Corporate Governance Report

Last Update: Jul. 13, 2016
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The state of corporate governance at the company is as follows.

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

1. Basic Policy

Basic Policy of corporate governance

The company aims to achieve three aspects in particular: the happiness of employees, contributions to local society, and dividends to stockholders. The Board of Directors ("Board") and executives believe that the company's social responsibility (CSR) and mission of management include serving societal and public interests as well as continuously developing its business.
The management vision of the Company is "to be an excellent company that enjoys the trust and highest regard from our customers."
To realize this management philosophy and vision, we will perform the following duties: engage in profitability improvement measures based on the dual facets of growth strategy and internal reform; place significant focus on transparency, fairness, and disclosure; and build structures and systems that ensure agile decision making and execution.
Information on the company's Basic Policy of corporate governance may be found on the company's website at http://www.yuden.co.jp/ut/ir/management/governance/index.html.

Reasons for not implementing each principle of corporate governance

[Supplemental Principle 1-2-3: Establish appropriate schedules for shareholder meetings]
To permit as many shareholders as possible to attend meetings, we have attempted to set up an optimal venue considering shareholder convenience and capacity. However, due to the booking situation of the venue, the meeting will be held during its busy period. In the future, we will review an appropriate time and date for the shareholder meeting considering the schedule for the general meeting of METI's "Dialog Between Companies and Investors for Sustainable Growth" report and the reference date for the voting rights on which it is premised.

[Supplemental Principle 4-1-3: Monitor succession planning for the CEO]
For reasons such as the revitalization of the organization, the Board has instituted a retirement age for executives, including the Representative Director. Given the importance of developing successors to the Representative Director, no later than the end of FY2017, a nominating committee will study and decide on a mechanism for developing and naming an appropriate successor, thereby ensuring transparency and fairness.

"Reasons why it does not comply (Explain)"was put into effect

[Supplemental Principle 3-2-1 (i): Formulate the assessment criteria for Outside Auditors and the confirmation of expertise]
The Audit & Supervisory Board of the Company formulated the standard items for the selection of the

Accounting Auditors candidate to be 1) outline of the auditing firm, 2) audit implementation system and 3) remuneration for audits, whereas the evaluation standard of the Accounting Auditors candidate would include 1) quality management system thereof, 2) audit implementation system, 3) remuneration for audits and 4) communication with the Audit & Supervisory Board Members, etc., in March 2016.

[Supplemental Principle 4-8-2: Determine lead Outside Directors]
The Board of Directors established in December 2015 the system for appointing the head independent Outside Director, whose roles include convening information exchange meetings with the Audit & Supervisory Board Members and appointing the committee chairman when a third-party committee is established due to misconduct or any other reason.

[Supplemental Principle 4-11-3: Analyze and disclose the results of the assessment regarding the effectiveness of the Board in its entirety.]
The outline was elucidated in this report.

[Supplemental Principle 4-14: Train the Board members and auditors]
To help the Directors and the Audit & Supervisory Board Members acquire necessary knowledge, skills and information in making appropriate and swift managerial decisions, the Company held an in-house training session in April 2016 based on its training program.

Disclosures based on each principle of the corporate governance code

[Principle 1-4: Cross-shareholdings]
Our policy regarding cross-shareholdings and the criteria for exercising voting rights of cross-held shares are described in Chapter 2-4-(1)-(2) of the article "Basic Concepts of Corporate Governance" found on our website.

[Principle 1-7: Create appropriate procedures and frameworks for transactions between related parties]
Our policy regarding transactions between related parties is described in Chapter 3-4-(1)-(2) of the article "Basic Concepts of Corporate Governance" found on our website.

[Principle 3-1: Full disclosure]

1. Our corporate philosophy, vision, management strategy, business plans are disclosed in the financial statement briefing materials and annual reports on our website.
2. Our fundamental concepts of corporate governance as well as basic policies are disclosed in the financial and corporate governance reports on our website.
3. Policies and procedures for the Board to determine director compensation are disclosed in the financial reports and notices for the convening of shareholder meetings.
4. Policies and procedures for the nomination of candidates for directors and auditors are disclosed in the financial and corporate governance reports.
5. Individual reasons regarding the selection of candidates for directors and auditors are disclosed in the notices for the convening of shareholder meetings.

[Supplemental Principle 4-1-1: Scope of delegation to the management]
A synopsis of the scope of delegation to the management can be found in Chapter 5, Section 2, 2-(1).(2).(3) of the article "Basic Policy for Corporate Governance" found on our website.

[Principle 4-8: Effective use of Outside Directors]
The effective use of Outside Directors is described in Chapter 5, Section 1, 1-(2) and Section 2, 3-(2) of the article "Basic Policy for Corporate Governance" found on our website.

[Principle 4-9: Criteria for judging the independence of Outside Directors and their nature]
The Board has formulated its own "Independence Criteria for Outside Directors." It selects independent directors from outside the company on the basis of these criteria. In addition, the Board lists the reasons for their selection in the notice of convocation to inform the shareholders. The independence criteria for Outside

Directors may be found on the company's website.

[Supplemental Principle 4-11-1: Concept of balance of knowledge, diversity, and size of the board as a whole]
The concepts regarding the balance of knowledge, experience, and skills of the Board (as a whole) as well as its size are described in Chapter 5 Section 3 1-(1) of the article "Basic Policy for Corporate Governance" found on our website.

