

(Translation)

Please note that this English version is not an official translation of the original Japanese document. In cases where any differences occur between the English version and the original Japanese version, the Japanese version shall prevail. This translation may be used only for reference purposes.

## Corporate Governance Report

Last Update: June 30, 2017

**YUSHIN PRECISION EQUIPMENT CO., LTD.**

Mayumi Kotani, President and Representative Director

Contact: Satoshi Kimura, Executive Managing Director

Securities Code: 6482

<https://www.ype.co.jp/en/index.html>

The corporate governance of Yushin Precision Equipment Co., Ltd. (the “Company”) is described below.

### I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

#### 1. Basic Views

The Company aims at achieving sustainable growth and maximizing the enterprise value for medium- and long-term under the management philosophy with obtaining credibility from all stakeholders surrounding us including shareholders. We strive to strengthen corporate governance with the basic policy of following five items.

1. The Company respects the rights of shareholders and ensures equality, as well as strives to improve the environment for executing rights appropriately and protect rights.
2. The Company strives to sincerely cooperate with stakeholders excluding our shareholders with good sense.
3. The Company strives to ensure the transparency by appropriately making disclosure according to laws and regulations and voluntarily providing information excluding the disclosure.
4. The Board of Directors strives to execute its roles and duties appropriately for transparent/fair and flexible decision-making.
5. The Company strives to positively communicate with shareholders after sharing the direction of its stable growth for long-term.

#### [Reasons for Non-compliance with the Principles of the Corporate Governance Code]

[Supplementary Principle 4-2-1 Roles and Duties of the Board of Directors]

Subjects of consideration include introduction of the compensation linked to medium- and long-term performance and stock compensation, and the ratios of base salary and performance-linked compensation, and cash salary and stock compensation after the introduction.

[Supplementary Principle 4-11-3: Preconditions for Ensuring Effectiveness of the Board of Directors and Board of Corporate Auditors]

Outside Directors now analyze and evaluate whole of the Board of Directors. Including the methods, analysis, and evaluation of effectiveness of whole of the Board of Directors are examined to further improve the function of the Board of Directors.

#### [Disclosure Based on the Principles of the Corporate Governance Code]

[Principle 1-4: So-called Strategic Shareholdings]

The Company may hold the shares of business partners for the purpose of sustainable increases in enterprise value, keeping and strengthening business relations, and stable business management. Among holding shares, the main shares are verified in respect of economic rationality for medium- and long-term based on risk and return and future prospect. The results of verification are periodically reported to the Board of Directors. In addition, the exercise of the voting rights of strategic shareholdings is determined from a viewpoint of medium- and long-term increase in enterprise value of investees.

[Principle 1-7: Related Party Transactions]

The Company's "Regulations of the Board of Directors" provides that approval for competitive business and conflict-of-interest transactions by Directors require the resolution of the Board of Directors. The same is applicable to the case where counterparty is a major shareholder.

[Principle 3-1: Enhancement of Disclosure]

