

(Translation)

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## Corporate Governance Report

Last Update: May 14, 2021

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

Mayumi Kotani, Representative Director and President

Contact: Kota Oda, Director, General Manager of General Affairs Dep.

Securities Code: 6482

<https://www.ype.co.jp>

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]**

All principles are stated based on the code revised in June 2018.

[Supplementary Principle 4-1-3 Roles and Duties of the Board of Directors]

Regarding the training of successors, the Board of Directors will be involved actively, receiving advice from Nomination and Remuneration Committee, and the Company will promote the clarification of necessary requirements and the creation of an environment for training.

[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.

The company held a study group on the stock compensation system for internal executives, and the Company is working on concrete examination to design a compensation system based on objective and transparent procedures.

Regarding the level of remuneration, the Company set up an amount that is enough to appoint talented personnel, motivate them and retain them.

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

All principles are stated based on the code revised in June 2018.

**[Principle 1-4: 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 FY 2019, as a result of the verification, the Company confirmed that there is validity of possession of all the shares held.

In response to future changes in circumstances, the Company will review such as reducing the number of shares held if it is not deemed adequacy of possession.

Regarding the exercise of voting rights of strategic shareholdings, the Company makes judgments based on the following two points.

- (1) Will it increase the corporate value of investee companies in the medium to long term and contribute to sustainable growth? (Financial soundness, no illegal acts done)
- (2) Will the corporate value of the Company improve and lead to shareholder's medium- and long-term benefits?

**[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 2-6: Fulfilling Function as the Asset Owner of Corporate Pensions]**

Regarding management of conflicts of interest that may arise between the beneficiaries of the corporate pension and the Company, the Basic Policy on Investment is established based on the guidelines of the Ministry of Health, Labor and Welfare to maximize the benefit of the beneficiaries. In addition, the Company has in-house responsibilities regarding the operation of corporate pension funds, and a consultation system to external specialized agencies.

**[Principle 3-1: Enhancement of Disclosure]**

- (1) Management philosophy, strategy and medium-term management plan is 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 basic salary, which is not linked to performance, and performance-linked remuneration, which depends on degree of achievement of performance goals. External Directors and Corporate Auditors, who are independent of business execution, receive only basic salary. Regarding 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 the compensation system, etc. for Directors are discussed by the Nomination and Remuneration Committee, and a report or opinion is given to the Board of Directors, and is determined by the Representative Director whose discretion the Board of Directors 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 External 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 discussed by the Nomination and Remuneration Committee, and a report or opinion is given to the Board of Directors, and is determined by the Board of Directors. The appointment of Directors and Corporate Auditors is subject to the resolution of the General Meeting of Shareholders. The policies and procedures for the appointment / dismissal of Directors and Corporate Auditors are stipulated in the "Regulations of the Board of Directors".

- (5) For the appointment / dismissal of Directors and Corporate Auditors, and the nomination of Directors / Corporate Auditors' candidates, explanation of each of appointment / dismissal and nomination will be disclosed at the "Notice of Convocation for 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 2 non-Director Executive Officer.

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

The Independent External 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.

[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 10 Directors, including External 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 Board of Directors and Board of Corporate Auditors]

Concurrent holding of positions of other companies by External 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 Board of Directors and Board of Corporate Auditors]

External 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 External 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.

(Translation)

- (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: <https://ir.ype.co.jp/en/governance/disclosurepolicy.html>)

## 2. Capital Structure **Updated**

Foreign Shareholding Ratio	More than 10% but less than 20%
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### [Status of Major Shareholders] **Updated**

Name / Company Name	Number of Shares Owned	Percentage (%)
Yushin Industry Co., Ltd.	11,992,378	35.23
Takayo Oda	1,872,532	5.50
Miki Murata	1,847,032	5.43
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,660,400	4.88
Custody Bank of Japan, Ltd. (Trust Accounts)	1,514,200	4.45
The Kyoto Chuo Shinkin Bank, Ltd.	1,088,974	3.20
Mayumi Kotani	1,040,202	3.06
RBC IST 15 PCT NON LENDING ACCOUNT- CLIENT ACCOUNT	862,020	2.53
MUFG Bank, Ltd.	849,986	2.50
STATE STREET BANK AND TRUST COMPANY 505001	830,100	2.44

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

### Supplementary Explanation **Updated**

Foreign Shareholding Ratio and Status of Major Shareholders are stated as of March 31, 2021.