[Supplemental Principle 4-11-2: Posts held concurrently by Outside Directors and auditors]
Board members concurrently holding other positions are discussed in Chapter 5 Section 3, 1-(4) of the article "Basic Policy for Corporate Governance" found on our website. Important concurrent posts held by Outside Directors are disclosed in the notice of convocation of shareholder meetings, financial statements, and corporate governance reports.

[Supplemental Principle 4-11-3: Analysis and assessment regarding the effectiveness of the Board as a whole]
The Company implemented self-evaluations by each director with regard to the effectiveness of the Board of Directors using questionnaires to all the Directors and Audit & Supervisory Board Members.Major items in the questionnaires included 1) the composition of the Board of Directors, 2) the operation of the Board of Directors, 3) aggressive governance-related questions and 4) defensive governance-related questions. The Outside Directors, Outside Audit & Supervisory Board Members and Audit & Supervisory Board Member sanalyzed and evaluated the self-evaluation results by themselves and reported their views to the Board of Directors. From the evaluation result, the Company confirmed that management is conducted respecting corporate governance, and the system in which Outside Directors are involved in the decision-making process through the operation of the Board of Directors, etc. Furthermore, it is confirmed that active and free discussions are taking place at the meetings of the Board of Directors.
As issues to be addressed, for the operation of the Board of Directors, the amount of documents and information submitted to the Board of Directors shall be reviewed, as well as reduction of reporting agenda by delegation of authority to the Management Implementation Committee be considered. Through these measures, the Company confirmed that it should address further improvement of effectiveness of the Board of Directors to deepen discussion on the management strategies and direction of the management plan, as well as on the evaluation of their results.
Based on these evaluation results, the Company strives for further enhancement of effectiveness of the Board of Directors by spending sufficient time for discussion with mid-term perspective.

[Supplemental Principle 4-14-2: Policy for training directors and auditors]
The policy for training Board members and auditors is described in Chapter 5 Section 3-5 of the article "Basic Policy for Corporate Governance" found on our website.

[Principle 5-1: Policy for constructive dialogues with shareholders]
The policy for constructive dialogues with shareholders is described in Chapter 6 Section 1 of the article "Basic Policy for Corporate Governance" found on our website.

2. Capital Structure

The percentage of holdings by foreigners	20%–30%

Major shareholders

Name	Shares held Number of shares held (shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	20,359,200	16.89

Japan Trustee Services Bank, Ltd. (Trust Account)	8,776,300	7.28
Sumitomo Mitsui Banking Corporation	4,000,000	3.32
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,635,600	3.01
The Iyo Bank, Ltd.	3,000,100	2.49
BNP Paribas Securities (Japan) Ltd.	2,400,000	1.99
Sato Traffic Orphan Welfare Fund	1,916,640	1.59
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	1,899,450	1.57
Goldman Sachs Japan Co., Ltd.	1,706,700	1.41
Nippon Life Insurance Company	1,666,450	1.38

Controlling shareholder (other than the parent company)	―
Parent company	none

Additional information

1. The information above concerns large shareholders as of March 31, 2016.
2. The company holds 2,664,538 of its own shares, 2.21% of which are not shown on the list of large shareholders

3. Corporate Attributes

Market where traded and the section	Tokyo, First Section
End of the fiscal year	March
Industry	Electrical equipment
Number of employees (consolidated) as of the end of the most recent fiscal year	More than 1,000
Consolidated revenues in the most recent fiscal year	More than 100 billion and less than 1 trillion
Number of consolidated subsidiaries as of the end of the most recent fiscal year	More than 10 and less than 50

4. Guidance on the Measures for Protecting Minority Shareholders When Conducting Transactions with Controlling Shareholders

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5. Other Special Matters with a Major Effect on Corporate Governance

None

Ⅱ .Status of Management and Control Organization Pertaining to Management Decision Making, Execution and Oversight, and Other Corporate Governance Systems

1. Matters Pertaining to Organizational Composition and Operation

Organizational form	Company with auditor

Director-related

Number of directors as per Articles of Incorporation	10
Term of office of directors as per Articles of Incorporation	One year
Presiding officer of the Board	Outside Director
Number of directors	7
Outside elected directors	Elected
Number of Outside Directors	2
Among Outside Directors, number of independent directors	2

Relationship with company (1) Update

Name	Description	Relationship with company(※)										
		a	b	c	d	e	f	g	h	i	j	k
Hisaji Agata	From another company											
Masashi Hiraiwa	Lawyer											

※ Choices with regard to relationship with company
※ For current or recent relationships of the person in question, mark 「○」. For past relationships, mark 「△」.
※ For current or recent relationships of relatives, mark 「●」. For past relationships, mark 「▲」.

a Executive at a listed company or subsidiary
b Executive or non-executive director at the parent company of a listed company
c Executive at the sister company of a listed company
d Party or executive thereof with a listed company as the major customer
e Major customer or executive thereof of a listed company
f Consultant, accounting expert, or legal expert receiving significant amounts of monies or assets other than director compensation from a listed company
g Major shareholder of a listed company (if such a shareholder is a legal entity, then the executive of such an entity)
h Executive (person in question only) as a customer of a listed company (not corresponding to d, e, or f)
i Executive of a company that includes a cross-appointment relationship with an Outside Director
j Executive of the recipient of donations from a listed company (person in question only)
k Other

