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# Corporate Governance Report

Last Update: June 21, 2017
JAFCO Co, Ltd.
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The corporate governance of JAFCO Co., Ltd. (the "Company") is described below.

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

### 1. Basic Views

With an eye to increasing corporate value over the medium to long term, the Company has established the following basic policies on corporate governance and will make continuous efforts for its enhancement:

- Build respectful relationships with stakeholders;
- Maintain transparency and fairness in decision making;
- Establish an appropriate supervising structure;
- Establish a corporate structure that ensures effective and swift business execution.

**[Reasons for Not Implementing Each Principle of the Corporate Governance Code]**

The Company implements all of the principles of the Corporate Governance Code.

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

Based on the above basic views, the Company has established the Corporate Governance Policy (the "Policy") which outlines the Company's concrete corporate governance measures. The Policy is posted on the Company's website:

http://www.jafco.co.jp/corporate/governance/ (Japanese)
http://www.jafco.co.jp/english/corporate/governance/ (English)

Descriptions of the items disclosed based on the principles of the Corporate Governance Code are as follows:

Principle 1.4 Cross-Shareholdings Chapter II 1(4) of the Policy

- The Company may hold shares of other listed companies as cross-shareholdings in the following cases:
  (i) When it determines that the holding would be beneficial in maintaining and strengthening a cooperative business relationship with the counterparty;
  (ii) When it determines that the value of the shares would be financially beneficial for the Company.
- The Board of Directors regularly examines the rationale behind the cross-shareholdings. When it determines that the continuous shareholding lacks rationale after reviewing the risks and returns from a medium- to long-term perspective as well as the objectives given above, the Company will make efforts to sell such stock to the extent possible.
- When executing voting rights, the Company decides whether to vote for or against the proposal by taking into account the counterparty's situation and after discussing whether or not the proposal would contribute to higher corporate value of the counterparty over the medium to long term.

Principle 1.7 Related Party Transactions Chapter II 1(6) of the Policy

- The Company shall engage in transactions with its directors or corporate officers only with the prior

approval of the Board of Directors (and the Board-Audit Committee if applicable) and in accordance with laws and regulations.
- The Company shall engage in transactions with affiliated firms or major shareholders (including their subsidiaries) on fair terms and conditions with due consideration to market quotations, etc. The Board of Directors, representative directors or other applicable corporate bodies will evaluate and approve such transactions based on the detail and amount.

Principle 3.1(i) Company objectives (e.g., business principles), business strategies and business plans
Chapter I 1 of the Policy
(1) JAFCO's Mission

"Commit to new business creation and jointly shape the future."

Since the establishment, the Company has created various innovative products/ services with entrepreneurs. The Company's mission is to open a new era with its stakeholders by committing to creating new businesses needed in the society.

(2) Policy and Strategy for Achieving JAFCO's Mission
The Company aims to achieve its mission by making venture/ buyout investment through funds. In realizing its mission, the following strategies will be implemented.

i. Highly selective, intensive investment and management involvement
To create new businesses, the Company will narrow down investment targets and make bold investments in companies with high growth potential. It acquires influential stakes in its portfolio companies and is deeply involved in the management to accelerate their growth.
ii. Sustain improvement in fund performance
To secure sufficient investment capital, it is vital to achieve sustainable improvement in fund performance and raise funds from outside investors. The Company also invests its own capital in funds and shares gains with fund investors. It will build high-quality portfolios through highly selective, intensive investment and management involvement to achieve sustainable improvement in fund performance.
iii. JAFCO as "Co-Founder"
During the startup phase of a business, the Company is required to be a "Co-Founder" rather than an investor. It aims to become an organization where each employee and the Company as a whole can play an active role as a "Co-Founder" by passing on and developing its spirit, expertise and experience that it has built up since establishment.

* About business plans
Due to the nature of the venture/ buyout investment business, the Company is greatly impacted by volatility in stock markets and the IPO environment in Japan and overseas. Moreover, as the Company invests its own capital alongside its partners in funds, its earnings may fluctuate sharply over the short term. With the aim of enhancing its corporate value over the medium to long term, the Company strives to achieve long-term targets set for its fund performance.

Principle 3.1(ii) Basic views and guidelines on corporate governance Chapter I 2 of the Policy
The Company's basic views on corporate governance are as shown in the section "1. Basic Views". The Company has established the Corporate Governance Policy, which is posted on the Company's website:
http://www.jafco.co.jp/english/corporate/governance/

Principle 3.1(iii) Board policies and procedures in determining the remuneration of the senior management and directors Chapter IV 2(3) of the Policy
- The Board of Directors decides the remuneration of directors (excluding directors serving as Board-Audit Committee members) and corporate officers based on the exchange of views between the Board-Audit Committee and representative directors. The decision on remuneration adequately reflects evaluation of the Company's performance and the degree of individual contribution.
- The remuneration of directors (excluding directors serving as Board-Audit Committee members) and corporate officers comprises a basic salary and an extraordinary compensation. The extraordinary compensation and part of the basic salary correspond to the Company's performance.
- The Company considers, as necessary, stock-related compensations in relation to medium- to long-term interests of shareholders.