- (1) Management philosophy, strategy and medium term management plan are disclosed on "the Company's website," "Securities Report," "Investor Presentation Material" and others.
- (2) The basic policy for corporate governance is disclosed on "the Company's website" and "Corporate governance report."
- (3) The Company's remuneration of executives consists of base salary, which is not linked to performance, and performance-linked remuneration, which depends on degree of achievement of performance goals. Outside Directors and Corporate Auditors, who are independent of business execution, receive only basic salary. With regard to the procedures of the determinations for the remuneration, a resolution is adopted on the gross amount of remuneration of Directors and Corporate Auditors at the General Meeting of Shareholders, and then an amount of remuneration is determined for each executive by the Representative Director whose discretion the Board of Director leave the amount to.
- (4) The Company has the policy for nominating candidates of Directors and Corporate Auditors and appointing Executive Officers that those qualified to perform the duties and responsibility of Directors and Corporate Auditors shall be nominated/appointed sufficiently taking account of personality and insights. The Outside Directors and Corporate Auditors are expected to perform the function and role of objective and appropriate oversight or audits based on technical knowledge, and they are appointed based on the basic view that there are no threats of conflicts of interest with general shareholders. They are disclosed on the "Notice of Convocation for General Meeting of Shareholders" and "Securities Report". The selection of candidates of Directors and Corporate Auditors is subject to the resolution of the Board of Directors and the appointment of Directors and Corporate Auditors is subject to the resolution of the general meeting of shareholders.
- (5) The reasons for appointment of each of candidates of Outside Directors and Corporate Auditors are disclosed at the "Notice of Convocation for General Meeting of Shareholders." As for appointment/nomination of Directors and Corporate Auditors, the career is disclosed for each director or Corporate Auditor at the "Notice of Convocation for General Meeting of Shareholders." From the 43<sup>rd</sup> Ordinary General Meeting of shareholders, the reasons for the appointment are disclosed on the "Notice of Convocation for Ordinary General meeting of shareholders."

[Supplementary Principle 4-1-1: Roles/Duties of Board of Directors]

The Company defines the matters determined by a resolution at the Board of Directors in "Regulations of the Board of Directors provide." The regulations provide that significant matters on the General Meeting of Shareholders, the general management, stocks, organization and personnel affairs, Directors and business execution, other matters stipulated in laws and regulations including the Companies Act and significant matters equivalent to these matters shall be decided by a resolution at the Board of Directors. Meanwhile, to aim at clarifying the system of management responsibility and accelerating decision-making through transfer of the authority, the Company introduced the executive officer system on April 1, 2003, from a viewpoint of separating the function of management monitoring from business execution. The Company now has one non-director executive officer.

[Principle 4-8: Effective Use of Independent Outside Director]

The Company designates two Outside Directors as an Independent Officer as prescribed by the Tokyo Stock Exchange. This makes it possible for discussions at the Board of Directors in light of opinions from an independent and neutral position.

[Principle 4-9: Criterion for Independence of and Qualification for Independent Outside Director]

The Independent Outside Directors of the Company are expected to perform the function and role of objective and appropriate oversight, and give advice based on technical knowledge, and are appointed based on the basic view that there are no threats of conflicts of interest with general shareholders. The Company has established its own criterion for the independence, given the independence criterion established by the financial instruments exchange.

(Translation)

[Supplementary Principle 4-11-1: Preconditions for Ensuring Effectiveness of Board of Directors and Board of Corporate Auditors]

Under rapidly changing business environment and advancement of globalization, the Company appoints candidates of Directors with a focus on balance among knowledge, experience and expertise, diversity and global viewpoints. Now seven Directors, including Outside Directors, take office. The Company will keep the number of the board members that immediate decision-making is conducted with each member providing his or her expertise and exchanging opinions each other.

[Supplementary Principle 4-11-2: Preconditions for Ensuring Effectiveness of Boards of Directors and Board of Corporate Auditors]

Concurrent holding of positions of other companies by Outside Directors and Corporate Auditors is annually disclosed at “the Notice of Convocation for the General Meeting of Shareholders,” “Securities Report” and “Corporate Governance Report.” No Executive Directors concurrently serve as an officer of other listed companies, excluding those of our group, and the system is established that Executive Directors can be devoted on works of Directors. Full-time Corporate Auditor does not concurrently serve as an officer of other companies, and the system is established that they can be devoted to their work at all times.

[Supplementary Principle 4-11-3: Preconditions for Ensuring Effectiveness of Boards of Directors and Board of Corporate Auditors]

Outside Directors now analyze and evaluate whole of the Board of Directors. To further improve the functions of the Board of Directors, analysis and evaluation of effectiveness of the whole Board including their methods are currently examined.