Relationship with company (2) Update

Name	Independent director	Additional information for applicable matters	Reasons for election
Hisaji Agata	○	Hibiki Partners KK: Special Advisor Raqualia Pharma Inc., Audit Member (Outside Director)	[Reasons for election] He specializes in corporate investment development with the objective of establishing management systems with high levels of transparency and soundness. He possesses broad experience and insights as a manager. Moreover, he actively participates in Board meetings as the company's independent Outside Director. In addition, he serves as the Chairman of the Compensation Committee, performing objective oversight of the management. Thus, he was elected as an Outside Director. [Independence] He has no particular interests concerning the company, including personal, equity, or transactional interests. In addition, he satisfies the company's "Independence Criteria for Outside Directors" and all requirements for independent directors, as prescribed by the Tokyo Stock Exchange. We judge him to be fully independent.
Masashi Hiraiwa	○	OHHARA LAW OFFICE Director, THE NAGANUMA SCHOOL	[Reasons for election] He engaged in the management of school corporations and investment corporations as an officer or in a similar position, and possesses remarkable expertise in laws and a broad perspective as an attorney specializing in corporate legal affairs. For these reasons, it was judged that he would be able to fulfill a monitoring function over the Company's overall management such as governance and legal compliance including internal control, such as offering constructive opinions and organizing points of discussion or debate from an objective perspective at meetings of the Company's Board of Directors. Thus, he was elected as an Outside Director. [Independence] He has no particular interests concerning the company, including personal, equity, or transactional interests. He satisfies the company's "Independence Criteria for Outside Directors" and all requirements for independent directors as prescribed by the Tokyo Stock Exchange. We judge him to be fully independent.

Existence of non-statutory committees corresponding to the Nominating Committee and the Compensation Committee	YES

Establishment of non-statutory committees, composition of committees, committee chair (presiding officer) attributes

	Committee name	Number of committee members	Full-time members	Internal directors	Outside Directors	Outside experts	Other	Chairman (Presiding Officer)
Non-statutory committee corresponding to the Nominating Committee	Nominating committee	4	0	1	2	0	1	Outside Director
Non-statutory committee corresponding to the Compensation Committee	Compensation committee	4	0	1	2	0	1	Outside Director

Additional information
The company has established the Nominating Committee and Compensation Committee for ensuring a high degree of transparency and fairness in management.
The committees comprise an independent Outside Director (as chairman), the representative director, Outside Directors, and one auditor to ensure objectivity in their deliberations.
・The Nominating Committee takes up nominations of candidates as Board members and executives, proposals for election and dismissals with regard to roles, and disciplinary matters.
・The Compensation Committee takes up the matters concerning director compensation system and individual compensation.
Agenda items taken up by the committees are placed on the agenda of the Board for decisions.

Auditor-related

Is there an Audit Committee?	Yes
Number of auditors as per Articles of Incorporation	5
Number of auditors	4

Collaboration among auditors, Outside Auditors, and the internal audit department
The Audit Committee meets regularly (at least four times a year) to consider the audit implementation report from the Outside Auditors. In addition, it ensures and maintains the adequacy of financial statements. Furthermore, the auditors work closely with the Outside Auditors, accompany them on their site audits of major locations and subsidiaries, and work to implement efficient auditing practices.
Outside Auditors
The primary certified accountants executing the auditing tasks include
Michitaka Shishido, CPA
Hideaki Takao, CPA
Yoshiko Imai, CPA

Are Outside Auditors elected?	Yes
Number of Outside Auditors	2
Among the Outside Auditors, number designated as independent directors	2

Relationship with the company (1) Update

Name	Description	Relationship with company(※)												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Hajime Yoshitake	From another company													
Kazuhiro Yamakawa	Lawyer													

※ Choices with regard to relationship with company
※ For current or recent relationships of the person in question, mark 「○」. For past relationships, mark 「△」.
※ For current or recent relationships of relatives, mark 「●」. For past relationships, mark 「▲」.
a Executive at a listed company or subsidiary
b Non-executive director or involved in accounting at a listed company or subsidiary
c Executive or non-executive director of the parent company of a listed company
d Auditor of the parent company of a listed company
e Executive of the sibling company of a listed company
f Party or executive thereof with a listed company as the major customer
g Major customer of a listed company or executive thereof
h Consultant, accounting expert, or legal expert receiving large amounts of monies or assets other than director compensation from a listed company
i Major shareholder of a listed company (if such a shareholder is a legal entity, then the executive of such an entity)
k Executive of the related concurrent post of Outside Director (person in question only)
l Executive of the recipient of contributions from a listed company (person in question only)
m Other

Relationship with the company (2) Update

Name	Independent director	Additional information for applicable matters	Reasons for election
Hajime Yoshitake	○	Adjunct Lecturer of Meiji University Professional Graduate School General Manager of The Institute of Internal Auditors – Japan	[Reasons for election] He has many years' experience of auditing operation at financial institutions and internal control consulting operation at business corporations and possesses exceptional insight, abundant experience and a good track record regarding auditing operation. It is expected that he can help establish a highly transparent and fair management oversight system, supervise the appropriateness of deliberation and decision making on important matters in light of the "business judgment rules," and offer insight from his objective "auditor's perspective" based on his knowledge and experience. Thus, he was elected as an Outside Auditor. [Independence]

