has translated the convocation notice of the General Meeting of Shareholders into English, it has not introduced a system to enable electronic exercise of voting rights.

The Company is aware of the need to create an environment to enable the electronic exercise of voting rights, taking into account the situation of institutional investors and overseas investors, and will continue to study the issue in response to changes in the composition of shareholders and other circumstances.

Supplemental Principle 2-4 ①

The Company recognizes that ensuring the diversity of its human resources will lead to the enhancement of its corporate value over the medium and long term, and appoints employees to management positions based on a comprehensive assessment of their skills and experience, regardless of gender, nationality, or whether they were hired mid-career. However, we have yet to set measurable numerical targets for securing diversity in our core human resources.

In addition, we have not yet been able to disclose our human resource development policy and internal environment improvement policy and their implementation status. We will work on these issues in the future.

Supplemental Principle 2-5 ①

The Company has designated the department in charge of internal audit as the point of contact for internal reporting and has established rules to prohibit confidentiality and disadvantageous treatment of those who provide information through the internal reporting system operation rules. In the future, we will consider establishing a contact system independent of management.

Supplemental Principle 3-1 ③, 4-2 ②

The Company recognizes that the 21st century is the "Environmental Century" and has established "Environmental Management Regulations" to promote business growth and reduce the burden on the global environment. (<https://www.sun-denshi.co.jp/csr/>)

However, the Board of Directors has not yet formulated a basic policy on sustainability, which is currently under consideration.

In addition, the Company is considering how to appropriately disclose and provide information on investments in human assets and intellectual property, and will proactively disclose such information when it formulates new management plans.

Supplemental Principle 4-10 ①

The Company has established a voluntary Nomination Advisory Committee for the nomination of Directors, but has not established a voluntary committee for the determination of remuneration, and the specific amount of remuneration to be paid to each Director is determined by the Board of Directors (or the Audit Committee for Directors who are Audit Committee members).

Four of our nine directors are outside directors (three of whom are independent external directors), and since they participate in deliberations and express their opinions at the Board of Directors meetings from a standpoint independent of the management team, we believe that the current system is functioning appropriately. However, the Company will consider a mechanism to further enhance the objectivity and transparency of the procedures, including obtaining appropriate involvement and advice from the perspective of the diversity and skills of directors at the Nomination Advisory Committee.

Principle 4-11

The Company appoints as Directors those individuals who are considered most suitable to serve as Directors of the Company, regardless of nationality, race, gender, age, or other factors. At present, all of the Company's directors are male and no female directors have been appointed. However, if there are suitable candidates, the Company will consider nominating them as candidates for directors.

In terms of internationality, we have appointed several foreign directors, and we believe that the current Board of Directors can appropriately manage the Company. As for the Directors who are members of the Audit Committee, one certified public accountant and one attorney-at-law have been appointed as External Directors as they have considerable knowledge of finance, accounting or legal affairs.

Supplemental Principle 4-11 ①

As an industrial company with multiple businesses, the Company recognizes the importance of appointing a well-balanced group of directors with expertise in each business, corporate management, financial accounting, legal and risk management, and global skills in order to balance important decision-making and supervision of business execution.

In the future, we will promote the selection and concentration of businesses, establish specific decision criteria and policies according to the Company's business characteristics and management environment in order to consider M&As and business structure reforms for new businesses, and build a system that is more conscious of the balance of knowledge, experience and ability, diversity and scale of the Board of Directors as a whole. In addition,

the Company will consider disclosing the skill matrix of directors as early as possible. The policies and procedures for the election of directors are as described in Principle 3-1(iv).

Supplemental Principle 4-11 ③

The Company will continue to examine the effectiveness of the Board of Directors, including evaluation methods, from the perspective of improving the functioning of the Board of Directors.

Principle 5-2

The Company does not currently publish a medium-term management plan because it is taking time to analyze the impact of Cellebrite, a consolidated subsidiary, on the Company's business performance. However, the Company makes public its business performance targets and medium-term vision for each fiscal year, and strives to provide shareholders with easy-to-understand explanations of the qualitative and quantitative rationale for achieving these targets through IR activities and other means.

【Disclosure based on the principles of the Corporate Governance Code】

The following is based on the revised code of June 2021

Principle 1-4

The Company may hold shares of listed companies as policy holdings if such holding will contribute to the enhancement of corporate value over the medium to long term through the maintenance and strengthening of stable business relationships with the companies in which the Company holds such shares.

Each year, the Board of Directors examines the rationality of the purpose of holding each stock and the related income and benefits of holding the stock, and decides whether or not to hold the stock in comparison with the case where the stock is not held.

This year, as a result of the verification, we have confirmed that all of the shares currently held for policy purposes are held in accordance with the holding policy.

In addition, when exercising voting rights for shares held for policy purposes, we will make a comprehensive judgment as to whether the exercise of voting rights for shares held for policy purposes will not damage the corporate value of the Company and whether it will lead to the enhancement of the value of the company in which the shares are held.

When there is a possibility of damage to shareholder value, such as the occurrence of illegal activities, or when there are serious concerns about corporate governance, we will vote against.