Principle 3.1(iv) Board policies and procedures in the appointment of the senior management and the nomination of director candidates Chapter IV 2(4) of the Policy

- Directors and corporate officers are appointed by the Board of Directors based on the exchange of views between the Board-Audit Committee and representative directors, and by reflecting the evaluation of the Company's performance and the degree of contribution.
- The Company shall select independent director candidates who have abundant experience and deep insight into corporate management or specialist fields, and can be expected to fulfill the roles and responsibilities of an independent director. The selection is in accordance with the Company's "Standards for Independence of Independent Directors."

Principle 3.1(v) Explanations with respect to the individual appointments and nominations based on (iv) above

Reasons for the appointment of four (4) directors and four (4) directors serving as Board-Audit Committee members elected at the 45th Annual General Meeting of Shareholders on June 20, 2017 are explained in the notice of convocation of the 45th Annual General Meeting of Shareholders.
The notices of convocation of the annual general meetings of shareholders are posted on the Company's website:

http://www.jafco.co.jp/english/ir/shareholder/meeting/

Principle 4.1.1 Matters Delegated to the Management Chapter IV 2(1) of the Policy

- With due attention to its responsibilities to shareholders, the Board of Directors makes important management decisions and supervises the execution of business with the aim of achieving sustainable growth and enhancing corporate value.
- The Board of Directors holds a regular monthly meeting, in principle, and an extraordinary meeting as necessary.
- Matters to be discussed in the Board of Directors meetings are set out in the Regulations on the Board of Directors. The Company's basic policy is that the Board of Directors, including independent directors, makes decisions on important operational issues based on thorough discussions. Therefore, the Company has no provision in the Articles of Incorporation that delegates decisions on important operational matters to a director.
- The Investment Committee chaired by the President has an authority to make investment decisions to allow quick decision-making. In the situation where a conflict of interest with funds that the Company manages may arise, such as in the case of investing its own capital, not only the Investment Committee but also the Board of Directors examine the case and make decisions.
- The decision-making authority on certain matters is delegated to the representative directors or directors/ officers in charge, depending on the content and degree of importance, based on the Rules on Document Approval.

Principle 4.8 Effective Use of Independent Directors Chapter IV 5(2) of the Policy

Independent directors comprise one third or more of the Board of Directors to further enhance effective corporate governance. The Company will make continuous efforts to identify suitable candidates for independent directors.

Principle 4.9 Independence Standards and Qualification for Independent Directors Chapter IV 5(3) of the Policy

The Board of Directors has established the "Standards for Independence of Independent Directors" in reference to the independence criteria set out by the Tokyo Stock Exchange. The Standards has been disclosed in the section "Matters relating to Independent Directors" below, the notice of convocation of the Annual General Meeting of Shareholders, and Independent Directors/Auditors Notification.

Principle 4.11.1 Views on Board Composition Chapter IV 8 of the Policy

- The Board of Directors elects director candidates based on business skills, insight, experience, and expertise to act as a director, as well as from the aspect of diversity to allow it to fully exercise its operational and supervisory functions.
- The Board of Directors maintains the composition and size that enable it to fully demonstrate its effectiveness in term of the Company's scale and business.

Principle 4.11.2 Concurrent Positions of Directors  Chapter IV 8 of the Policy
The Company discloses major concurrent positions of directors in the notice of convocation of Annual General Meeting of Shareholders every year.

Principle 4.11.3 Analysis, Evaluation and Disclosure of Board Effectiveness  Chapter IV 9 of the Policy
The Board of Directors analyzes and evaluates its effectiveness every year and discloses the summary of the result on the Company's website:
http://www.jafco.co.jp/english/corporate/governance/

Principle 4.14.2 Training Policy for Directors  Chapter IV 12 of the Policy
- The Company provides and arranges training for directors necessary to fulfill their responsibilities.
- A newly-appointed director will be given training on director responsibilities and corporate governance requirements, and will be provided continuous training on legal revisions, etc..
- An independent director will receive an explanation about the Company's business when assuming office, and will be provided information on management issues etc., as necessary.

Principle 5.1 Policy for Constructive Dialogue with Shareholders  Chapter II 1(7) of the Policy
The Company has set the policy for constructive dialogue with shareholders as shown below:
- The Company holds constructive dialogue with shareholders and other investors through investor relations to enhance its corporate value over the medium to long term.
- The director/ corporate officer in charge of administration manages investor relations, and the IR team of the administration division carries out investor relation activities based on close cooperation with relevant internal departments.
- The Company holds an information meeting for institutional investors every six months in Tokyo, in which the President gives an explanation of the financial results. The summary and presentation materials of the meeting are disclosed on the Company's website.
- In principle, the director/ corporate officer in charge of administration shall, to the extent reasonable, attend individual meetings for institutional investors.
- The Company arranges opportunities for the President or a director/ officer to have dialogue with foreign investors during their regular overseas visits for IR purposes.
- The Company will hold meetings with its domestic and foreign institutional shareholders on an ongoing basis to help them deepen their understanding of its management policy and business strategy, and also to better grasp their views on exercising voting rights.
- The Company makes efforts to enhance the disclosure of information about the Company's management policy, investment activity and financial conditions, as well as investor relations materials, through its website. The Company will work to enhance the details in the convocation notice of the General Meeting of Shareholders to provide accurate information to shareholders. Such information will also be provided in English to the extent possible depending on importance.
- The opinions or suggestions obtained through dialogue with investors will be given as feedback to directors/ officers as necessary, and be reported at the Board of Directors meeting to be utilized for the Company's future management.
- The Company appropriately controls the insider information in accordance with the internal rules to prevent external leaks.