			He has no particular interests involving the company, including personal, equity, or transactional interests. He satisfies the company's "Independence Criteria for Outside Directors" and all requirements for independent directors as prescribed by the Tokyo Stock Exchange. We have asked him to perform auditing tasks (as an independent director) to ensure objectivity and neutrality while verifying the overall effectiveness of the Board.
Kazuhiro Yamakawa	○	Professor Emeritus, Nihon University Lawyer at Azabu International Law Offices	[Reasons for election] He has a distinguished track record as a prosecutor, lawyer, and university professor. He possesses considerable knowledge of legal matters in general and corporate law in particular. In addition, he has sufficient knowledge to monitor corporate management. Since his election as an Outside Auditor, he has verified the existence of blind spots unique to the company, particularly in the areas of internal control and risk management. Furthermore, he ensures that there are no lacunae in the management's and Board's execution of their duties. He is not involved in company management in any way other than as an Outside Director. Therefore, we judge him capable of appropriately performing the duties of an Outside Auditor. [Independence] He has no particular interests involving the company, including personal, equity, or transactional interests. He satisfies the company's "Independence Criteria for Outside Directors" and all requirements for independent directors as prescribed by the Tokyo Stock Exchange. We have asked him to perform auditing tasks (as an independent director) to maintain objectivity and neutrality while verifying the overall effectiveness of the Board.

Independent director-related

Number of independent directors	4

Other matters pertaining to independent directors

Although the company's four independent directors meet the requirements imposed by the Corporation Act and the company's "Independence Criteria for Outside Directors," they do not qualify for any of the requirements outlined in Section 211, Subsection 4-5 of the Securities Listing Regulations Enforcement Guidelines. Therefore, the four directors are considered to be independent directors.

Incentive-related

Implementation of policies related to the provision of incentives to board members	Instituted performance-based compensation system and stock option system

Additional information related to applicable matters
Described in the "Board member compensation" section

Eligibility for stock options	Internal Board members, other

Additional information related to applicable matters
The details of the stock options are as follows. **Update**

Name: Taiyo Yuden Co., Ltd. Stock Options Issued July 2016
Total number of options: 64
Those eligible for stock options, their number and the number of options granted include Company Board members (excluding outside Board members): 5 people, 30 options
Company executives (excluding those also serving on the Board): 13 people, 34 options
Type and number of shares underlying options: 64,000 shares of common stock in the company

Compensation of Board members

Disclosure of individual Board member compensation	No disclosure

Additional information related to applicable matters
Compensation of directors for the period ending March 2016 (75th term) is as follows:
- Board members: 321,000,000 yen (paid to 8 persons)
- Auditors: 63,000,000 (paid to 5 persons)

Policy for determining compensation and/or its method of calculation	Yes

Disclosures of policy for determining compensation and/or its method of calculation

Policy for determining director compensation and its details
1. Policy for determination
(1) Compensation shall be transparent and fair based on quantitative rules.
(2) The appropriateness of compensation levels shall be assessed following the full investigation of other companies in the industry as well as the economic and social situation.
(3) The compensation system shall emphasize performance-linked incentives, aiming at improving performance.

2. Policy details
The company has established a Compensation Committee as an advisory organ to the Board to ensure transparency and fairness in the process of setting director compensation. The Compensation Committee, chaired by an independent Outside Director, deliberates and reports on policies, systems, formulas, and individual compensation for director compensation. Regarding specific determinations of compensation, an amount is calculated in accordance with the regulations laid down by the company, within a compensation framework approved at the general meeting of stockholders. Following deliberations by the Compensation Committee, Board member compensation is determined by the Board, while auditor compensation is determined by the Audit Committee.

The director compensation system is as follows:

(1) Since Board members also serving in executive positions are required to achieve performance targets, their compensation comprises fixed “monthly compensation” and “Board member bonuses,” which are linked to performance, and “equity-based compensation” in the form of stock options.
Monthly compensation is paid as a fixed compensation based on individual duties.
Board member bonuses are performance-related compensation distributed in an amount based on consolidated performance metrics in each fiscal term depending on the position and degree of contribution to performance.
Equity-based compensation is granted as an incentive for increasing corporate value in the medium- and long-term in an amount of shares determined by the position.

(2) In consideration of their independence, Outside Directors are only paid on a monthly basis and such compensation is not performance-based.

(3) In consideration of the fact that auditors conduct compliance audits, they are only paid on a monthly basis.

Support system for outside Board members (Outside Auditors)
Outside Board members and Outside Auditors may request various departments to provide information to actively gather the information required to perform their duties.
In addition, the company has established a system that makes available important company information to outside Board members and Outside Auditors, as necessary. The company has also appointed a person responsible for promptly providing required company information to outside Board members and Outside Auditors upon request.