Principle 1-7

When conducting transactions with related parties such as directors and major shareholders, the Company shall explain the rationality of the transaction and the terms and conditions of the transaction in advance to the Board of Directors from the perspective of preventing conflicts of interest with the Company and ensuring the fairness and impartiality of the transaction, in accordance with laws and regulations and internal rules. In the event that such transactions are implemented, the details of the transactions are reported to the Board of Directors.

The Company confirms whether or not there are any transactions between the Company and related parties by conducting a written survey of the Company's directors every year.

Principle 2-6

The Company does not have a defined-benefit corporate pension plan, but as part of its welfare program, the Company has established a defined-contribution pension plan that allows employees to select their own investments. In cooperation with the administrative management organization, we use videos and other means to inform employees of the

system and encourage them to use it.

In addition, the division in charge of the pension plan is the human resources division, which appoints employees with basic knowledge of public and private pension plans in general, including defined contribution pension plans. In addition to the above, the Company also provides investment education to its subscribers.

Principle 3-1

(i) Based on the following "Slogan," "Corporate Philosophy" and "Basic Strategy," the Company strives to plan, develop and continue to provide high value-added products and services with superior merchantability and quality.

Slogan: "Dream, Challenge, Create"

Corporate philosophy: To improve the quality of social life through "Information Technology, Digital Technology & Entertainment

Basic Strategy: To become a growing company*

*"Becoming a growth company" means turning into a growth company (a company that continuously generates good earnings).

The Company's basic strategy, medium-term vision, and other financial explanatory materials are available on the Company's website. <https://www.sun-denshi.co.jp/>

(ii) Please refer to "I 1. Basic Policy" in this report.

(iii) The amount of remuneration to Directors (excluding Directors who are members of the Audit Committee) is determined by the Board of Directors within the limit of the amount of remuneration approved by a resolution of the General Meeting of Shareholders, taking into consideration the business performance and other factors.

The amount of remuneration for Directors who are Audit and Supervisory Committee members is determined by the Audit and Supervisory Committee within the limit of the amount of remuneration approved by a resolution of the General Meeting of Shareholders.

With respect to the remuneration of Directors, the Company places importance on the linkage with business performance and medium- to long-term corporate value, and the Board of Directors determines the policy for determining the details of remuneration for each individual Director in order to create a remuneration system that is linked with shareholder interests.

The remuneration for Directors consists of monetary remuneration (fixed remuneration) and stock remuneration (stock options).

The monetary remuneration for Directors is fixed monthly remuneration, and the specific amount of remuneration to be paid to each Director, excluding Audit Committee members, is determined by the Board of Directors after a draft is prepared by the Representative Director based on the standards established for each position, and is determined by the Audit Committee for Directors who are Audit Committee members.

The number of stock options (stock acquisition rights) to be granted to each Director is determined by the Board of Directors (or the Audit Committee in the case of Directors who are Audit Committee members), taking into consideration such factors as business performance, responsibilities, management details, and economic conditions.

(iv) The Board of Directors selects candidates for executive directors (directors who are not members of the Audit Committee or external directors) based on the results of mutual evaluations of executive directors, taking into consideration the balance of knowledge,

experience, ability, and the Nomination Advisory Committee, whose main members are independent (external) directors, deliberates on the appropriateness of the nominees and, based on the opinions of the committee, decides the agenda for their appointment by a resolution of the Board of Directors.

With the consent of the Audit and Supervisory Committee, the Company selects directors who have sufficient expertise, experience and insight to conduct appropriate audits and supervision.

With regard to external directors, in accordance with the requirements of the Companies Act and the independence standards stipulated by the Tokyo Stock Exchange, the Company selects as independent outside directors those who are not likely to have a conflict of interest with general shareholders.

In addition to cases of violations of laws and regulations and the Articles of Incorporation, if a member of the management team, including representative directors, does not meet the criteria for such selection or is judged to be unable to perform his or her duties, the Nomination Advisory Committee will deliberate on the matter and, based on its opinion, the Board of Directors will decide on a proposal for the dismissal of the relevant director to be submitted to the General Meeting of Shareholders.

(v) With respect to the individual election and dismissal and nomination of candidates for Directors, the brief personal history of each individual and the reasons for their appointment are provided in the reference materials for the General Meeting of Shareholders in the notice of the General Meeting of Shareholders.

<https://www.sun->

[denshi.co.jp/ir_info/notes/2021/50thNoticeGeneralMeetingShareholders.pdf](https://www.sun-denshi.co.jp/ir_info/notes/2021/50thNoticeGeneralMeetingShareholders.pdf)

Supplementary Principle 4-1 ①

The Company has established the separation of management decision-making and business execution by establishing the Board of Directors as the decision-making and supervisory body of management, and the Executive Committee as the business execution system based on the decisions made by the Board of Directors, as well as executive officers and meeting bodies for each business field.

In addition, the scope of delegation to management is clearly defined in the Board of Directors Regulations and the Table of Duties and Authorities, which sets out the decision-making bodies, such as the Board of Directors, executive officers and executives, as well as the authority of decision-makers in relation to decisions, deliberations and approvals.