## 2. Capital Structure

| | |
|---|---|
| Foreign Shareholding Ratio | More than 30% |

**[Status of Major Shareholders]** *Updated*

| Name / Company Name | Number of Shares Owned | Percentage (%) |
|---|---|---|
| Nomura Holdings, Inc. | 8,488,200 | 17.58 |
| Nomura Research Institute, Ltd. | 4,948,000 | 10.25 |
| Japan Trustee Services Bank, Ltd. | 4,629,700 | 9.59 |

| | | |
|---|---|---|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 1,461,400 | 3.03 |
| Trust & Custody Services Bank, Ltd | 1,057,300 | 2.19 |
| STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS- UNITED KINGDOM (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch) | 818,621 | 1.70 |
| JP MORGAN CHASE BANK 385094 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division) | 683,400 | 1.42 |
| J.P. MORGAN BANK LUXEMBOURG S.A. 380578 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division) | 630,600 | 1.31 |
| NORTHERN TRUST GLOBAL SERVICES LIMITED RE DUTCH PENSION FUNDS EXEMPT ACCOUNT-LENDING (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch) | 611,400 | 1.27 |
| GOLDMAN SACHS INTERMATIONAL (Standing proxy: Goldman Sachs Japan Co., Ltd.) | 596,738 | 1.24 |

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

Supplementary Explanation

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## 3. Corporate Attributes

| | |
|---|---|
| Listed Stock Market and Market Section | Tokyo Stock Exchange<br>First Section |
| Fiscal Year-End | March |
| Type of Business | Securities & Commodity Futures |
| Number of Employees (consolidated) as of the End of the Previous Fiscal Year | From 100 to less than 500 |
| 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 *Updated* | Less than 10 |

## 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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# 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 board-audit committee |

**[Directors]**

| | |
|---|---|
| Maximum Number of Directors Stipulated in Articles of Incorporation | 16 |
| Term of Office Stipulated in Articles of Incorporation | 1 year |
| Chairperson of the Board | President |
| Number of Directors *Updated* | 8 |
| Number of Outside Directors | 3 |
| Number of Independent Directors | 3 |

Outside Directors' Relationship with the Company (1) *Updated*

| Name | Attribute | Relationship with the Company* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k |
| Koji Tanami | Attorney-at-law | | | | | | | | | | | |
| Kenichi Akiba | Certified public accountant | | | | | | | | △ | | | |
| Shigeru Tamura | 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 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
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which and the Company outside directors 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

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

| Name | Board-Audit Committee Member | Designation as Independent Director | Supplementary Explanation of the Relationship | Reasons of Appointment |
|---|---|---|---|---|
| Koji Tanami | ○ | ○ | – | Mr. Tanami has held various important positions at government agencies and international organizations. Currently, he works as an attorney-at-law with a high level of expertise, and his track record and insight are highly regarded. The Company expects him to leverage his deep insight in fiscal administration, finance, tax and international fields and law-related expertise to contribute to the Company's important management decision-making while supervising the execution of its operations from an independent perspective. There has been no transaction between him or law office that he has joined and the Company. In addition, he satisfies the criteria of the "Standards for Independence of Independent Directors" established by the Company, which is described in the section "Matters relating to Independent Directors" below. Based on the above, the Company concluded that he would not have a conflict of interest with other shareholders and designated him as an independent director. |
| Kenichi Akiba | ○ | ○ | In the fiscal year ended March 31, 2013, the Company paid ¥1.35 million to Mr. Akiba in remuneration for advice regarding consolidated accounting and the preparation of written opinions. In addition, the Company signed an advisory contract with him effective from April 2013 to February 2015 and received guidance on the background and opinions of accounting systems and accounting standards, for which the Company paid an annual fee of ¥1.5 million. | Mr. Akiba is a certified public accountant with extensive knowledge in international accounting systems and has contributed to the development of accounting standards in Japan. He is now committed to research activities and human resources development as a graduate school professor, and his achievements as well as insight are highly appreciated. The Company expects him to leverage his abundant experience and high level of expertise in making important management decisions and supervising the Company's execution of operations as an independent director. In addition, he satisfies the criteria of the "Standards for Independence of Independent Directors" established by the Company, which is described in the section "Matters relating to Independent Directors" below. Based on the above, the Company concluded that he |