2. Matters concerning business operations, auditing and oversight, designations, and determination of compensation (summary of current corporate governance system)

Update

1. Roles and responsibilities of the Board of Directors
(1) The Board of Directors shall aim for corporate management to be an excellent company that enjoys the trust and highest regard from stakeholders, including shareholders, customers, employees and local communities, to accomplish the fiduciary responsibility entrusted by shareholders and increase the Company’s interests and the common interests among shareholders.
(2) The Board of Directors shall deliberate and determine important matters for the entire Group with ample time, including management policies, management strategies, business plans, capital policy and the matters on internal control, for the purpose of continuously increasing corporate value from a long-term perspective.
(3) The Board of Directors shall strengthen the management system for risk factors surrounding corporate management of the Company and always monitor the execution of business operations.

2. Delegation of authority by the Board of Directors to top management
(1) To ensure the effective decision making by the Board of Directors, the Management Implementation Committee shall deliberate in advance policy matters regarding business operations for Group management, whereas the TM (Top Management) Meeting shall deliberate in advance matters concerning personnel, organization and remuneration systems for the entire Group. Both organs shall determine matters delegated by the Board of Directors.
(2) Operating Officers are in place in order to further clarify roles and responsibilities of Directors who monitor and supervise the management of business and persons who execute business operations. The Operating Officers shall conduct business flexibly and quickly as an executor responsible for the section he or she is in charge, under the direction of the Chief Executive Officer, in accordance with management policies and strategies determined at meetings of the Board of Directors.

3. Effectiveness of the Board of Directors
(1) To ensure the fairness of meetings and strengthen the authority of management oversight, the Board of Directors shall be chaired by the Chairman of the Board of Directors (Outside Directors, if the Chairman of Board of Directors is absent or unable to act as the chairman).
(2) At the Board of Directors meeting, the Directors and the Audit & Supervisory Board Members shall evaluate

by themselves the effectiveness of the Board of Directors every year. The Board of Directors shall disclose issues to be addressed and others based on analysis results and address how to resolve such issues.

4. Directors

(1) The Company has seven (7) Directors, at present. Two (2) of them are appointed as independent Outside Directors.
(2) To clarify management responsibilities during a given fiscal year and increase shareholders' confidence, Directors' term of office is one (1) year.
(3) The reason for the selection of directors is disclosed by taking into account knowledge, experience, history of achievement and other factors.
(4) Except for Outside Directors, the Directors concurrently serve as Operating Officers who are in charge of both oversight and the execution of operations. Directors shall report with emphasis on the business performance and oversight operations of the divisions/departments they are in charge of to the Board of Directors.

5. Audit & Supervisory Board and Audit & Supervisory Board Members

(1) The Company has adopted an Audit & Supervisory Board Members system. The Audit & Supervisory Board meeting is held monthly, in principle.
(2) The Company has four (4) Audit & Supervisory Board Members including Outside Audit & Supervisory Board Members. Two (2) of them are appointed as independent Outside Audit & Supervisory Board Members.
(3) To raise the effectiveness of audits, each Audit & Supervisory Board Member attends Board of Directors meetings and attends meetings related to the execution of business operations and other important meetings by sharing the tasks with each other. Moreover, Audit & Supervisory Board Members strive to strengthen the auditing system through frequent communications with the Accounting Auditors and the internal audit department by meeting regularly, witnessing accounting audits as observers and conducting joint audits with the internal audit department.
(4) The Audit & Supervisory Board has its own dedicated staff to smoothly conduct auditing operations such as information communications and data management.

6. Voluntary advisory panels

(1) For the purpose of conducting "highly transparent and fair management," the Company has established a Nominations Committee and a Remuneration Committee.
(2) Both Committees are composed of the President and Chief Executive Officer, Outside Directors and one (1) Audit & Supervisory Board Member. They are chaired by independent Outside Directors to ensure objectivity of each deliberated matter.
(3) The Nominations Committee deliberates matters such as the designation of candidates for Corporate Officers to be elected/dismissed, the draft on nominating or dismissing officer positions and disciplinary actions. The Remuneration Committee deliberates systems of remuneration to Corporate Officers, as well as details of remuneration to each Corporate Officer. The matters deliberated at the respective committees are discussed at the Board of Directors for determination.

7. General policy regarding the roles and election of Outside Corporate Officers

(1) In electing Outside Directors, to ensure transparency in the authority of management oversight, the Company has established rigorous "Standards for the Independence of Outside Directors/Outside Audit & Supervisory Board Members" as requirements for their appointment referencing, and making it more rigorous than, other standards for independence established by financial instrument exchanges and organizations advising the exercise of voting rights, including the "Securities Listing Regulations" set forth by the Tokyo Stock Exchange.
(2) The two (2) Outside Directors meet the Company's independency requirements. They make efforts to strengthen the supervisory capability of the Company and strive to strengthen objective management. Specifically, they fulfill a role that is important to the decision-making process and provide opinions from the perspective of either technical experts or shareholders independent of executive management, based on a broad view that leverages knowledge of corporate legal affairs and the experience of corporate managers.
(3) The two (2) Outside Audit & Supervisory Board Members meet the Company's independency requirements. They cooperate with each other to monitor the status of internal control of operations on a daily basis.

Specifically, they are responsible for investigating and verifying whether the Directors' duties are legally conducted in compliance with the relevant laws. In addition to possessing technical and practical knowledge of their own in the fields of law and accounting, they objectively monitor the execution of duties by Directors.