Principle 4-9

The Company has not established any standards or policies regarding the independence of the selection of independent outside directors. However, in making the selection, the Company takes into account the independence standards established by the Tokyo Stock Exchange and selects as independent outside directors those who are judged to have no risk of conflict of interest with general shareholders.

Supplemental Principle 4-11 ②

The status of important concurrent positions held by the Company's directors is disclosed annually through the notice of convocation of the General Meeting of Shareholders and the Annual Securities Report. The four external directors of the Company do not concurrently hold positions at other listed companies outside the Group, and are able to concentrate on their duties as directors of the Company.

Supplementary Principle 4-14 ②

Upon assuming office, the Company provides and mediates various training opportunities for Directors to acquire and appropriately update the knowledge necessary to properly assign and deepen their understanding of their roles and responsibilities. In addition, even after assuming office, the Company provides opportunities necessary for Directors to fulfill their roles, such as providing knowledge and information necessary for supervising management, and the Company bears these costs.

Principle 5-1

In order to promote constructive dialogue with shareholders, the Company has established the following systems and measures for dialogue with shareholders.

- (i) The Company has appointed a director in charge of IR from among its directors.
- (ii) The director in charge of IR organically collaborates with other departments related to IR activities, such as corporate planning, human resources and general affairs, accounting, and legal departments, by holding meetings as needed, and shares information with other departments related to IR activities.
- (iii) The department in charge of IR receives telephone interviews and other IR interviews from shareholders and investors.
- (iv) The opinions of shareholders and investors obtained through IR activities are appropriately and effectively fed back to the Management Committee and the Board of Directors.
- (v) In dialogue with shareholders and investors, we pay attention to the management of insider information in accordance with the insider trading rules.

2. Capital Structure

Foreign shareholding ratio	30% or more
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Major Shareholders

Name or Company name	Number of shares held (shares)	Percentage (%)
Tokai Engineering Co.Ltd.	4,267,600	17.78
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT	1,171,350	4.88
INTERACTIVE BROKERS LLC	1,142,900	4.76
Fujishoji Co., Ltd.	940,000	3.91
NOMURA CUSTODY NOMINEES LIMITED OMNIBUS-FULLY PAID (CASHPB)	909,467	3.79
GOLDMAN SACHS INTERNATIONAL	802,475	3.34
Michie Utsumi	680,000	2.83
Yasue Watanabe	680,000	2.83
OASIS INVESTMENTS II MASTER FUND LTD.	678,220	2.82
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	550,402	2.29

Name of controlling shareholder	—
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Parent company	None
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3. Company Attributes

Listed Stock Market and Market Section	Tokyo JASDAQ
Fiscal Year-end	March
Type of Business	Electronic equipment
Number of employees (consolidated) as of the end of the previous fiscal year	More than 1000
Sales (Consolidated) in the previous fiscal year	Between ¥10 billion and ¥100 billion
Number of consolidated subsidiaries as of the end of the previous fiscal year	Between 10 and 50 companies

4. Guidelines on measures to protect minority shareholders in transactions with controlling shareholders

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5. Other special circumstances that may have a significant impact on corporate governance

None

II. Status of the management control organization and other corporate governance systems for management decision-making, execution and supervision

1. Matters relating to the composition and management of the organisation

Form of organization	Company with Audit Committee
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Directors

Number of directors under the articles of association	12
Term of office of directors under the articles of association	1 year
Chairman of the Board of Directors	President
Number of directors	9
Appointment of outside directors	existent
Number of outside directors	4
Number of outside directors designated as independent directors	3

Relationships with the company (1)

Full name	Category	Relationship with the company (*1)												
		a	b	c	d	e	f	g	h	i	j	k		
Akira Iwata	Scholar													
Yaniv Bardi	from another company													
Akihiko Kawakami	Lawyer													
Kazunori Shibata	Certified Public Accountant													

Selections about the relationship with the company

If the person corresponds to each item in the "present and recent", "○"; if the person corresponds to each item in the "past", "△".

If a close relative is applicable to each item in the "present and recent" period, the item is marked with "●"; if the item is applicable to the "past" period, the item is marked with "▲".

- Business executors of listed companies or their subsidiaries
- Executive or non-executive directors of the parent company of the listed company
- Executives of sibling companies of listed companies
- A person who has a listed company as a major business partner or an executive of such a person
- Major business partners of the listed company or their business executors
- Consultants, accounting experts, and legal experts who receive a large amount of money or other property from listed companies other than remuneration for their services as directors.
- Major shareholders of the listed company (if the major shareholder is a corporation, the executive person of the corporation)
- Business executors (in person only) of listed companies' business partners (not falling under any of d, e and f)
- Executives of parties with whom the external director has a relationship of mutual appointment (in person only)
- Executives of companies to which listed companies have made donations (in person only)
- Others

Relationships with the company (2)