| | | | | |
|---|---|---|---|---|
| | | | Currently, there is no business relationship between him and the Company. | would not have a conflict of interest with other shareholders and designated him as an independent director. |
| Shigeru Tamura | ○ | ○ | Mr. Tamura doesn't fall under any category of "Relationship with the Company" in the section of "Outside Directors' Relationship with the Company (1)" above. MIC Medical Corporation ("MIC"), at which Mr. Tamura had been President and Chairman until May 2015, is one of the Company's former portfolio companies that have made IPO. The Company invested in MIC in September 2006 through a JAFCO-operated fund, which had a mere 1.2% stake at the time of MIC's IPO in November 2007. All the shares were sold by July 2012. | Mr. Tamura has involved in the management of listed and unlisted companies as CEO, CFO, etc., and has abundant experience and deep insight. He also has experience in financial and investment businesses as well as international operations. The Company expects him to leverage his achievements, insight and knowledge to contribute to the Company's important management decision-making while supervising the execution of its operations from an independent perspective. Based on the above, the Company believes that he will appropriately perform his duties as an independent director serving as Board-Audit Committee member. In addition, he satisfies the criteria of the "Standards for Independence of Independent Directors" established by the Company, which is described in the section "Matters relating to Independent Directors" below. Based on the above, the Company concluded that he would not have a conflict of interest with other shareholders and designated him as an independent director. |

**[Board-Audit Committee]**

Committee's Composition and Attributes of Chairperson

| | All Committee Members | Full-time Members | Inside Directors | Outside Directors | Chairperson |
|---|---|---|---|---|---|
| Board-Audit Committee | 4 | 1 | 1 | 3 | Inside Director |

| | |
|---|---|
| Appointment of Directors and/or Staff to Support the Board-Audit Committee | Not Appointed |

Matters Related to the Independence of Such Directors and/or Staff from Executive Directors

The Board-Audit Committee currently has no director or employee assisting its duties full time, but the Internal Audit Division and the Administrative Division assist the Committee at the Committee's direction and as necessary.
Directors or employees to assist the duties of the Board-Audit Committee will be assigned as necessary, and personnel affairs of assistant employees will be discussed between directors and the Board-Audit Committee. The Board-Audit Committee shall have the authority to give directions and orders to its employee assistants in executing their assistant duties.

Cooperation among Board-Audit Committee, Accounting Auditors and Internal Audit Division

The Board-Audit Committee shall have opportunities to exchange information with the Internal Audit Division every month and share the issues based on the division's audit reports. In addition, the Board-Audit Committee shall have opportunities to discuss and exchange information and opinions with the external auditor with the aim of reviewing its audit reports and audit plans and updating itself with outstanding audit issues related to legal amendments, etc.
The Board-Audit Committee conducts audits based on the internal audit results when available. Based on discussions with the Committee, the Internal Audit Division conducts internal audits at the request of the Committee and reports the result to the Committee.

**[Voluntary Establishment of Nomination/Remuneration Committee]**

| | |
|---|---|
| Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee | Not Established |

**[Independent Directors]**

| | |
|---|---|
| Number of Independent Directors | 3 |

Matters relating to Independent Directors

The Company believes that it secures the independence of each independent directors as they meet the criteria of the "Standards for Independence of Independent Directors" established by the Company (described below), and the requirement for independent directors defined by the Tokyo Stock Exchange.

＜Standards for Independence of Independent Directors＞

In order to ensure the independence from the Company, independent directors of the Company shall satisfy the following criteria:
(1) An independent director is not, and has not been in the past ten (10) years, an officer (limited to persons executing business) or employee of the Company or any of its subsidiaries (hereinafter collectively the "JAFCO Group").
(2) An independent director is not, and has not been in the past three (3) years, any of the following:
1) A person executing business (*1) of another company at which a person executing business of the Company serves, or has served in the past three (3) years, as a director or officer.
2) A major shareholder (a shareholder holding 10% or more of the voting rights directly or indirectly) of the Company or a person executing business of that shareholder.
3) A partner at the financial auditor of the Company or an employee engaged in auditing of the Company at the same.
4) A person executing business of a major lender of the Company (*2).
5) A person executing business of a major business partner of the JAFCO Group (*3).
6) An expert in a field such as legal matters, accounting or taxation, a consultant or other such person receiving remuneration from the JAFCO Group in excess of ¥10 million per year outside of remuneration for officers.
7) A partner or a person executing business of an organization such as a corporation or an association that provides services for legal matters, accounting, taxation or consulting, or other specialist services, where the organization is deemed as a major business partner.
8) A person executing business of an organization that receives a donation exceeding a certain amount (*4) from the JAFCO Group.

(3) A person who is a spouse or a relative within the second degree of kinship of, or who shares living expenses with, an independent director is none of the following (excluding persons without importance):
1) A person who executes business of the JAFCO Group or has done so in the past three (3) years.
2) A person to whom any of the above(2) 1) to 8) applies.

(Notes)
*1 A person executing business is an executive director, an executive (shikkoyaku), an administrative officer (riji),

or other such equivalent manager (limited to persons executing business) or an important employee such as an executive officer.

*2 A major lender of the Company is a lender of an amount equivalent to at least 2% of consolidated total assets.

*3 A major business partner of the JAFCO Group is a business partner whose transactions with the Group were equivalent to more than 2% of that business partner's annual consolidated net sales in its last fiscal year.

*4 A donation exceeding a certain amount is a donation to an organization exceeding an amount in a year of ¥10 million or 2% of the relevant organization's total revenue or ordinary income, whichever is the larger.