3. Outline of the corporate governance structure and the reasons for adopting such a structure Update

The Company is a company with an Audit & Supervisory Board and established organizations: Board of Directors, Audit & Supervisory Board and the Accounting Auditors. In addition, the Company has adopted a corporate governance structure under which all the Outside Directors and Outside Audit & Supervisory Board Members are designated as Independent Officers for whom there is no possibility of conflicts of interest with general shareholders. Consequently, the Outside Directors and Outside Audit & Supervisory Board Members work closely with the Audit & Supervisory Board Members and the internal audit department, thereby enabling the effective utilization of the Audit & Supervisory Board Members' functions and enhancing the authority of management oversight.

Ⅲ. Implementation of Policies Concerning Shareholders and Other Interested Parties

1. Initiatives to Facilitate More Vigorous Shareholder Meetings and the Exercise of Voting Rights

	Additional information
Sending notices regarding the convocation of shareholders' meetings earlier	We will send the notices regarding the convocation of regular shareholders' meetings three weeks prior to the day of the meeting to ensure that our esteemed shareholders have adequate time to review the agenda for the shareholders' meeting and properly exercise their voting rights. In addition, in the interest of more prompt disclosure, on the day prior to sending the notices, we will place them on our website, the Tokyo Stock Exchange, and the voting rights exercise platform.
Exercise of voting rights using the electromagnetic method	In the interest of the shareholders and institutional investors who cannot directly attend the shareholder's meeting, we will employ electromagnetic methods (including electronic voting platforms) to exercise voting rights.
Initiatives for electronic voting platforms and improving the exercise of voting rights by institutional investors	In the interest of ensuring an adequate period of review for voting purposes and early disclosure, we will utilize an electronic voting system for institutional investors run by ICJ., Co. Ltd.
Providing notice of the convocation (summary) in English	In addition to placing an English version of the notice of convocation on our website (the same day as the Japanese version is posted), on the day before the notice of convocation is sent, (the same day as the Japanese version), we will also provide the notice to the voting rights exercise platform and Tokyo Stock Exchange to speed up disclosure to foreign investors.
Other	To provide easy-to-understand information to investors, we will make the notice of convocation more visual, with color images of the candidates, graphs, and other related material. In addition, we will post the presentation materials from the shareholders' meeting as well as the voting results (provision reports) on our website.

2. Status of IR Activities

	Additional information	Briefing by the representative himself/herself
Preparation and publication of the disclosure policy	We have formulated a disclosure policy, which is available on at our website.	
Holding periodic briefings for analysts and institutional investors	The President attends the financial briefing at the end of the fiscal term. We will hold such briefings for analysts and institutional investors during the release of quarterly reports in the form of teleconferences.	Yes
Posting IR materials on our website	We have created a shareholder and investor information site on our website, where we post IR materials, such as earnings bulletins and supplemental materials to financial statements, consolidated financial statements, ad hoc reports, English financial statements, annual reports, and notices of the convocation of shareholders' meetings. In addition, we aim to create a page for individual investors to make the website easier to understand.	
Establishment of an IR department (person in charge)	Department responsible for Public Relations Department	

3. Initiatives Related to Respecting Stakeholder Perspectives

	Additional information
Rules for respecting the standpoint of stakeholders, including internal rules	The company aims to achieve three aspects: the happiness of employees, contributions to local society, and dividends to stockholders. The Board and executives believe that the CSR and the mission of management are to serve societal and public interests as well as continuously develop its business.
Environmental and CSR activities	We are promoting various environmental and CSR activities in line with our corporate philosophy. We have prepared a "Safety and Environment Report" that summarizes our annual activities in security and the environment. This report can be found on our website.
Formulation of policies for providing information to stakeholders	We have created an information disclosure policy, which can be found on our website.

Ⅳ. Matters Pertaining to Internal Control

1. Basic Policy of Internal Control Systems and Implementation Status

1. Establish systems for ensuring that Board members and executives as well as those working for them remain compliant with the law and Articles of Incorporation. In addition, establish systems for ensuring the propriety of work by the corporate group ("Company Group"), which comprises the company and its subsidiaries.
(1) The Board executes its deliberations on key matters in accordance with the law, Articles of Incorporation, "Board of Directors Regulations," and other internal regulations.
(2) The Board strengthens the system for managing risk factors surrounding management and oversees the execution of the duties of Board members.

(3) The auditors audit the propriety of Board resolutions and the performance of the duties of Board members and executives.
(4) Following our compliance management system, we continuously perform compliance activities. We have established an Internal Control Committee to promote group compliance activities and have designated persons responsible for each item, as outlined in the Group CSR Behavior Guidelines.
(5) Our internal messaging system enables us to promptly uncover compliance problems, investigate them, initiate mitigation measures, and prevent reoccurrence.
(6) We promptly and appropriately disclose corporate information concerning the Group to shareholders and investors.
(7) We deal with antisocial forces and gangs in organizational fashion with a resolute attitude.
(8) To ensure the reliability of financial reports, we have launched and currently operate an internal control system based on the Financial Instruments and Exchange Law and other related laws.
(9) With regard to the detailed operations of subsidiaries, the related department in the company acts as a contact point to understand the situation, while information about high-priority matters is exchanged, after which a consensus is formed based on the company's "Group Management Rules." This process ensures propriety while honoring management decision-making processes in the subsidiary.