Full name	Audit Committee members and other committee members	Independence Board members	Supplementary information on applicable items	Reasons for appointment
Akira Iwata		○	—.	<p>Mr. Iwata has a high level of technical expertise in the fields of artificial intelligence (AI), neural networks, deep learning and information security, as well as a wealth of consulting experience in the planning, development and manufacture of IOT sensor systems. He provides objective and expert advice and recommendations on the Company's management from an independent standpoint as an outside director of the Company, and is expected to contribute to the growth and development of the Group.</p> <p>In addition, he has no special interest in the Company, does not fall under any of the independence criteria set out by the Tokyo Stock Exchange (Guideline III 5.(3)-2 for listing management, etc.), and has been designated as an independent director because there is no risk of a conflict of interest with general shareholders.</p>
Yaniv Bardi			—.	<p>Mr. Bardi is expected to contribute to the growth and development of the Group by providing objective and expert advice and recommendations on the Company's management from an independent standpoint as an outside director. As such, he is judged to be suitable for the position of Outside Director and has been elected.</p>
Akihiko Kawakami	○	○	—.	<p>Mr. Kawakami was appointed as an outside director because he has a wealth of expertise and experience as a lawyer and is expected to strengthen the functions of the Board of Directors.</p>

				In addition, he has no special interest in the Company, does not fall under any of the independence criteria set out by the Tokyo Stock Exchange (Guideline III 5.(3)-2 for listing management, etc.), and has been designated as an independent director, as there is no risk of conflict of interest with general shareholders.
Kazunori Shibata	○	○	—	Mr. Shibata has a wealth of expertise and experience as a certified public accountant, and is expected to strengthen the functions of the Board of Directors, and was therefore judged suitable for appointment as an outside director. In addition, he has no special interest in the Company, does not fall under any of the independence criteria set forth by the Tokyo Stock Exchange (Guideline III 5.(3)-2 for listing management, etc.), and has been designated as an independent director because he is judged to have no risk of conflict of interest with general shareholders.

The Audit and Supervisory Committee

Composition of the committee and attributes of the chairman

	All committee members (Name)	Full-time members (Name)	Internal directors (Name)	Outside directors (Name)	Chairman of the committee (Chairman)
Audit and Supervisory Committee	3	1	1	2	Internal directors

Directors and employees to assist the Audit Committee in its duties	existent
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Matters concerning the independence of the directors and employees concerned from the executive directors

As described in "IV. 1. Basic policy on the internal control system and the status of its development", employees of the department in charge of internal audit assist the Audit Committee in its duties.

Decisions on matters relating to the personnel rights of employees in the Internal Audit Department require the prior consent of the Audit Committee, thereby maintaining independence from the executive directors.

Cooperation between the Audit and Supervisory Committee, the Accounting Auditor and the Internal Audit Department

The Internal Audit Department also carries out audits at the direction of the Audit Committee.

In addition, at the request of the Audit and Supervisory Committee, the Accounting Auditor and the Internal Audit Department hold liaison meetings and cooperate with each

other by reporting and explaining.

Voluntary committees

Whether there is a voluntary committee equivalent to a nomination committee or a remuneration committee	Yes
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Status of voluntary committees, composition of members and attributes of the chairman (chairperson)

	Name of the committee	All committee members (Name)	Full-time committee members (names)	Internal directors (names)	Outside directors (names)	External experts (names)	Other	Chairman of the committee (Chairman)
Committees equivalent to the nomination committee	Nomination Advisory Committee	3	1	1	2	0	0	Internal directors
A voluntary committee equivalent to the Remuneration Committee	—	—	—	—	—	—	—	—

Supplementary information

The Nomination Advisory Committee consists of three directors (including two outside directors) who are members of the Nomination Advisory Committee. The Nomination Advisory Committee, which is an advisory body to the President, was established for the purpose of ensuring transparency and fairness in the process of nominating candidates for the Board of Directors and selecting representative directors and officers attached to the Board of Directors, as well as ensuring that outside directors who are members of the Audit Committee have sufficient information to formulate their opinions on the nomination of officers and other matters and have a forum for discussion. When proposals concerning the nomination, etc. of directors are submitted to the Board of Directors, the Committee's report is taken into full consideration.

Relationship with independent directors

Number of independent directors	3
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Other matters relating to independent directors

The Company has designated all outside directors who meet the qualifications for independent directors as independent directors and has notified the Tokyo Stock Exchange of this designation.
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Incentive-related

Status of implementation of measures to provide incentives to directors	Introduction of stock option scheme
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Supplementary information on relevant items

<p>The Company has introduced a share-based remuneration stock option scheme (excluding directors who are members of the Audit Committee and outside directors).</p> <p>[Total] The number of shares to be granted will be determined by taking into account the Company's business environment, share price and other factors at the time of grant.</p> <p>[Individual payment levels] The decision is based on a comprehensive consideration of each director's role, performance and contribution to improving performance.</p>
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Persons to whom stock options have been granted	Internal directors, external directors, employees and Directors of subsidiaries, employees of subsidiaries
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Supplementary information on relevant items

We believe that the growth of a company can be achieved not only through the work of a few senior executives, but also through the work of the entire Group's workforce, which is why not only senior

executives but also the entire Group's workforce are eligible for grants.