(Translation)

### 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	10
Appointment of External Directors	Appointed
Number of External Directors	3
Number of Independent Directors	2

#### External 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								△			
Reiko Nakayama	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 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 external 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

External Directors' Relationship with the Company (2) **Updated**

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Yasuo Nishiguchi		<p>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.</p> <p>HANDY Co., Ltd., that he is the Representative Director, and the Company had entered into advisory agreements to receive guidance and advice on future management policies, etc.</p> <p>However, the contract was terminated as of March 31, 2021. Currently, he meets the Company's criteria of independence as an external director established by the Company, and there are no importance affecting on the independence.</p>	<p>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 External Director of the Company.</p> <p>The transaction between HANDY Co., Ltd. and the Company ended on March 31, 2021. He is appointed as an external director of the Company because he meets criteria of independence as an external director established by the Company and there are no risks of conflict of interest with general shareholders, he will be an Independent Director of the Company upon his election at the General Meeting of Shareholders on June 22.</p>
Hiroshi Matsuhisa	○	<p>The instruction contract concerning R&amp;D was entered into between the Company and Hiroshi Matsuhisa, but the Company had insignificant transactions with him and there are no importance affecting on the independence.</p>	<p>Based on the specialized knowledge by the person with academic standing in engineering of Kyoto University, 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 Hiroshi Matsuhisa as an External Director of the Company.</p> <p>He is appointed as an external director of the Company because he meets criteria of independence as an external director established by the Company and there are no risks of conflict of interest with general shareholders, he will be an Independent Director of the Company upon his election at the General Meeting of Shareholders on June 22.</p>

(Translation)

Reiko Nakayama	○	The Company had insignificant transactions with Mandom Corporation, that Reiko Nakayama is the External Director, and there are no importance affecting on the independence.	Based on her experience of securities company underwriter, and management executive officer and external officers of operating companies, we asked her to give the Company advice and supervision of operations from an independent position. Because this will strengthen the function of the Company's Board of Directors, the Company appointed Reiko Nakayama as an External Director. She is appointed as an external director of the Company because she meets criteria of independence as an external director established by the Company and there are no risks of conflict of interest with general shareholders, she will be an Independent Director of the Company upon her election at the General Meeting of Shareholders on June 22.
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Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Yes
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Establishment of optional advisory committees, committee composition, and attributes of the chairperson

**Updated**

	Optional committee equivalent to Nomination Committee	Optional committee equivalent to Remuneration Committee
Committee	Nomination and Remuneration Committee	Nomination and Remuneration Committee
Committee members	7	7
Full-time members	0	0
Internal directors	2	2
External directors	3	3
External experts	0	0
Others	2	2
Chairperson	External Director	External Director

Supplemental Remarks

The Nomination and Remuneration Committee has been established as an advisory body aiming to increase the objectivity, appropriateness and transparency of the composition of the Board of Directors and the nomination and remuneration of Directors, etc. to link the medium- to long-term growth of the Company group and increase its corporate value.

Two "other" members of the committee are External Corporate Auditors.



(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

Regarding 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 External <i>Corporate Auditors</i>	Appointed
Number of External <i>Corporate Auditors</i>	2
Number of Independent <i>Corporate Auditor</i>	2

External 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
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 external 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)

m. Others

(Translation)

External Corporate Auditors' Relationship with the Company (2)

Name	Designation as Independent Corporate Auditor	Supplementary Explanation of the Relationship	Reasons of Appointment
Hiroho Kamakura	○	<p>Hiroho Kamakura is a certified public accountant and had worked for the Company's Accounting Auditor Deloitte Touche Tohmatsu LLC in the past.</p> <p>The Company has insignificant transactions with Deloitte Touche Tohmatsu LLC, and there are no importance affecting on the independence.</p>	<p>Hiroho Kamakura was appointed as an External 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.</p> <p>He is appointed as an Independent Officer of the Company because he meets criteria of independence as an external officer established by the Company and there are no risks of conflicts of interest with general shareholders.</p>
Michitoshi Morimoto	○	<p>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.</p>	<p>Michitoshi Morimoto was appointed as an External 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.</p> <p>He is appointed as an Independent Officer of the Company because he meets criteria of independence as an external officer established by the Company and there are no risks of conflicts of interest with general shareholders.</p>

**[Independent Directors/Corporate Auditors]**

Number of Independent Directors/Corporate Auditors	4
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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 **Updated**

[Director Remuneration] It is described in the section of Policy on Determining Remuneration Amounts and Calculation Methods.