2. System for Archiving and Managing Information Concerning the Execution of Duties by Company Board Members and Executives
(1) The company maintains records of legal documents, such as the minutes of shareholders' meetings, Board meetings, and other important meetings concerning the execution of duties by Board members and executives. In addition, such records are maintained and archived through electromagnetic media based on law and each meeting's regulations.
(2) The company maintains an environment in which Board members and auditors may peruse pertinent information at any time in accordance with the rules.

3. Regulations Concerning Risk Management and Other Systems
(1) The company has established an Internal Control Committee as a system for promoting risk management activities, designating persons responsible for each category/risk, and performing risk management activities in accordance with a group risk management system that involves identifying risks, assessing risk levels, deciding on and implementing risk countermeasures, and monitoring and reviewing the countermeasures.
(2) In accordance with the company's "Group Business Continuity Countermeasures Regulations," we have prepared for certain incidences, such as natural disasters, which could interrupt our business activities. In the case that a problem emerges and threatens business continuity, we can immediately devise countermeasures and restart business activities as soon as possible based on the Business Continuity Plan (BCP).

4. Systems for Ensuring That Board Members Perform Their Duties Effectively
(1) In the interest of appropriate and effective decision making by the Board, we have established a deliberative body for critical matters involving operations and personnel-related matters.
(2) We have instituted an executive director system to increase the effectiveness of executive Board members in performing their duties.
(3) We have established an Internal Control Committee as a body to deliberate internal control systems and assess activities, including the designation of a person in charge of each matter. This committee receives periodic reports on various accomplishments from the person in charge, after which it reports such findings to the Board.
(4) We aim to streamline and speed up the decision-making process through the use of various systems, such as IT-based workflows, television conferences, information sharing, and information management.

5. Systems to Ensure the Propriety of Duties in the Company Group
(1) System for reporting company matters involving the performance of duties by Board members (or the equivalent) at subsidiaries
1) Subsidiaries are required to report the status of their duties based on the company's "Group Management Rules" to share information with the related department at the company.

2) Company executives (or those that work for them) may be appointed as Board members at subsidiaries, enabling us to better understand their management situations.

(2) Regulations regarding risk management at company subsidiaries and other systems

1) In accordance with the company's group risk management systems, subsidiaries constantly identify risks, assess risk levels, decide and implement risk mitigations, and monitor and review the status of mitigations.

2) In accordance with the company's "Group Business Continuity Mitigation Regulations," subsidiaries must be prepared for certain incidences, such as natural disasters, which could interrupt their business activities. In the case that a problem emerges and threatens business continuity, they should immediately devise countermeasures and restart business activities as soon as possible based on the BCP.

(3) System to ensure that Board members at company subsidiaries are performing their duties efficaciously.

1) The company has prepared "Group Management Rules" to ensure efficacious decision making at subsidiaries, after which the subsidiaries execute these rules.

2) The company's audit section monitors (from an independent perspective) whether subsidiaries are conducting their business activities accurately and efficiently. In addition, it provides feedback (as appropriate to the subsidiaries) and reports to the company's representative director while also sharing the information with the company's auditors.

(4) System for ensuring that Board members of the company's subsidiaries (and those working for them) are performing their duties in compliance with the law and Articles of Incorporation.

1) With regard to important matters, a system is established and maintained to ensure the propriety of subsidiary operations in accordance with the company's "Group Management Rules."

2) As a system for promoting compliance activities, persons are designated to be in charge of each item prescribed in the company's "Group CSR Behavior Guidelines" while ensuring that compliance management system activities are continuously implemented.

6. System for Ensuring That Audits by Company's Auditors Are Performed Effectively

(1) Matters related to subordinates helping company auditors in their duties (independent from Board members, thus ensuring effectiveness of auditors).

1) To help the auditors in their auditing duties, a dedicated team of staff members is placed under the Audit Board in the form of Audit Board Secretaries.

2) Selections, transfers, evaluations, promotions, and disciplinary actions of the Audit Board Secretaries must be discussed in advance and agreed on by the Audit Board.

(2) Matters related to handling expenses arising from company auditors performing their duties

The company bears the expenses incurred by auditors, provided that such expenses are required for their tasks.

(3) Other systems to ensure the efficacy of audits by company auditors

1) Auditors shall attend important meetings regarding the company's business activities and audit the decision-making processes of the Board as well as the duties performed by the Board members and executives.

2) Auditors must communicate with Board members and executives as well as those that work with them to acquire the necessary information. When necessary, auditors can request business reports and peruse related records.

3) Auditors periodically exchange opinions and closely work with the audit section.

4) Auditors exchange opinions with the Outside Auditors from time to time and report to the Outside Auditor, as necessary.

7. System for Reporting to Company Auditors

(1) System for company Board members and executives (and their subordinates) to report to company auditors

1) The company Board members and executives (and their subordinates) must promptly report to the auditors when they become aware of infractions of the law, Articles of Incorporation, or internal regulations, especially findings that pose a significant risk to the company.

2) In accordance with the company's internal reporting rules, a system has been established for company Board members and executives (and their subordinates) to communicate directly to auditors.

(2) System for Board members of subsidiaries (and their subordinates) to report to company auditors.

1) In accordance with a subsidiary's internal reporting rules, systems have been established for company Board members and executives (and their subordinates) to communicate directly to auditors regarding infractions of the law or internal regulations.