Directors' remuneration

Status of disclosure (of individual directors' remuneration)	Individual remuneration is not disclosed.
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Supplementary information on relevant items

The total amount of directors' remuneration paid in the year ended on March 31, 2021 was as follows
Directors (excluding directors who are members of the Audit and Supervisory Committee) (excluding outside directors), 4 persons 50,210 thousand yen
Directors (Audit and Supervisory Committee Members) (excluding Outside Directors), 2 persons 11,320 thousand yen
Outside directors: 6 persons 17,210 thousand yen
The total amount of Directors' remuneration is also stated in the Business Report and the Annual Securities Report, which are also available on the Company's website.

Whether there is a policy for determining the amount of remuneration or its calculation method	Yes
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Details of the disclosure of the policies for determining the amount of remuneration or its calculation method

In order to establish a remuneration system that emphasizes the linkage between remuneration and business performance and medium- to long-term corporate value, as well as with the interests of shareholders, the Company's Board of Directors resolved on a draft policy for determining the content of individual remuneration for Directors, at its meeting of February 12, 2021.

(1) Basic policy

The basic policy shall be having the remuneration of directors of the Company paid within the limit of the amount of remuneration approved by a resolution of the General Meeting of Shareholders, taking into consideration their performance and responsibilities.

Specifically, the payment shall be made in the form of fixed remuneration and share remuneration (stock options).

(2) Policy on the determination of the amount of remuneration, etc. for each individual in basic remuneration (monetary remuneration) (including policy on the determination of the timing or conditions for granting remuneration, etc.)

The basic remuneration (monetary remuneration) for the Directors of the Company shall be fixed monthly and shall be determined by the Board of Directors in accordance with their respective positions.

(3) Details of non-monetary remuneration, etc. and policy regarding the determination of the amount or number of such remuneration, etc. (including policy regarding the determination of the timing or conditions for granting remuneration, etc.)

(4) Policy on the determination of the ratio of the amount of monetary and non-monetary remuneration, etc., to the amount of individual remuneration, etc., of Directors

The proportion of remuneration paid to executive directors by category is based on the level of remuneration paid by companies of a similar size.

The amount of individual remuneration shall be decided by the Board of Directors, with the weight of non-monetary remuneration increasing for higher positions.

(5) The reasons why the Board of Directors has determined that the individual remuneration, etc. of Directors for the relevant fiscal year is in line with the relevant policy.

In order to ensure the fairness and transparency of the deliberative process, the Company has established a remuneration system within the limits of the remuneration approved by the General Meeting of Shareholders. The representative director prepares individual remuneration proposals for directors in accordance with regulations, and the Board of Directors deliberates and decides on them.

The content of this policy is in line with the decision-making policy and, in the light of the above basic policy, is considered to be in conformity with it.

Support system for outside directors

There is no full-time staff to support the outside directors, but each department, led by the full-time director, provides the necessary materials and information and other necessary support.

Matters relating to functions such as business execution, auditing and supervision, nomination and remuneration decisions (overview of the current corporate governance system)

- The Board of Directors

In addition to the regular monthly meetings of the Board of Directors, the Board of Directors meets as necessary to resolve, deliberate and report on matters relating to the overall management of the Group.

- Audit and Supervisory Committee

In addition to the regular monthly meetings of the Audit Committee, meetings are held as necessary to receive reports from the full-time Audit Committee members on the status of the execution of their duties and from the selected Audit Committee members on the status of the audit.

The Board of Directors receives reports and deliberates on the results of investigations and surveys, and reports and proposes resolutions and discussion results to the Board of Directors as necessary.

- Management Meetings

Meetings attended by the directors (excluding outside directors), executive officers, and full-time Audit Committee members are held once a month, at which the general managers of each division report on the progress of the management plan.

The Board is responsible for reporting and discussing management issues.

- Independent auditors

The Company has engaged KPMG AZSA LLC to perform the accounting audit. The two certified public accountants who performed the accounting audit were Naofumi Ohkita and Takaya Nakano.

The number of assistants for the accounting audit is six certified public accountants and eight others. The number of assistants for the accounting audit is six certified public accountants and eight others.

- Limited liability contract

The Company has entered into agreements with non-executive directors to limit their liability under Article 423, Paragraph 1 of the Companies Act, and the maximum amount of liability under such agreements is stipulated in Article 425(1) of the Companies Act.

3. Reasons for choosing the current corporate governance system

<p>The Company has adopted a corporate governance system with an Audit Committee for the following reasons</p> <p>1. Enhanced monitoring</p> <p>As Audit Committee members have voting rights at meetings of the Board of Directors, they are able to exercise a monitoring function over management by opposing inappropriate proposals by executive directors.</p> <p>In addition, the Audit and Supervisory Committee members appointed by the Audit and Supervisory Committee have the right to express their opinions on the election, dismissal and remuneration of directors (excluding directors who are Audit and Supervisory Committee members) at the General Meeting of Shareholders. The Audit and Supervisory Committee members, who are selected by the Audit and Supervisory Committee, also have the right to express their opinions on the election, dismissal, remuneration, etc. of directors (excluding directors who are Audit and Supervisory Committee members) at the General Meeting of Shareholders.</p> <p>2. Speeding up decision-making in the execution of business</p> <p>In the case of a company with an Audit and Supervisory Committee, if the majority of the directors are outside directors, or if the articles of incorporation so stipulate, certain important business execution decisions may be delegated to directors (excluding directors who are Audit and Supervisory Committee members). This enables the Board of Directors to make quick decisions on important business operations. This allows the Board of Directors to concentrate on monitoring the executive directors.</p>
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III. Status of implementation of measures concerning shareholders and other interested parties