[Supplementary Principle 4-14-2: Training of Directors and Corporate Auditors]

Given the roles and duties expected and qualification and knowledge required of Directors and Corporate Auditors, the Company holds a training session for all Directors, Corporate Auditors and Executive Officers once or more a year. The Company also gives explanations about the corporate profile and holds plant tours for Outside Directors and Corporate Auditors when they take office as well as provides and arranges opportunities to receive the training necessary for each Director or Corporate Auditor and owes the expenses for the training.

[Principle 5-1: Policy for Constructive Communication with Shareholders]

- (1) In the Company, the Representative Director governs the general communication with shareholders.
- (2) The Corporate Planning Department, which is directly under the Representative Director, is in charge of IR and cooperates with the relevant departments for reasonable and smooth communication from shareholders.
- (3) The Company holds briefings for analysts and institutional investors on financial results for a full year and an interim period as well as makes individual visits to institutional investors, holds small-size meetings and accepts telephone interviews as needed. The Company also participates in securities companies- and consulting companies-hosting briefings for individuals once a year at least.
- (4) Opinions received at communication with shareholders are appropriately fed back at the Board of Directors meeting.
- (5) Insider information is appropriately administrated according to the Disclosure Policy.  
(Disclosure Policy: <http://ir.ype.co.jp/en/governance/disclosurepolicy.html>)

## 2. Capital Structure

Foreign Shareholding Ratio	From 20% to less than 30%
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### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
Yushin Industry Co., Ltd.	5,996,189	33.65
The Nomura Trust and Banking Co., Ltd. (Trust Account 3071019)	774,950	4.35
The Master Trust Bank of Japan, Ltd. (Retail Trust Account 620021158)	774,900	4.35

(Translation)

The Kyoto Chuo Shinkin Bank, Ltd.	544,487	3.06
Mayumi Kotani	531,101	2.98
The Master Trust Bank of Japan, Ltd. (Trust Account)	455,900	2.56
Japan Trustee Service Bank, Ltd. (Trust Accounts 9)	455,800	2.56
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	424,993	2.39
BNP Paribas Sec Services Luxembourg, Jasdec, Aberdeen Global Client Assets	418,900	2.35
RBC IST 15 PCT Non Lending Account – Client Account	383,960	2.15

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

Supplementary Explanation

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### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Machinery
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	From 500 to less than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥10 billion to less than ¥100 billion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

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(Translation)

## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with <i>Board of Corporate Auditors</i>
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	10
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	7
Appointment of Outside Directors	Appointed
Number of Outside Directors	2
Number of Independent Directors	2

#### Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Yasuo Nishiguchi	From another company									△		
Hiroshi Matsuhisa	Academic									△		

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/*Corporate Auditor*

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which and the Company outside directors/*Corporate Auditors* are mutually appointed (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

(Translation)

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Yasuo Nishiguchi	○	Yasuo Nishiguchi had served as the Representative Director of KYOCERA Corporation which is our client. The Company has insignificant transactions with KYOCERA Corporation, and there are no importance affecting on the independence.	Yasuo Nishiguchi has held such positions as the President and Representative Director, and the Chairman and Representative Director at KYOCERA Corporation. Based on his knowledge and experience in general management cultivated through prominent corporate positions, we asked him to give the Company advice and supervision of operations from an independent position. Thus, because we can expect to strengthen the function of the Company's Board of Directors, the Company appointed Yasuo Nishiguchi as an Outside Director of the Company. He is appointed as an Independent Officer of the Company because he meets criteria of independence as an outside officer established by the Company and there are no risks in conflicts of interest with general shareholders.
Hiroshi Matsuhisa	○	The instruction contract concerning R&D was entered into between the Company and Hiroshi Matsuhisa. The Company had insignificant transactions with him and there are no importance affecting on the independence.	Based on the specialized knowledge by the person with academic standing in engineering of Kyoto University, the Company will ask for advice and oversight from an independent position. Because this will strengthen the function of the Company's Board of Directors, the Company appointed Hiroshi Matsuhisa as an Outside Director. He is appointed as an Independent Officer of the Company because he meets criteria of independence as an outside officer established by the Company and there are no risks in conflicts of interest with general shareholders.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee

Not Established

(Translation)

**[Corporate Auditor]**

Establishment of <i>Board of Corporate Auditors</i>	Established
Maximum Number of <i>Corporate Auditors</i> Stipulated in Articles of Incorporation	4
Number of <i>Corporate Auditors</i>	4

Cooperation among *Corporate Auditors*, Accounting Auditors and Internal Audit Departments

With regard to the cooperation among Corporate Auditors and Accounting Auditors, Corporate Auditors receive the explanation about the audit plan of Accounting Auditors as well as reports on a review at the end of the quarter and the proceedings of the audit at the year-end audit.  
As for results of the audit by the Internal Audit Office, Corporate Auditors also inspect the internal audit reports and exchange opinions as necessary.  
Full-time Corporate Auditor is voluntarily present at internal auditing and attends a briefing to the president held by Internal Audit Office.

Appointment of Outside <i>Corporate Auditors</i>	Appointed
Number of Outside <i>Corporate Auditors</i>	3
Number of Independent <i>Corporate Auditor</i>	3

Outside *Corporate Auditors*' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Yasuhiro Orita	Lawyer										△			
Hiroho Kamakura	CPA										△			
Michitoshi Morimoto	From another company										○			

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

c. Non-executive director or executive of a parent company of the Company

d. *Corporate Auditor* of a parent company of the Company

e. Executive of a fellow subsidiary company of the Company

f. A party whose major client or supplier is the Company or an executive thereof

g. Major client or supplier of the Company or an executive thereof

h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a *Corporate Auditor*

i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the *Corporate Auditor* himself/herself only)

k. Executive of a company, between which and the Company outside directors/*Corporate Auditors* are mutually appointed (the *Corporate Auditor* himself/herself only)

l. Executive of a company or organization that receives a donation from the Company (the *Corporate Auditor* himself/herself only)

(Translation)

m. Others

Outside Corporate Auditors' Relationship with the Company (2)

Name	Designation as Independent Corporate Auditor	Supplementary Explanation of the Relationship	Reasons of Appointment
Yasuhiro Orita	○	Yasuhiro Orita is an attorney and the head of Keyaki Law Office. The Company had entered into a contract on legal advisor with Keyaki Law Office in the past. The Company had insignificant transactions with Keyaki Law Office, and there are no importance affecting on the independence.	Yasuhiro Orita was appointed as an Outside Corporate Auditor of the Company because based on the specialized legal knowledge as an attorney is expected to be put to effective use for the auditing operation. The Company believes that this must strengthen the Company's audit competence. He is appointed as an Independent Officer of the Company because he meets criteria of independence as an outside officer established by the Company and there are no risks in conflicts of interest with general shareholders.
Hiroho Kamakura	○	Hiroho Kamakura is a certified public accountant and had worked for the Company's Accounting Auditor Deloitte Touche Tohmatsu LLC in the past. The Company has insignificant transactions with Deloitte Touche Tohmatsu LLC, and there are no importance affecting on the independence.	Hiroho Kamakura was appointed as an Outside Corporate Auditor of the Company because the specialized knowledge as a Certified Public Accountant in finance and accounting is expected to be put to effective use for the auditing operation. The Company believes that this must help strengthen the Company's audit competence. He is appointed as an Independent Officer of the Company because he meets criteria of independence as an outside officer established by the Company and there are no risks of conflicts of interest with general shareholders.
Michitoshi Morimoto	○	The consulting contract concerning ERP system was entered into between Michitoshi Morimoto and the Company in the past. The Company had insignificant transactions with him, and there are no importance affecting on the independence.	Michitoshi Morimoto was appointed as an Outside Corporate Auditor of the Company because the specialized knowledge of corporate information technology/system strategy is expected to be put to effective use for the Company. Our belief is that this must help strengthen the Company's audit competence. He is appointed as an Independent Officer of the Company because he meets criteria of independence as an outside officer established by the Company and there are no risks of conflicts of interest with general shareholders.