2) Company auditors divide the work of communicating with Board members of subsidiaries and their subordinates and work to gather information and build an auditing environment.

(3) System for ensuring that persons reporting to auditors will not be treated unfavorably by reason of such reports.

The Corporate Group has established and maintains a system to prevent disadvantageous measures being taken against someone using the internal reporting system, as prescribed in the internal rules regarding the mechanisms for protecting internal reporters.

2. Basic Policy for eliminating antisocial forces and current status

◇Basic Policy for eliminating antisocial forces

We are determined to take a resolute attitude against antisocial forces and gangs that threaten the order and safety of civil society. This includes the internal control basic policy taken from a resolution of the Board.

◇Current status of eliminating antisocial forces

The company's CSR Action Guidelines proposes the following with regard to severing relationships with antisocial forces.

1. Severance of relationships with antisocial forces

We strongly disavow any relationships with antisocial forces or groups, such as violent groups, terrorist groups, or religious cults, which threaten the discipline and safety of civil society.

(1) Take a resolute attitude and honor three principles in dealing with antisocial forces: do not offer them money, do not use them, and do not be afraid of them.

(2) Be extremely cautious of contacts from outsiders of unknown provenances and report and discuss such incidences with the relevant department.

(3) Deal with unrecognized mail by refusing receipt to avoid unreasonable demands.

2. Establishment of a central support department and an officer responsible for preventing undue demands

The General Affairs Department at the headquarters and each factory, under the direction of the responsible general affairs executive, must deal with undue demands.

3. Coordination with external specialist organizations and the collection and management of information

We are members of the National Police Agency Special Violence Prevention Coalition, Ueno District Special Violence Prevention Countermeasures Council, Gunma Prefecture Corporate Defense Countermeasures Council, and Takasaki District Workplace Police Liaison Council. We actively participate in the periodic workshops held by the aforementioned specialist organizations and gather and exchange necessary information. In addition, the general affairs unit manages more recent information concerning antisocial forces.

4. Status of the response manual

We have created a manual, which includes ways of responding in interviews and on the telephone, response checklists, and examples of discussions. We have distributed this manual to the General Affairs Department at the headquarters and each factory, in addition to briefings, to ensure its complete implementation.

5. The CSR Behavior Guidelines Handbook explains in easy-to-understand terms how employees can sever relationships with antisocial forces.

V. Other

1. Introduction of Takeover Defenses

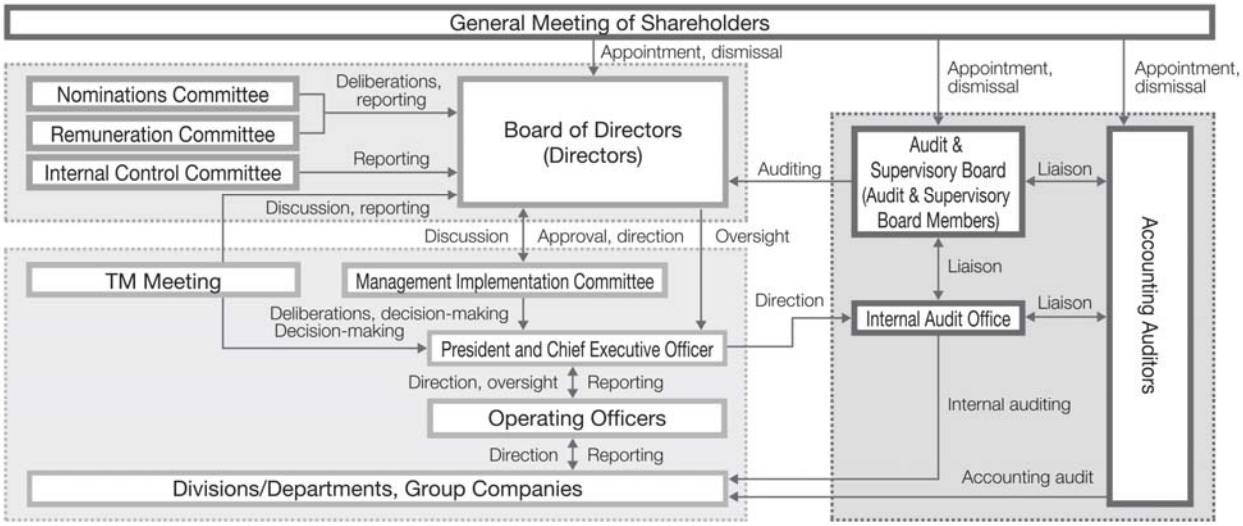
Introduction of takeover defenses	None

Additional explanation concerning applicable items

At the meeting of the Board, held on February 22, 2010, the "Measures for Large-Scale Purchases of Company Shares" (Anti-takeover Plan, below the "Plan") adopted at the end of the 69th Ordinary General Meeting of Shareholders on June 29, 2009, was abolished.

Even after the abolition of the Plan, in the case of a large-scale purchase of company shares (to preserve and enhance joint shareholder interests), we will strive to disclose information as appropriate (and at the appropriate time) and develop a suitable response.

2. Other Matters Concerning the Corporate Governance System



Note: The TM Meeting is an advisory panel for deliberations and decisions on matters concerning personnel, organizations, etc.