1. Efforts to revitalise the General Meeting of Shareholders and to facilitate the exercise of voting rights

	Supplementary information
Early dispatch of notices of general meetings of shareholders	Every year, we try to send out the mail earlier than the legal deadline. This year, due to the effects of the Corona disaster, the mail was sent out on the legal date (9 June).
Setting up shareholder meetings to avoid concentration days	The date of the Ordinary General Meeting of Shareholders is set to avoid concentrated days. This year the meeting was held on 24 June, avoiding the intensive day of 29 June.
Exercise of voting rights by electromagnetic means	We recognise that this is an issue that needs to be considered in the future.
Participation in the electronic voting platform and efforts to improve the voting environment for other institutional investors	We recognise that this is an issue that needs to be considered in the future.
Provision of the notice of convocation (summary) in English	The English version will be available from the Notice of Convocation of the General Meeting of Shareholders in June 2020.
Other	In the interests of early disclosure of information to shareholders, the information will be posted on the Company's website and on TDnet, seven working days prior to the dispatch of the notice of convocation. In addition, the "Notes to Consolidated Financial Statements" and "Notes to Non-Consolidated Financial Statements" among the documents to be provided in the notice of convocation are provided only on the Company's website in accordance with laws and regulations and Article 14 of the Articles of Incorporation. In previous years, at the Company's shareholders' meetings, we have included explanatory slides with graphs when presenting the business report and consolidated financial statements in order to allow shareholders to better understand our business. The narration of the business report and the consolidated financial statements are used to provide shareholders with a clear understanding of the report.

	Other shareholder newsletters are published on the Company's website immediately after the General Meeting of Shareholders.
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2. Activities related to investor relations

	Supplementary information	Whether the representatives themselves give explanations
Preparation and publication of a disclosure policy	In light of the Fair Disclosure Rules, which came into effect on 1 April 2018, the Company will consider preparing and publishing a disclosure policy.	
Regular briefings for individual investors	We do not currently hold these meetings on a regular basis. In the future, we will consider holding such sessions complying with the purpose and the significance of the Fair Disclosure Rules, as a means to ensure a proper understanding of our corporate value, reducing the information gap between institutional and individual investors.	None
Regular briefings for analysts and institutional investors	Due to the impact of the Corona disaster, the financial results presentation for the year ending 31 March 2021 was posted on the Company's website and questions were dealt with by individual conference calls.	None
Regular briefings for overseas investors	We do not currently hold regular meetings, but we do respond to enquiries on an individual basis.	None
IR materials posted on website	Various reports, explanatory materials for financial results, notices of convocation of general meetings of shareholders, shareholder newsletters, etc. are posted on the Company's website, and explanatory materials for financial results and notices of convocation of general meetings of shareholders are also posted in English. In addition, in light of the Fair Disclosure Rules that will come into effect on 1 April 2018, we will continue to consider expanding the provision of information on our website, including the translation of the convocation notice into English.	
Establishment of a department (or person) in charge of IR	At present, investor relations is handled by the Public Relations and Investor Relations department.	

3. Efforts to respect the position of stakeholders

	Supplementary information
Respect for the position of stakeholders in internal rules and regulations	A number of internal rules and regulations are in place to raise awareness within the company.
Implementation of environmental protection activities, CSR activities, etc.	Recognising that the 21st century is the "Environmental Century", we have established the "Environmental Management Regulations" and are committed to the growth of our business and the reduction of our impact on the global environment. In addition, we have obtained the "Privacy Mark" and are promoting activities to protect personal information.
Formulation of policies and other matters relating to the provision of information to stakeholders	A number of internal rules and regulations are in place to raise awareness within the company.
Other	We do not yet have any female directors, but we do have three female managers. We see the promotion of female executives and managers as an issue that we must continue to address.

IV. Matters relating to internal control systems, etc.

1. Basic policy on internal control system and its development

1. Systems to ensure that the execution of duties by directors and employees complies with laws and regulations and the Articles of Incorporation

- Directors and employees shall strive to engage in legitimate and fair business activities that meet the needs of society in accordance with the Directors' Regulations and the Employees' Employment Regulations.
- In order to ensure compliance with laws, regulations and internal rules in our business activities, we have established compliance regulations and appointed a compliance officer.
- We will identify the laws and regulations that apply to our business, establish a basis for compliance with legal requirements, and provide education and awareness from time to time.
- The Internal Audit Department, which reports directly to the Audit Committee, shall audit compliance and report to the Board of Directors and the Audit Committee.
- The Company has introduced an internal reporting system to prevent violations of laws, regulations, the Articles of Incorporation and internal rules, and in the event of a violation, the Company will promptly ascertain information and take action.

· The Company shall resolutely exclude and block antisocial forces and groups, and the General Affairs Department shall deal with them in close cooperation with the police and other external specialized agencies.