(Translation)

**[Independent Directors/*Corporate Auditors*]**

Number of Independent Directors/ <i>Corporate Auditors</i>	5
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Matters relating to Independent Directors/*Corporate Auditors*

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**[Incentives]**

Incentive Policies for Directors	None
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Supplementary Explanation

Directors' bonuses are determined and Directors' remuneration is revised in light of the performance of each Director and business results of the Company.  
Subjects of consideration include introduction of the compensation linked to medium- and long-term performance and stock compensation, and the ratios of base salary and performance-linked compensation, and cash salary and stock compensation after the introduction.

Recipients of Stock Options

Supplementary Explanation

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**[Director Remuneration]**

Disclosure of Individual Directors' Remuneration	No Individual Disclosure
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Supplementary Explanation

The Company paid 158,940 thousand yen as remuneration to six Directors for the fiscal year ended March 2017.

Policy on Determining Remuneration Amounts and Calculation Methods	Not Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

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**[Supporting System for Outside Directors and/or *Corporate Auditors*]**

With regard to the information transfer to Outside Directors and Corporate Auditors, the system is established that Outside Directors and Corporate Auditors can obtain information through reports filed with the monthly-held Board of Directors meeting (monthly account settlement report, business reports from Directors and reports from senior staff) as necessary.  
Full-time Corporate Auditor also informs Outside Corporate Auditors details of significant internal meetings. Outside Directors and Corporate Auditors have no persons devoted to assist them, but the Company appoints the assistant personnel immediately if required.

(Translation)

## **2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)**

- (1) The Company's Board of Directors, which consists of seven Directors (including two Outside Directors), determines the policy for business execution of the Company and oversees business execution by Directors. The board monthly holds a meeting where all significant matters are submitted for discussion and proceeding of business results is discussed to examine measures, etc.  
Outside Directors offer opinions from an outside and independent viewpoint and give useful advice from a broad perspective at the meetings of the Board of Directors to manage and oversee general management while exchanging opinions with Corporate Auditors and Directors controlling the Internal Control Department.
- (2) In addition to the regular Board of Directors meeting, an executive meeting is weekly held. As a result, the information is shared by all executives about all significant matters on the Company and the system is established to sufficiently discuss and immediately make decisions on significant management matters.
- (3) The Company's Board of Corporate Auditors consists of four members (including three Outside Corporate Auditors). Each Corporate Auditor audits the business execution by Directors by attending significant meetings, including the Board of Directors meetings and surveying the work and property according to the audit policy and plan made by Board of Corporate Auditors. All Corporate Auditors attend the regular Board of Directors meeting and full-time Corporate Auditor attends significant internal meetings, including executive meetings and management meetings. The information is shared about significant matters on the Company, and the system is established that Board of Corporate Auditors can accurately audit business execution by Directors.
- (4) From a viewpoint of the separation of management oversight function from business execution, the executive officer system was introduced on April 1, 2003. The Company has one non-director executive officer.
- (5) Internal Audit Office, which is directly under the president, is in charge of internal audits. According to the internal audit plan made at the beginning of the year, the department visits headquarters and all domestic sales offices of the Company twice a year and overseas representative offices and subsidiaries of the Company once a year to audit the general business activities and directly provides the president with the internal audit report. To warrant effectiveness of internal audit, the department instructs audited departments to improve business activities based on the audit results and requires them to report proceedings of improvement without delay.
- (6) As for Corporate Auditors' audit, all Corporate Auditors attend the regular meetings of the Board of Directors and the full-time Corporate Auditor attends significant internal meetings, including executive meetings, to mainly audit violation of laws and regulations and the Articles of Association and facts that could potentially hurt the interests of shareholders and the Company.
- (7) As for accounting audits, the CPA Yoshiki Yamada and Mitsuhiro Takasaki executed accounting audit activities. Nine CPAs and six others of Deloitte Touche Tohmatsu LLC were engaged in audit activities as an assistant.