(Translation)

Recipients of Stock Options	
Supplementary Explanation	
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**[Director Remuneration]**

Disclosure of Individual Directors' Remuneration	No Individual Disclosure
Supplementary Explanation	
The Company paid 177,490 thousand yen as remuneration to eight Directors for the fiscal year ended March 2020.	

Policy on Determining Remuneration Amounts and Calculation Methods <b>Updated</b>	Yes
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

<p>1. Current Policy</p> <p>At a meeting of the Board of Directors held on February 5, 2021, the Company passed a resolution on the policy for deciding the details of remuneration, etc. for each individual director. The Board of Directors has consulted the Nomination and Compensation Committee regarding the details of the resolution and received its report.</p> <p>The Board of Directors has confirmed that the method of determining the content of remuneration, etc. and the content of remuneration, etc. determined are consistent with the relevant decision policy and that the report from the Nomination and Compensation Committee has been respected, and has determined that the content of remuneration, etc. for individual Directors for the relevant fiscal year is in line with the relevant decision policy.</p> <p>(1) Policy on determining the amount of remuneration, etc. for each individual director and the method of calculation thereof</p> <p>Remuneration for Directors of the Company consists of fixed remuneration and performance-linked remuneration, the level of which is determined in consideration of business performance and other factors. Remuneration, etc., for External Directors consists of fixed remuneration, and it is our policy not to pay performance-linked remuneration from the viewpoint of independence for business execution.</p> <p>(2) Details of the performance indicators pertaining to the performance-linked remuneration, etc. and the method of calculating the amount or number of such performance-linked remuneration, etc.</p> <p>The performance-linked remuneration is indexed to ordinary income, which is a financial figure that indicates the earnings status of the Company.</p> <p>(3) Policy on determining the ratio of remuneration, etc. to the amount of remuneration, etc. for each individual director</p> <p>The Company's current remuneration system for Directors consists of fixed remuneration (basic remuneration) and performance-linked remuneration, with performance-linked remuneration based on short-term performance. The remuneration composition ratio for Directors is set based on the level of companies with similar business scale and related performance and business categories as the Company.</p> <p>(4) Policy on determining the timing and conditions of remuneration, etc. to be paid to Directors</p> <p>The basic remuneration for Directors of the Company is fixed monthly remuneration, which is determined by comprehensively taking into account the duties they are in charge of, the performance of each fiscal year, and the degree of their contribution.</p>
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Bonuses for directors are paid once a year in accordance with performance indicators and the degree of achievement of targets for a single fiscal year.

(5) Matters concerning the delegation of decision on the details of individual remuneration, etc. of Directors  
The Nomination and Compensation Committee, which is an advisory body to the Board of Directors, deliberates on the remuneration system for Directors and other matters, reports to the Board of Directors or expresses its opinions, and the President and Representative Director, who is entrusted by the Board of Directors, decides the amount of remuneration, etc. for Directors based on the above calculation policy.

The contents delegated to the representative directors is the amount of basic remuneration for each director and the evaluation and allocation of bonuses based on business performance. The Nomination and Compensation Committee is chaired by External Director Yasuo Nishiguchi, and its other members are President and Representative Director Mayumi Kotani, Executive Vice President Takayo Kotani, External Director Hiroshi Matsuhisa, External Director Reiko Nakayama, External Corporate Auditor Hiroho Kamakura, and External Corporate Auditor Michitoshi Morimoto.

No other non-monetary remuneration for Directors is treated.

## 2. Future considerations

-As for the future policy of the remuneration system for directors and corporate auditors, the Company will consider the details of the system based on objective and transparent procedures, and the setting of a level of remuneration that will attract, motivate and retain excellent human resources, while obtaining reports and opinions from the Nomination and Compensation Committee.