**[Incentives]**

| | |
|---|---|
| Incentive Policies for Directors | Other |

| |
|---|
| Supplementary Explanation |

The remuneration of directors (excluding directors serving as Board-Audit Committee members) shall be decided by the Board of Directors in accordance with the degree of individual contribution to the Company's performance and within the amount of remuneration approved by the General Meeting of Shareholders.

| | |
|---|---|
| Recipients of Stock Options | - |

| |
|---|
| Supplementary Explanation |

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**[Director Remuneration]**

| | |
|---|---|
| Disclosure of Individual Directors' Remuneration | No Individual Disclosure |

| |
|---|
| Supplementary Explanation *Updated* |

From April 1, 2016 to March 31, 2017:
Directors (excluding directors serving as Board-Audit Committee members) (excluding independent directors) 304 million yen
Directors serving as Board-Audit Committee members (excluding independent directors) 29 million yen
Independent directors 48 million yen

| | |
|---|---|
| Policy on Determining Remuneration Amounts and Calculation Methods | Established |

| |
|---|
| Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods |

The Board of Directors decides the remuneration of directors (excluding directors serving as Board-Audit Committee members) and corporate officers based on the exchange of views between the Board-Audit Committee and representative directors. The decision on remuneration adequately reflects evaluation of the Company's performance and the degree of individual contribution.
The remuneration of directors (excluding directors serving as Board-Audit Committee members) comprises a basic salary and an extraordinary compensation. The extraordinary compensation and part of the basic salary are linked to the Company's performance.
The remuneration of directors serving as Board-Audit Committee members is decided by consultation between directors serving as Board-Audit Committee members.

**[Supporting System for Outside Directors]**

Independent directors currently have no director or employee assisting its duties full time, but the Internal

Audit Division and the Administrative Division assists the Committee at the direction of the independent directors and as necessary. The full-time member of the Board-Audit Committee shares information with independent directors serving as members of the Board-Audit Committee.
Materials for board meetings will be distributed in advance, and independent directors will receive an advance briefing on the agenda of the board meeting in principle.

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

Structure for Business Execution and Supervision

[Organization]

The Company formed the Board of Directors for important management decision-making, and the Board-Audit Committee, the majority of which are independent directors, for audit and supervision of business execution by directors.

[Swift and Effective Business Execution]

The Investment Committee chaired by the President has an authority to make investment decisions to allow quick decision-making. Directors serving as Board-Audit Committee members also participate in the Investment Committee.

[Auditing]

The internal audit shall be conducted based on the Rules on Internal Audit. The Internal Audit Division, an independent section, conducts an audit on entire operations by one (1) full-time staff. The Internal Audit Division reports internal audit results to the President and the Board-Audit Committee, and to the Board of Directors when necessary. The Internal Audit Division receives reports on remediation measures taken based on the internal audit findings from auditee sections.
The Board-Audit Committee shall conduct audits based on the Regulations on Audits of the Board-Audit Committee. Members of the Board-Audit Committee attend the Board of Directors meeting and other important internal meetings. The Committee shall assign a member responsible for obtaining reports and explanations on business executions from directors and employees, inspecting important documents for managerial decision-making and examining the state of operations and assets at the head office and branch offices. The Board-Audit Committee exchanges opinions with the representative directors and has discussions with the Internal Audit Division and the external auditor on a regular basis. The Board-Audit Committee shall audit and supervise the business execution of directors based on information gathered and opinions exchanged through the above measures.
The Board-Audit Committee holds monthly meetings the Internal Audit Division to share issues arising from internal audit reports. The Committee also reviews audit reports and audit plans of the external auditor and updates itself with outstanding audit issues related to legal amendments, etc.
Current external auditor of the Company is Ernst & Young ShinNihon LLC. Toshio Iwabu and Toshihiro Morishige are external audit engagement partners for the fiscal year ended March 31, 2017 and they have been engaged in the Company's audit for less than seven (7) years. Nine (9) other CPAs and fifteen (15) staff assisted in audit preparation for the fiscal year.

[Appointment and Remuneration of Directors and Corporate Officers]

Appointment and remuneration of directors (excluding directors serving as Board-Audit Committee members) and corporate officers are decided by the Board of Directors based on the exchange of views between the Board-Audit Committee (including independent directors) and representative directors, and by reflecting the evaluation of the Company's performance and the degree of contribution.

Please see the chart "Structure for Business Execution and Supervision" for reference.

Outline of Liability Limitation Agreements

In accordance with the provisions of Article 36 of the Articles of Incorporation and Article 427, paragraph 1 of the Companies Act, the Company and each directors serving as a Board-Audit Committee member signed an agreement that limits liability for damages as stipulated in Article 423, paragraph 1 of the Companies Act.

The maximum amount of liability under such agreement is the amount prescribed by laws and regulations for each director.

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

The Company made a transition to a company with Board-Audit Committee from a company with board of corporate auditors in June 2015.
The Company focuses on private equity investment, a highly-professional business. In light of nature and scale of the Company's business and the number of employees, the Board of Directors of the Company, consisting of a small group of members, makes an effort to ensure swift and appropriate decision making.
The Company has adopted the current framework because it believes that the most effective governance is achieved by utilizing the roles of independent directors and the Board-Audit Committee, the majority of which are independent directors, to strengthen its corporate governance system and functions to audit and supervise business executions, and enhance its corporate value.