## **3. Reasons for Adoption of Current Corporate Governance System**

The system is established where determination of the policy for business execution by the Board of Directors, which consists of members with a high degree of expertise and abundant experience, makes it possible to execute all businesses appropriately and smoothly. Given a single business of the Company and current business scale, the Company thinks the current system reasonable where a small number of Directors can conduct immediate decision-making and flexible business execution. In addition to this, strict audit of the Board of Corporate Auditors including Outside Corporate Auditors with abundant expertise builds the system to completely oversee management. The Company thinks that our corporate governance system sufficiently works due to the above current systems.

(Translation)

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Scheduling AGMs Avoiding the Peak Day	AGMs are held avoiding the Peak Day.
Providing Convocation Notice in English	The convocation notice in English is available at the Company's website in English.
Other	The convocation notice is delivered to shareholders and is posted on the Company's website. At the general meeting of shareholders, a presentation using a video projector is given along with an explanation of the documents attached to the convocation notice.

#### 2. IR Activities

	Supplementary Explanations
Preparation and Publication of Disclosure Policy	The Company establishes and states the basic policy for information disclosure, manner of timely disclosure, silent period, third-party disclosure and financial forecast and positioning of information disclosure at IR information site on the website.
Regular Investor Briefings for Individual Investors	The Company participates in securities companies- and consulting companies-hosting briefings for individuals once a year at least
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds briefings on financial results of a full year and an interim period as well as makes individual visits to institutional investors, holds small-size meetings in Japan and accepts telephone interviews as needed.
Regular Investor Briefings for Overseas Investors	The Company individually visits overseas investors mainly in the United States, the United Kingdom and other areas.
Posting of IR Materials on Website	Materials on briefings of financial results of a full year and an interim period, Notice of Convocation for the General Meeting of Shareholders and Annual Reports are posted in Japanese and English on the website.
Establishment of Department and/or Manager in Charge of IR	Corporate Planning Department, which department is directly under the Representative Director, is in charge of IR.

#### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	It is included in the management philosophy.
Implementation of Environmental Activities, CSR Activities etc.	These activities are implemented as activities of ISO14001.

### IV. Matters Related to the Internal Control System

#### 1. Basic Views on Internal Control System and the Progress of System Development

<p>1. System to ensure that business execution of Directors and employees complies with laws and regulations and the Articles of Association. The Company raises the awareness for and holds training on legal compliance to increase awareness of compliance as well as establishes "Whistle-Blowing Regulations" providing the procedure for reporting violations.</p> <p>2. System for keeping and managing the information on business execution of the Company's Directors. Information is kept and managed according to laws and regulations, and internal regulations (including "Document Regulations," "Internal Information Management Regulations" and "Information System Management Regulations")</p> <p>3. Regulations on and other systems for risk management of losses of the Company and its subsidiaries.</p>
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(Translation)

Risk of currently estimated losses is managed by setting a committee and making discussion according to degree of its significance. Events delivering losses to the Company would be reported to Directors and Corporate Auditors by the Executive in charge and discussed and managed by all executives.