2. System for the storage and management of information relating to the execution of duties by directors

- In accordance with laws, regulations, the Articles of Incorporation, and internal rules, the Company shall preserve and manage information related to decision-making at the Board of Directors, the Executive Committee, and other important meetings, information related to important decisions made by the President and Representative Director, executive officers, and other persons, and information related to finance, other administrative operations, risk, and compliance. The information shall be stored and managed in accordance with laws, regulations, the Articles of Incorporation and internal rules.

3. Regulations and other systems for managing the risk of loss

In accordance with the Risk Management Rules, the Company aims to minimize losses by preventing the occurrence of risks and responding appropriately to any risks that may arise.

4. System to ensure the efficient execution of duties by directors

- In order to achieve swift and highly efficient corporate management, an executive officer system will be introduced to clarify the roles of directors (excluding directors who are members of the Audit Committee) and executive officers. The roles of directors (excluding directors who are members of the Audit Committee) and executive officers will be clarified.

· The Board of Directors, which meets once a month in principle, makes decisions on important management matters in accordance with relevant laws and regulations, the principles of business judgment, and the duty of care of a good manager, and regularly reports on the status of the execution of duties.

· The responsibilities and authorities for the execution of business are set out in the Rules of Division of Duties and the Rules of Authority.

· Important business operations are deliberated in the Management Committee, which consists of directors and executive officers, in order to conduct a multifaceted review.

· Matters relating to the operation of the Board of Directors are set out in the Regulations of the Board of Directors, and basic matters relating to directors are set out in the Regulations of the Directors.

5. The following systems and other systems to ensure the appropriateness of business operations of the corporate group consisting of the Company and its subsidiaries (hereinafter referred to as the "Group")

a. A system for reporting to the Company on matters relating to the performance of duties by directors, executive officers, employees who execute business, persons who are required to perform duties under Article 598, Paragraph 1 of the Companies Act, and other persons equivalent to these persons (referred to as "directors, etc." in C and D) of subsidiaries. Systems for reporting to the Company on matters relating to the execution of duties by directors, executive officers, employees, persons who are to perform duties under Article 598, Paragraph 1 of the Companies Act, and other persons equivalent thereto (referred to as "directors, etc." in (c) and (d))

· The Company requires its subsidiaries to submit to the Company monthly financial statements, quarterly financial statements, and other relevant materials as necessary, in order to obtain an accurate understanding of the management of the subsidiaries, in accordance with the Company's Regulations for the Management of Affiliated Companies.

· The Company requires its subsidiaries to hold meetings of the Board of Directors, attended by the Company's directors, on a quarterly basis in principle and to report to the Company on the operating results, financial position and other important information of the subsidiaries.

b. Rules and other systems for managing the risk of loss in subsidiaries

- In accordance with the Company's risk management regulations, the Company requires its subsidiaries

to prevent the occurrence of risks and to take appropriate measures to deal with any risks that may arise, in order to minimize the Company's losses.

- The Company requires its subsidiaries to establish a system whereby any violation of laws and regulations, or any other fact that may cause significant damage to the Group, is immediately reported to the department in charge of managing the subsidiary as soon as it is discovered.

c. System to ensure the efficient execution of duties by directors, etc. of subsidiaries System to ensure that the execution of duties by directors, etc. of subsidiaries is carried out efficiently

- The Company shall respect the autonomy and independence of the management of its subsidiaries, and shall require its subsidiaries to formulate basic policies and rules necessary for the execution of their business operations in order to contribute to the proper and efficient management of its subsidiaries.

- The Company shall, in principle, hold a meeting of the Board of Directors with the participation of the Company's Directors on a quarterly basis to make decisions on important management matters in accordance with relevant laws and regulations, the principles of business judgment, and the duty of care of a good manager, and shall require the Directors to report periodically on the status of the execution of their duties.

d. System to ensure that the execution of duties by directors and employees of subsidiaries complies with laws and regulations and the Articles of Incorporation Systems to ensure that the execution of duties by directors, etc. and employees of subsidiaries complies with laws and regulations and the Articles of Incorporation

- The Company requires its subsidiaries to establish a system whereby its directors, etc. and employees strive to conduct legitimate and fair business activities that meet the needs of society in accordance with the basic policies established by the subsidiaries.

- The Company shall require its subsidiaries to be assessed by a member of the Audit Committee selected by the Audit Committee of the Company and the department in charge of internal audit in order to confirm the status of compliance and the development and operation of internal control systems.

- The Company requires its subsidiaries to introduce and use an internal reporting system for the early detection and correction of legal violations and other compliance issues.

6. Matters concerning employees who are to assist the Audit Committee in its duties

- Employees of the Internal Audit Department shall assist the Audit Committee in its duties (hereinafter referred to as "Audit Assistants"). Employees of the Internal Audit Department assist the Audit Committee in its duties (hereinafter referred to as "Audit Support Staff").

7. Independence of audit support staff from directors (excluding directors who are members of the audit committee)

- Audit assistants are subject to the direction and orders of the Audit Committee and Audit Committee members selected by the Audit Committee.

- The prior consent of the Audit Committee is required for decisions on matters relating to the appointment of audit support staff.