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

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

| *Updated* | Supplementary Explanations |
|---|---|
| Early Notification of General Shareholder Meeting | The notice of convocation for the Annual General Meeting of Shareholders held on June 20, 2017 was dispatched on May 23, 2017. |
| Scheduling AGMs Avoiding the Peak Day | The Annual General Meeting of Shareholders held on June 20, 2017. |
| Allowing Electronic Exercise of Voting Rights | The Company allows electronic exercise of voting rights.<br>The Company informs shareholders of the exercise of voting rights by electronic means and the website for exercising voting rights in the notice of convocation of the Annual General Meeting of Shareholders. |
| Participation in Electronic Voting Platform | The Company has participated in the Electronic Voting Platform. |
| Providing Convocation Notice in English | The Company prepares English translation of the notice of convocation of the General Meeting of Shareholders and provides it on its website. |
| Other | The Company provided the notice of convocation of the Annual General Meeting of Shareholders on its website on May 12, 2017 prior to the dispatch.<br>(Japanese original) http://www.jafco.co.jp/ir/shareholder/meeting/<br>(English translation) http://www.jafco.co.jp/english/ir/shareholder/meeting/ |

### 2. IR Activities

| *Updated* | Supplementary Explanations | Presentation by CEO |
|---|---|---|
| Regular Investor Briefings for Analysts and Institutional Investors | Twice a year (after the end of 2nd quarter and fiscal year) | Yes |
| Regular Investor Briefings for Overseas Investors | Once a year (visiting investors in Europe and U.S. after the end of each fiscal year) | Yes |
| Posting of IR Materials on Website | Financial results, presentation materials, disclosure materials, annual/quarterly securities reports, notices of convocation of the annual general meetings of shareholders, corporate governance reports, etc. | |

| | |
|---|---|
| Establishment of Department and/or Manager in Charge of IR | IR team of the Administrative Division |

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

| *Updated* | Supplementary Explanations |
|---|---|
| Stipulation of Internal Rules for Respecting the Position of Stakeholders | The Company presents its views on the relationship with its stakeholders, including shareholders, employees, fund investors, investee companies and society, in the "Corporate Governance Policy". |
| Development of Policies on Information Provision to Stakeholders | The Company shall make timely and appropriate disclosures of necessary information in compliance with laws and regulations. In addition, the Company shall actively provide information that is deemed essential or useful to understand the Company, except for personal information, customer information and information that may violate the rights of others. The Company shall also ensure fair disclosure of information.<br>The above policies are set out in the "Corporate Governance Policy" of the Company. |
| Other | Through venture/ buyout investment, the Company provides funds to and supports growth of businesses or companies that would be beneficial for the society. The Company will contribute to a better society by encouraging the startup of businesses offering innovative technologies and new services, in hopes that such technologies would solve environmental and other social issues and such services make businesses more efficient and enrich people's lives. |

## IV. Matters Related to the Internal Control System

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

The Company shall implement and operate the following internal control system to ensure appropriate operations of the Company and its subsidiaries (the "JAFCO Group") and the structure necessary for operations of the Board-Audit Committee.

[Basic Views on the Internal Control System]

(1) Structure to ensure that execution of duties by the JAFCO Group's directors, etc. and employees is in compliance with laws and regulations and the Articles of Incorporation

- Based on the recognition that compliance with laws and regulations and the like is the precondition of all of our corporate activities, directors and corporate officers of the JAFCO Group (including persons with duties equivalent to these; the same shall apply hereinafter) shall lead efforts to ensure thorough compliance with laws and regulations by the JAFCO Group from the Group-wide perspective, and a compliance officer designated by the President & CEO of the Company shall supervise overall initiatives for the JAFCO Group's compliance with laws and regulations.
- The Company shall create a global compliance policy that is common to all JAFCO Group companies, and all JAFCO Group companies shall implement structures for compliance with laws and regulations and the like based on the policy in consideration of legal systems in the countries where they are located, their business scales, their organizational structures and other characteristics.
- The Company shall sever any relationships with antisocial forces and stand firmly against them. The Company shall work to exclude antisocial forces as the organization-wide initiatives by establishing a dedicated department that will work closely with external professional institutions including police and attorneys-at-law.
- The Internal Audit Division audits and reports status of compliance with laws and regulations and the like by the JAFCO Group to the President & CEO and the Board-Audit Committee, and, as necessary, to the

Board of Directors. The audited departments and subsidiaries shall promptly address any issues if necessity to correct or improve is indicated.

- The JAFCO hotline shall be established and operated as means for officers, employees and others at the JAFCO Group to directly provide information to the Company regarding conduct that is in violation of, or risks violating, laws and regulations.

(2 )Structure for retention and management of information pertaining to execution of duties by directors

- In accordance with laws and regulations and internal rules, the Company shall appropriately retain and manage records concerning decision-making at the Board of Directors and other important meetings, and other important documents and information pertaining to execution of duties by the directors.