-In addition, while formulating and executing the medium-term management plan, the Company will concretize the system structure of medium- to long-term performance-linked remuneration (how cash remuneration and stock remuneration should be, the ratio of basic remuneration to performance-linked remuneration, etc.) in accordance with the degree of achievement of the plan and the increase in corporate value.

### [Supporting System for External Directors and/or Corporate Auditors]

Regarding the information transfer to External Directors and Corporate Auditors, the system is established that External 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 External Corporate Auditors details of significant internal meetings. The Corporate Planning Office, etc. respond as needed to assist External Directors and External Corporate Auditors.

### [Status of persons retired from Representative Director and President, etc.]

Names, etc., of advisors (“sodanyaku,” “komon,” etc.) who have formerly served as Representative Director and President, etc.

Name	Title/Position	Activity Description	Working Arrangement / Conditions (Full-time / Part-time, Compensation)	Date of Retirement From President, etc.	Term of Office
—	—	—	—	—	—

Total number of advisors (“sodanyaku,” “komon,” etc.) who have formerly served as Representative Director and President, etc.

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Other Information

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(Translation)

## 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration

### Decisions (Overview of Current Corporate Governance System)

- (1) The Company has established a Nomination and Remuneration Committee, whose outline is described in “1.Organizational Composition and Operation – [Directors]” in “II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management” of this report.
- (2) The Company’s Board of Directors, which consists of 10 Directors (including 3 External 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.  
External Directors offer opinions from an external 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.
- (3) 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.
- (4) The Company’s Board of Corporate Auditors consists of 4 members (including 2 External 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.
- (5) 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 2 non-Director Executive Officers.
- (6) 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 once 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.
- (7) 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. And, in order to ensure the effectiveness of the 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.
- (8) As for accounting audits, the Company have concluded an audit contract with Deloitte Touche Tohmatsu LLC so they conduct audits. The CPA, Mitsuhiro Takasaki and Hideki Yasuda executed accounting audit activities. 13 CPAs and 9 others were engaged in audit activities as an assistant.

(Translation)

### 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 External 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.

## 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
Early sending out of convocation notices for the general meeting of shareholders	YUSHIN is working to send out the notice of convocation for the ordinary general meeting of shareholders earlier than the legal fixed date.
Scheduling AGMs Avoiding the Peak Day	AGMs are held avoiding the Peak Day.
Electronic voting	Shareholders can exercise their voting rights via the Internet by accessing from their computer, smartphone or mobile phone.
Participation in the Electronic Voting Platform system and other efforts to improve an environment in which institutional investors can exercise their voting rights	YUSHIN uses a voting platform for institutional investors.
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	Explanation by Representative
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	Yes
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.	Yes
Regular Investor Briefings for Overseas Investors	The Company individually visits overseas investors mainly in the United States, the United Kingdom and other areas.	Yes
Posting of IR Materials on Website	Materials on briefings of financial results of a full year (written in Japanese and English) and an interim period (written in Japanese and English), Business reports for Shareholders (written in Japanese) and Annual Reports (written in English) are posted on the website.	

(Translation)

Establishment of Department and/or Manager in Charge of IR	Corporate Planning Office, which department is directly under the Representative Director, is in charge of IR.	
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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**

The Company has established the basic policy of Internal Control System for the development of a system to ensure that the execution of duties by Directors conforms to laws and regulations, and the Articles of Association as well as other systems that ensure the properness of operations of the Company, as follows. (Board of Directors Resolution on June 12, 2015) The main points of the basic policy are as follows.

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.
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”)
3. Regulations on and other systems for risk management of losses of the Company and its subsidiaries. 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.  
The Internal Control System is developed as we as “Subsidiaries Management Regulations” obligate subsidiaries to make periodic reports relating to 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

(Translation)

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.

In order to improve the effectiveness and efficiency of operations, to ensure reliability of financial reports, and to expansively develop the operations of the internal control system aimed at securing assets and compliance to laws and regulations pertaining to business activities according to the Basic Policy for Internal Control System, The Internal Control Regulations and the Committee of Internal Control Operations Regulations have been enacted.

The scope of responsibility of the Board of Directors and Corporate Auditors as well as the system for implementation and details of activities for executives and employees, and the procedures for evaluation and reporting were clarified in the internal control Regulations. Furthermore, basic policy on the maintenance and operation of Internal Control is formulated. The structure of the committee aimed at facilitating internal control as well as how to promote its mission and activities were clarified in the Committee of Internal Control Operations Regulations, and the activities are promoted.