8. Matters relating to ensuring the effectiveness of instructions given by the Audit Committee to employees who assist the Audit Committee in its duties

- Directors (excluding directors who are members of the Audit and Supervisory Committee) and employees shall cooperate in the development of the audit environment so that the work of the audit support staff, who are to assist the Audit and Supervisory Committee, can be carried out smoothly. Directors (excluding Directors who are members of the Audit Committee) and employees shall cooperate in the development of the audit environment so that the work of the audit support staff who are to assist the Audit Committee in its duties can be carried out smoothly.

9. The following systems and other systems for reporting to the Audit and Supervisory Committee of the Company

a. System for reporting to the Audit Committee by the Company's directors (excluding directors who are members of the Audit Committee) and employees b. Systems for reporting by the Company's directors (excluding directors who are members of the Audit Committee) and employees to the Audit Committee of the Company

- Directors (excluding Directors who are members of the Audit Committee) and employees shall immediately report to the Audit Committee any fact that may cause significant damage to the Company. Directors (excluding Directors who are Audit & Supervisory Board Members) and employees shall immediately report to the Audit & Supervisory Board any facts that may cause significant damage to the Company.

- The Audit Committee members selected by the Audit Committee shall attend meetings of the Board of Directors and other important meetings in order to gain an understanding of the important decision-making process and the status of business execution.

- The Audit and Supervisory Committee members selected by the Audit and Supervisory Committee may inspect major approval documents and other important documents related to the execution of business, and

may request explanations from directors (excluding directors who are Audit and Supervisory Committee members) or employees as necessary. The Audit and Supervisory Committee members selected by the Audit and Supervisory Committee may inspect major approval documents and other important documents concerning the execution of business, and may request explanations thereof from directors (excluding directors who are Audit and Supervisory Committee members) or employees as necessary.

b. The Company's subsidiaries' Directors, corporate auditors, executive officers, employees who execute the business of the Company's subsidiaries, persons who are required to perform duties under Article 598(1) of the Companies Act, and other persons equivalent to these persons.

(referred to as "Directors, etc." in this item) (in this item, "Directors, etc.") and employees, or persons who receive reports from these persons, to the Audit Committee of the Company.

- Directors, etc. and employees of subsidiaries shall promptly and appropriately report to the Audit Committee of the Company on matters related to the execution of business when requested to do so by the Audit Committee members selected by the Audit Committee.

- Directors, etc. and employees of subsidiaries shall immediately report to the department in charge of managing subsidiaries as soon as they discover any violation of laws and regulations, etc., or any other facts that may cause significant damage to the Group, and the department in charge shall report to the Audit Committee.

- The department in charge of the management of the Company's subsidiaries and the department in charge of internal audit regularly report to the Audit Committee of the Company on the current status of internal control audit, compliance, risk management, etc. in the subsidiaries.

10. System to ensure that those who report to the Audit Committee of the Company are not subjected to disadvantageous treatment by reason of such reporting

- The Company shall clearly stipulate in its Internal Reporting System Operation Rules that it shall prohibit any disadvantageous treatment of directors, corporate auditors and employees of the Group who have reported to the Audit Committee of the Company on the grounds that they have made such a report.

11. Matters relating to the policy regarding the prepayment of expenses incurred in the execution of duties by members of the Audit Committee of the Company

- When a member of the Audit & Supervisory Board of the Company makes a request to the Company for advance payment of expenses in connection with the performance of his/her duties, the Company shall promptly dispose of such expenses or debts after deliberation by the department in charge of accounting, unless it is proved that the expenses or debts relating to such request are not necessary for the performance of the duties of the Audit & Supervisory Board member.

12. Other systems to ensure that the audits of the Audit Committee of the Company are conducted effectively

- Regular exchange of opinions between the Representative Director and the Audit and Supervisory Committee shall be held.

- In addition to holding liaison meetings between the Audit Committee, the accounting auditor and the department in charge of internal audit at the request of the Audit Committee, the Company shall establish a system to ensure that the Audit Committee's audits are conducted effectively by ensuring the attendance of Audit Committee members at various meetings.

2. Basic approach to the elimination of antisocial forces and the status of its development

1. Basic approach towards antisocial forces

- The Company shall not provide any benefits to antisocial forces, nor shall it be involved with antisocial forces in any way.

- The Company's employees (all those who work for the Company) must be committed to social justice, and to winning the trust of customers, the market and society, they must not tolerate unjustified intervention by anti-social forces, and must show their determination to eliminate them.

2. System for the elimination of antisocial forces

- In order to cope with antisocial forces, the Company will describe such forces in the Compliance Rules and the Rules for Dealing with Antisocial Forces, and under the supervision of the officer in charge of compliance, the entire company will work together to ensure that all employees are aware of and thoroughly understand how to deal with such forces.

- Organizationally, the director in charge of compliance, the head of the division in charge of general affairs, the head of the division in charge of legal affairs, and the legal counsel will take the lead in seeking guidance from external organizations such as the police to deal with the situation.

V.1. Others

1. Introduction of anti-takeover measures

Introduction of takeover defense measures	None
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Supplementary information on relevant items

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2. Other matters relating to corporate governance systems, etc.
Schematic diagram of the corporate governance system” and “Outline of the timely disclosure system”.