(3) Regulations and other systems on management of risks of loss of the JAFCO Group

- Directors and corporate officers of the JAFCO Group shall retain authority and responsibility to implement systems and measures for risk management. In addition, director in charge of administration shall push forward the cross-functional initiatives for risk management of the JAFCO Group.
- At the Company, in order to manage risks associated with private equity investment, which is the Company's main business, a designated committee chaired by a representative director shall make decisions on investment in accordance with internal rules. For making investment decisions, opinions of the investment evaluation department shall be asked for separately from the investment division. In addition, the investment division shall update the status of business operations of unlisted investees as needed as well as on a regular basis and take necessary actions.
- At overseas subsidiaries, appropriate systems shall be established in consideration of the countries where they are located, their business scales, their organizational structures and other characteristics, with the aim of making investment decisions, assessing business operations of investees, and managing risks associated with private equity investment.
- If a risk with a significant impact on the management of the JAFCO Group becomes apparent, directors and corporate officers of the JAFCO Group shall promptly report this to the officer in charge of administration at the Company and the Company shall take appropriate actions in accordance with the risk.

(4) Structure to ensure that execution of duties by the JAFCO Group's directors and the like is carried out efficiently

- Clarify the duties of directors and corporate officers, establish internal rules concerning the division of duties and official authority to achieve efficient operations through role sharing and a chain of command.
- Hold monthly meetings of the Board of Directors and extraordinary meetings as necessary to determine important issues in business execution and supervise the status of business execution by the directors.
- Thoroughly manage investment performance by enhancing the portfolio management systems of the Company and funds and regularly reporting the status at meetings of the Board of Directors.
- In light of the characteristics of private equity investment, which differs in characteristics according to country and region, committees for investment and fund management and necessary meeting bodies shall be established for each of the JAFCO Group's tri-polar bases in Japan, the US and Asia, and efforts shall be made to enhance efficiency in decision making regarding private equity investment.

(5) Structure for reporting to the Company on matters relating to execution of duties by directors and the like of subsidiaries and systems to ensure properness of operations at the JAFCO Group companies

- Directors, corporate officers or employees of the Company shall be assigned as officers at subsidiaries and presidents of subsidiaries shall periodically report to the Board of Directors of the Company on important execution of operations at respective subsidiaries.
- Subsidiaries shall periodically report to the Company on their financial information and the performance of the funds they manage. Furthermore, the Company and subsidiaries shall work to collaborate to ensure properness of operations through other means including information exchange between departments that are relevant in the course of business.
- The presidents of subsidiaries shall have the authority and the responsibility to implement systems and measures, etc. to ensure properness of operations of respective subsidiaries.
- Internal audits by the Company and audits by the Board-Audit Committee of the Company shall also be implemented at subsidiaries.

(6) Matters regarding directors/employees to assist the Board-Audit Committee with its duties, independence of the directors/employees from other directors (excluding directors as members of the Board-Audit Committee) and assurance of effectiveness of directions to the directors/employees

- Directors or employees to assist the duties of the Board-Audit Committee will be assigned as necessary, and personnel affairs of assistant employees will be discussed between directors and the Board-Audit

Committee.
- The Board-Audit Committee shall have the authority to give directions and orders to its employee assistants in executing their assistant duties.
- The Board-Audit Committee conducts audits based on internal audit results when available. Based on discussions with the Board-Audit Committee, the internal audit division conducts internal audits at the request of the committee and reports the result to the committee.

(7) Structure for reporting to the Board-Audit Committee of the Company by directors and the like and employees of the JAFCO Group companies and structure to ensure that reporting persons are not treated disadvantageously because of the relevant reporting
- Directors, corporate officers and employees of the JAFCO Group shall, in accordance with requests from the Board-Audit Committee, make reports regarding their execution of duties and the status of operations.
- Directors, corporate officers and employees of the JAFCO Group shall promptly report matters with the potential to cause a serious impact on the Company and its subsidiaries; violations of laws and regulations and the Articles of Incorporation; improper conduct by directors; and serious whistleblowing matters that are reported to the JAFCO hotline.
- The JAFCO hotline whistleblowing contacts shall include a member of the Board-Audit Committee of the Company.
- Persons notifying matters to the JAFCO hotline or to the Board-Audit Committee of the Company shall not be treated disadvantageously because of the relevant notification or reporting.

(8) Matters regarding policy for treatment of expenses and the like occurring in the execution of duties by members of the Board-Audit Committee
- For the various expenses associated with audits by members of the Board-Audit Committee, a budget necessary to secure the effectiveness of the audits shall be established, and in cases of budget requests from members of the Board-Audit Committee, the relevant expenses shall be paid following confirmation by the accounting department.

(9) Other systems to ensure that audits by the Board-Audit Committee are made effectively
- Representative directors shall provide opportunities for the Board-Audit Committee to regularly exchange opinions.
- Directors and corporate officers shall ensure opportunities for members of the Board-Audit Committee to attend important internal meetings or committees.
- The Board-Audit Committee, Internal Audit Division and the financial auditor shall have opportunities for regular consultations and reinforce their relationships through information and opinion exchanges.