4. System to ensure effective business execution by Directors of the Company and its subsidiaries.  
Effective business execution by Directors is ensured by followings:
  - (1) The Board of Directors determines significant matters and oversees business execution by Directors.
  - (2) Information is shared among Directors, Executives, and Corporate Auditors at executive meetings.
  - (3) Notice of significant matters on management, understanding of status and business instructions are conducted at management meetings and YSM management conference.
  - (4) At the subsidiaries conference, the information is shared on the Company and our subsidiaries and significant matters are discussed and determined.
5. The systems to ensure appropriate works of the corporate group consisting of the Company and its subsidiaries, and to make reports to the Company on matters concerning business execution by Directors of subsidiaries.  
Internal Audit Office develops the internal control system. "Subsidiaries Management Regulations" obligates subsidiaries to make periodic reports to the Company on business results, fiscal conditions and other significant information of subsidiaries. Significant matters are discussed to solve issues at the Board of Directors.
6. System to ensure effective Corporate Auditors' audit.  
Corporate Auditors attend the Board of Directors Meetings and required significant meetings including management conference as well as read major approval documents and other significant documents concerning business execution and receives explanation from Directors and employees of the Company and Directors of subsidiaries as necessary.
7. System on employees assisting works of the Company's Corporate Auditors when Corporate Auditors require allocation of the assisting employees.  
Employees assisting the work of the Company's Corporate Auditors can be allocated as staff as necessary. Corporate Auditor has the authority to give instructions and orders to the staff.
8. System to ensure that those reporting to Board of Corporate Auditors and Corporate Auditors, etc. are not unfavorably treated for the reason of the report.  
The Company ensures that executives and employees reporting to Board of Corporate Auditors and Corporate Auditors are not treated unfavorably because of the report and thoroughly inform the whole company of this. In the "Whistle-Blowing Regulations," it is prescribed to prohibit dismissal and give other unfavorable treatment for the reason of the report.
9. Matters on the policy for dealing with expenses or debts resulting from business execution of the Company's Corporate Auditors.  
The Company, when Corporate Auditors require the Company to make advance payment in respect of business execution according to Article 388 of the Companies Act, immediately deals with the relevant expenses and debts unless it is considered unnecessary to make advance payments.

## 2. Basic Views on Eliminating Anti-Social Forces

The Company assumes a resolute attitude to anti-social forces threatening order and security of civil society as well as closely exchanges information and cooperates with the relevant specialized agencies including police against anti-social forces and thoroughly informs employees of the above policy.

(Translation)

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
Supplementary Explanation	
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### 2. Other Matters Concerning to Corporate Governance System

<Timely Disclosure System>

#### 1. Basic Policy on Information Disclosure

The Company strives to maintain its established system of proactive and fair disclosure of information to shareholders, investors, and other stakeholders.

#### 2. Information Disclosure Policy and Internal System

The Company adopts the following policies and internal system as the basis for information disclosure.

##### (1) Company information to be disclosed

a) Information required to be disclosed in accordance with the Financial Instruments and Exchange Act and the Timely Disclosure Regulations set by the Tokyo Stock Exchange (decisions, incidents and financial information)

b) Information other than a) above considered to have a significant influence on investment decisions

##### (2) Disclosure procedure

###### a) Procedure concerning decisions and incidents

For decisions and incidents, the Accounting Department, General Affairs Department, or other department in charge prepares the materials necessary for disclosure. Upon completion of internal procedures, including approval by the Board of Directors, the disclosure of information will be carried out by the Information Manager or the Disclosure Manager.

###### b) Procedure concerning financial information

For financial information, the Accounting Department prepares the materials necessary for disclosure. Upon completion of internal procedures, including approval by the Board of Directors, the disclosure of information will be carried out by the manager of corporate management department.

##### (3) Methods of disclosure

Information will be disclosed through registration with the TDnet Company Announcements Distribution Service of the Tokyo Stock Exchange as well as through the Company's website and via other applicable means.

