

Efforts to strengthen corporate governance

Aiming for the sustainable growth and for the improvement of the corporate value over the medium to long term



Responses and efforts up till now

We have been working on strengthening the corporate governance since 2008, including increasing the number of the Outside Officers. In response to the establishment of the “Corporate Governance Code” by Tokyo Stock Exchange, Inc. in June 2015, we have implemented various efforts such as the formulation of basic policies on the corporate governance and starting among which is effectiveness of the Board of Directors evaluation.

We will continue to work on the improvement of the corporate governance by the positioning and the strengthening of the corporate governance as an effort to improve the corporate value being as one of our important measures to strengthen the management.

Major efforts towards the strengthening of the corporate governance

2003	- The number of the Directors was reduced (The term of service of the Directors was reduced from two years to one year). - The executive officers system was introduced.
2008	- Started the effort to increase the number of the Outside Officers.
2010	- Established the Compensation Committee.
2014	- Structured the Audit & Supervisory Board members, to 3 people from in-house and 3 people from outside.
2015	- Established the Independence Standards for the Outside Officers. - Established the Nominating/Compensation Committee, former Compensation Committee. - Started the evaluation of the effectiveness of the Board of Directors, and the summary of the result was published. (annually conducted) - Established “Guidelines on Corporate Governance”.
2016	- An Outside Director was appointed as the chairman of the Nominating/Compensation Committee. - The Chairman became the Director without the representative right of the Board of Directors. - Revision of the officer’s compensation system. - The number of the Outside Directors was changed to the current 5 members.
2017	- As a process to evaluate the effectiveness of the Board of Directors, the Chairman conducted the interviews.

Board meeting and related organizations

Our corporate governance structure consider that the effectiveness of the audit on the execution of the duties by the Directors is secured, based on the coordination with the accounting auditors and the internal auditing department, while maintaining the institutional independence of the Audit & Supervisory Board Members and of the Audit & Supervisory Board from the Board of Directors. And we adopted the “Audit & Supervisory Board” type of the governance organization.

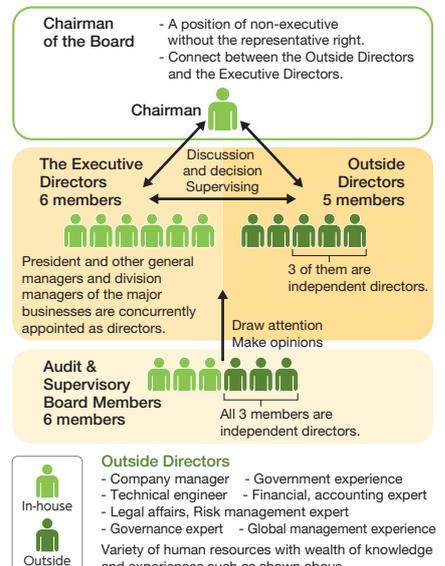
As our policy, the Outside Officers are expected to make suggestions from various viewpoints and angles in the discussion of the Board of Directors, and people with different knowledge and backgrounds are selected.

With respect to the selection of the officers, the Board of Directors makes a decision by consulting the Nominating/Compensation Committee which is constituted of the majority of the members by the Outside Directors, and is based on their report.

Expertise of the Outside Officers

Outside Directors	Sumitaka Fujita	Mr. Fujita has served for many years in a key positions on the management such as a Chef Financial Officer (CFO) and has a wealth of knowledge and experience on general business management including financial accounting. He also has a high perception of the corporate governance.
	Nobuyoshi Soma	Mr. Soma has served for many years in key positions such as President and Chairman of the manufacturer which operates business in adjacent areas to our Group, and he has a wealth of knowledge and experience on the corporate management in general.
	Osamu Tsukamoto	Mr. Tsukamoto has a long experience of involvement in the industrial policy at the Ministry of Economy, Trade and Industry, and has a high perception on the technologies and the development of the new businesses.
	Tatsuo Teratani	Mr. Teratani has a high perception as an engineer based on long years of the experience in the car electronics related design at a major automobile manufacturer.
	Akira Nakamoto	Mr. Nakamoto has served for long years in key positions such as President and Chairman of a major precision equipment manufacturer, and has an extensive knowledge and experience in the corporate management in general.
Outside Audit & Supervisory Board Members	Yuzuru Fujita	Mr. Fujita has served for many years in key positions such as President and Chairman of a life insurance company and has an extensive knowledge and experience in overall corporate management, including the financial accounting.
	Takashi Tsukamoto	Mr. Tsukamoto has served for many years in key positions such as Chairman and a director in charge of finance in a financial institution and has an extensive knowledge and experience in overall corporate management, including financial accounting.
	Kunihiko Sakai	Mr. Sakai has a high perception in fields such as: the corporate governance, the legal risk associated with management and its compliance to regulations, capitalizing his long experience as a legal professional including its foreign one.