## 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	
-	

### 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

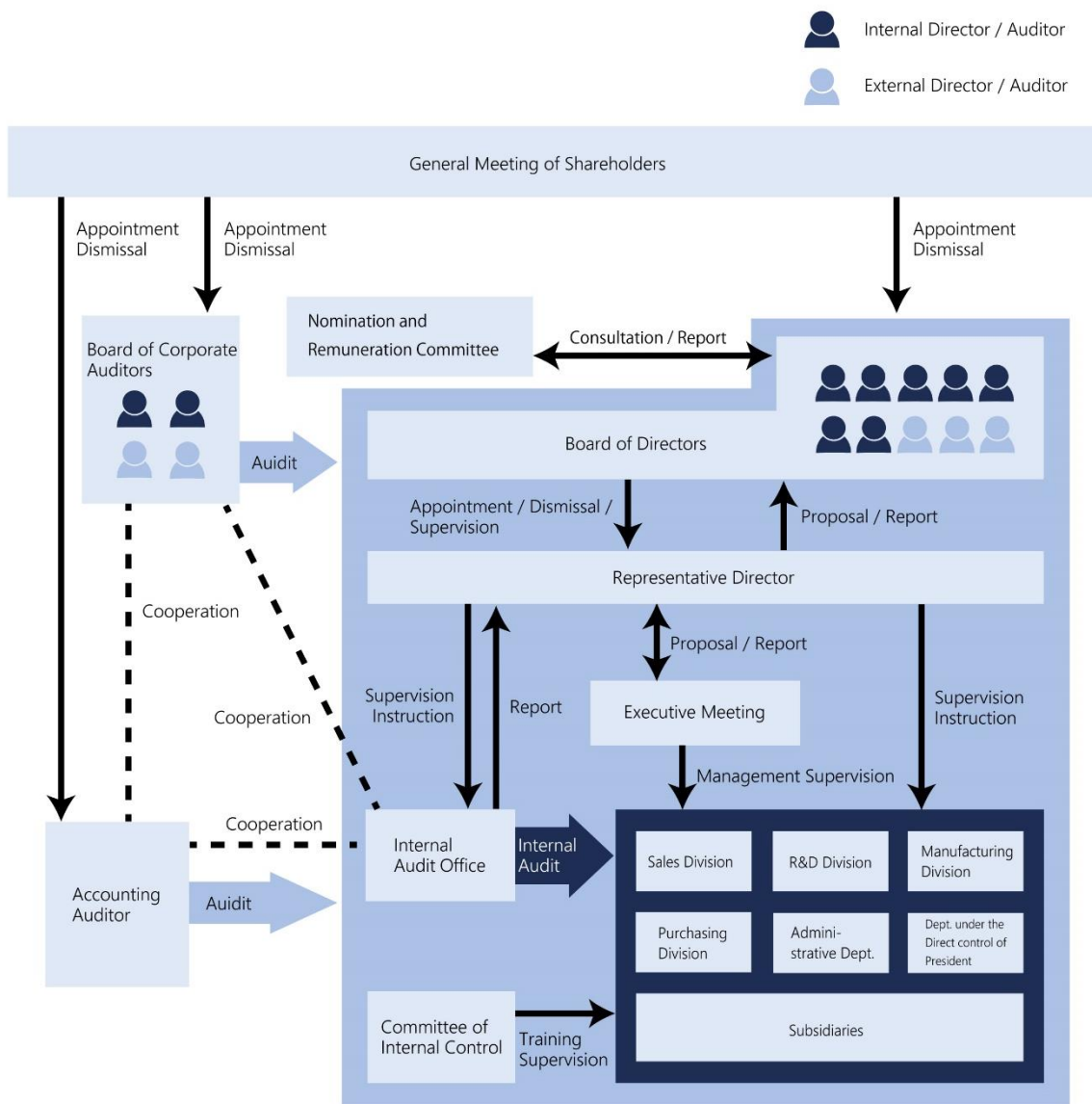
Disclosure-related inquiries will be handled by the Information Manager or the Disclosure Manager.

#### 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.

(Translation)

### Corporate Governance Structure



(Translation)

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