[Risk Management System]
- Investment Performance

The venture/ buyout investment involves the risk of not achieving initially expected returns. The Company carefully selects investment candidates based on evaluations by the investment departments and the investment evaluation department and makes final investment decisions through the Investment Committee. The investment departments keep track of investee companies and make efforts to enhance the corporate value of investee companies jointly with business development departments.
- Information Management

The JAFCO Group holds important information on customers and personal information. The Company has set out its basic policy of information management in the Rules on Information Management. Regarding the handling of personal information, the Company has established the Privacy Policy, which has been released on its website, and relevant internal rules. The Company aims to continue company-wide efforts to address information security issues and enhance the information management framework.

Please see the chart “Structure for Business Execution and Supervision” for reference.

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

The Company rejects any relationship with anti-social forces which threaten the order and safety of our community. The Company declares the above intention in the Basic Views on Internal Control System and other internal rules, and has worked to eliminate anti-social forces on a company-wide basis by increasing awareness of management and employees through daily operations and compliance training.

With regard to the elimination of anti-social forces, the Company has assigned a department to work closely with police, attorneys, and other professional bodies to prevent anti-social forces' involvement in investment and other business activities of the Company and any damage by the forces. As a member of an association to prevent organized crime affiliated with the Metropolitan Police Department, the Company keeps itself updated with the latest information about anti-social forces through regular meetings and publications of the association, and deepens alliances with other member companies.

## V. Other

### 1. Adoption of Anti-Takeover Measures

| | |
|---|---|
| Adoption of Anti-Takeover Measures | Not Adopted |

| Supplementary Explanation |
|---|

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### 2. Other Matters Concerning to Corporate Governance System

1) Structure for timely disclosure

To protect information assets necessary for business operations, the Company has set out basic policy and responsibilities regarding information management in the Rules on Information Management. The Company has also set out how to control insider information in the Rules on Controlling Insider Trading.

The Company's structure for timely disclosure is outlined below:

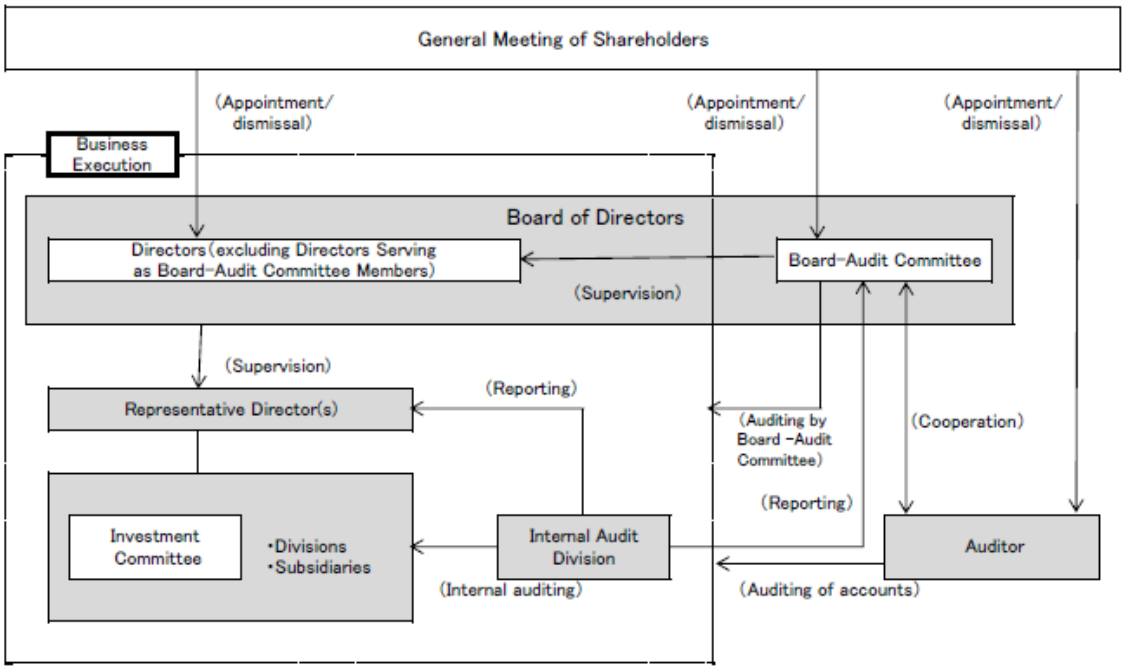
- The officer in charge of administration has responsibility for company-wide information control.
- The officer in charge of administration attends the Company's decision-making meetings held on a regular or temporary basis to familiarize with important decisions made in the meetings. Important occurrences shall be reviewed by the manager of relevant division and reported to the officer in charge of administration (compliance officer) and other relevant officers. Based on this structure, the material information shall be centralized in the hands of the officer in charge of administration.
- In principle, the Company discloses material information as soon as possible. The information shall be released by the Administration Division after consultation with the manager in charge of the information, the compliance officer and the officer/ manager in charge of administration and with the approval of representative directors or the Board of Directors.

2) Function to check structure for timely disclosure

The Internal Audit Division conducts an audit of the information disclosure structure and supervises proper and timely disclosure of corporate information.

Please see the chart "Structure for Timely Disclosure" for reference.

【Reference: Structure for Business Execution and Supervision】



## 【Reference：Structure for Timely Disclosure】