Board of Directors



Nominating/Compensation Committee

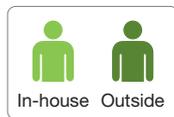
We have established the Nominating/Compensation Committee with a majority of the members from the Outside Directors, aiming to supplement the supervisory function of the Board of Directors. The Committee deliberates succession plan of the officer and of the president, the officer compensation and others, aiming to ensure the objectivity and transparency regarding these matters.

Recently, in 2016 the officer compensation system was revised, and in 2017 the new President was appointed based on the succession plan, these were resolved at the General Meeting of Shareholders or the Board of Directors after the deliberation at the Committee.

Nomination/Compensation Committee 6 directors



Chairman:
Outside Director



At June 22, 2018

Outside Officers Meeting

The Outside Officers meeting is regularly held for the purpose of exchanging information, sharing recognition among the Outside Officers based on the objective position, and for reporting their opinions shared with the Board of Directors if necessary.

The Committee consists of all Outside Directors and Audit & Supervisory Board Members, and the Secretary of the Outside Officers is elected from the independent outside directors.

In FY2017, the meeting was held three times with discussion about the management issues in general and the management of the Board of Directors.



Effectiveness of the Board of Directors evaluation

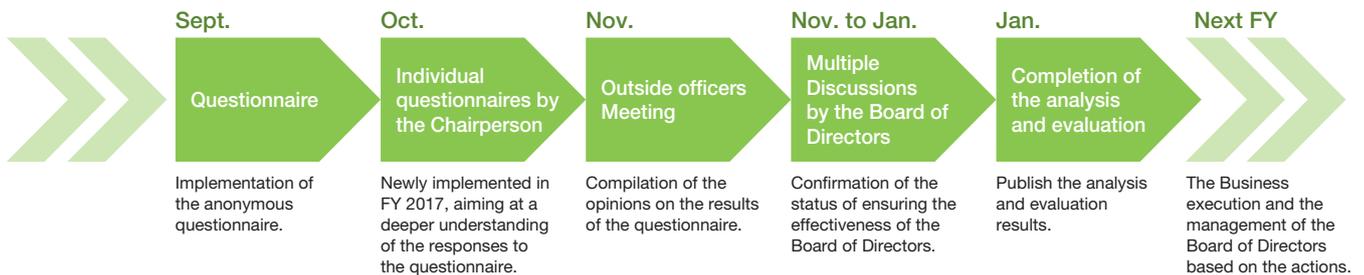
In every year since the FY2015, we have been working on analyzing and evaluating the effectiveness of the Board of Directors for the purpose of improving the function of the Board of Directors, through a continuous process. Through the process, the necessary measures are taken in order to improve or further strengthen the issues reported through the verification on the suitability of the function as the Board of Directors.

In FY 2017, which was the third time, in addition to have a questionnaires for all the members of the Board of Directors and the Audit & Supervisory Board members, an individual interview was conducted by the Chairman, for the purpose of a deeper understanding of the response to the questionnaires. Thus more substantive analysis and evaluation were implemented.

Evaluation items on the effectiveness of the Board of Directors

- Effectiveness of the Board of Directors.
- Management of the Board of Directors.
- System related to support and cooperation with the Outside Officers.
- Roles and expectation for the Audit & Supervisory Board Members.
- Relationship with the shareholders and other stakeholders.
- Others
(The Board of Directors in general, individual and peer evaluation, Responsibility of the Board of Directors)

FY 2017 Flow of the Board of Directors effectiveness evaluation.



Plant tour

Various activities by the Outside Officers

Keynote lecture by an Outside Director.



In order to enhance information awareness to the Outside Officers, opportunities are offered to participate in our research and development presentations and plant tours.

In FY 2017, a tour in Hiratsuka Works was held. Also, the Outside Officers attended the research and development presentations that are held annually in each plant. In Yokohama Works, an Outside Director presented a keynote lecture.