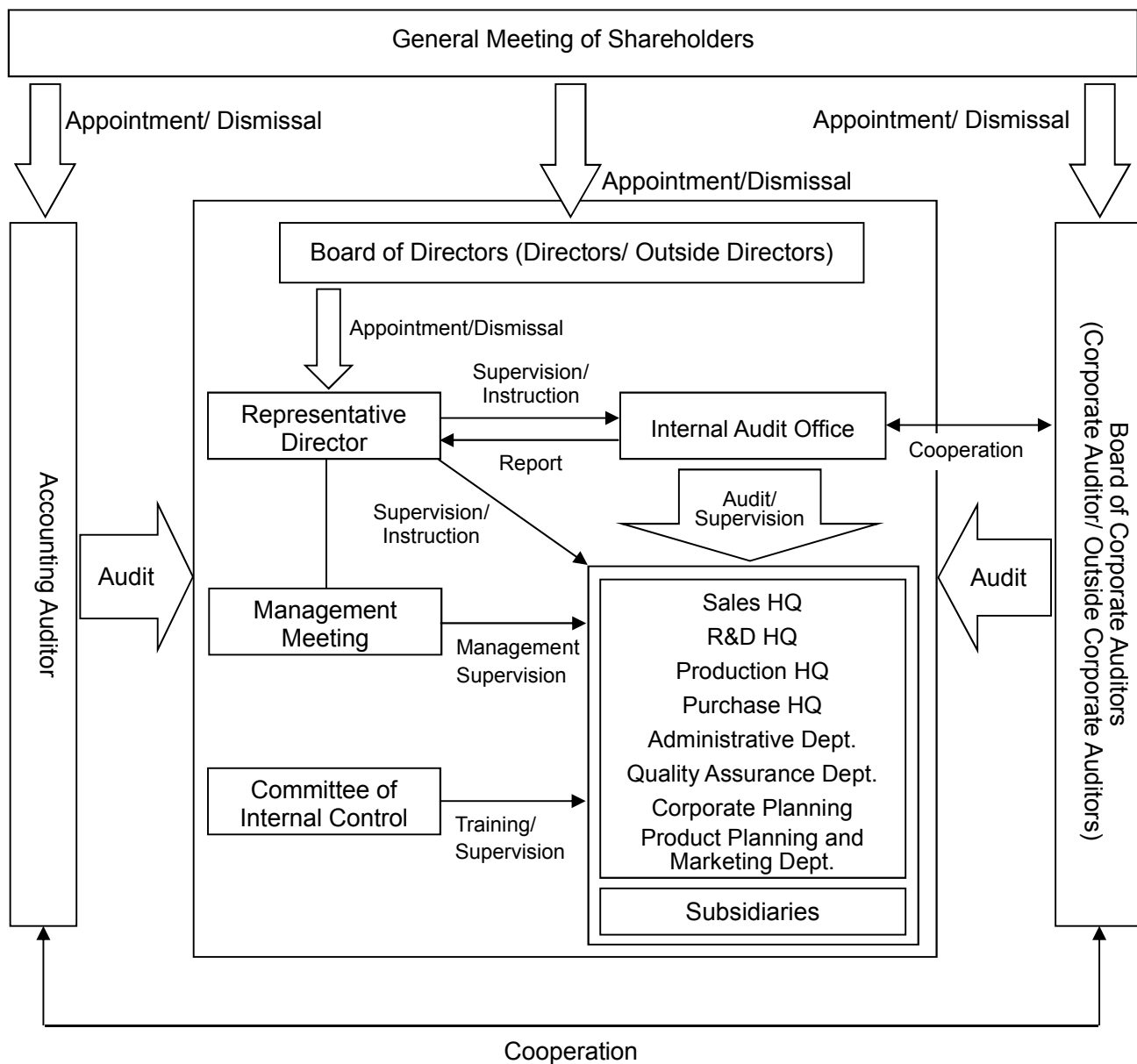
##### (4) Inquiries following disclosure

Disclosure-related inquiries will be handled by the Information Manager or the Disclosure Manager.

#### 3. Improvements on Monitoring of the Timely Disclosure System

Through periodically implemented audits by corporate auditors, internal audits, and external audits, the Company aims to ensure the appropriateness of information disclosure contents, information disclosure procedures, and other related aspects.

### Corporate Governance Structure



(Translation)

System for Timely Disclosure of Information  
<Decisions, Incidents and Financial Information>

