Corporate Governance

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The corporate governance of Kotobuki Spirits Co., Ltd. (the "Company") is described below.

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

1. Basic Views

Kotobuki Spirits Co., Ltd. (the "Company") strives to reinforce and enhance its corporate governance practices while aiming to continuously maximize shareholder value over the long-term. To such ends, we heighten the soundness and efficiency of our management while also focusing on the interests of each and every stakeholder who lends support to our business initiatives, underpinned by management philosophy impelling us "to create happiness, provide happiness," as a basic policy of our business.

Management Philosophy
"To create happiness, provide happiness."

Corporate Motto
"Thankfulness & Gratitude" "Originality & Ingenuity" "Earnestness & Sincerity"

Business Creed
• We take our pleasure in pleasing our customers.
• We talk dreams each other, and strive daily to be the number one.
• We have consciousness of being professionals and true courage, and inspire people.
• We set high goals, earnestly strive, and accomplish them without fail.
• We will realize both materialistic and spiritual affluences by creating higher values.

[Reasons for Non-compliance with the Principles of Japan's Corporate Governance Code]

[Supplementary Principle 4.1.3] Specific plans regarding successorship of the CEO and other top executives
Although the Company does not prepare specific plans regarding successorship with respect to the CEO and other top executives at this point in time, its management does recognize the notion that bringing up the next generation of top management is one of the highest management priorities that must be addressed in order for the Company to achieve sustainable growth and increase corporate value over the medium to long term. As such, we implement training programs for our mid-career executives and others, and are furthermore taking steps to hasten development of management skills by engaging in initiatives that address business challenges, with the aim of cultivating the next generation of senior managers who will spearhead the organization's sustainable growth and development. Going forward, the Board of Directors will appropriately supervise efforts that include those of developing our next generation of senior managers with its sights set on increasing our corporate value over the medium to long term.

[Supplementary Principle 4.2.1] Management remuneration system linking remuneration to financial results over the medium to long term

The Company makes decisions regarding Director remuneration upon having considered factors that include business results relative to specific positions of the Directors. We strive to ensure that management's remuneration functions as a healthy incentive for generating sustainable growth. To such ends, when it comes to remuneration mechanisms that better link management remuneration to medium- to long-term business results and shareholder value going forward, the Board of Directors will consider factors that include objective and transparent procedures, as well as the notion of appropriately setting proportions of management remuneration linked to business results over the medium to long term, and proportions of cash-based remuneration and stock-based remuneration, upon having appropriately taken into account the involvement and advice of the Independent Outside Directors.

[Supplementary Principle 4.3.2] Appointment of the CEO
The Company has not established an independent advisory committee, but its Board of Directors appoints a qualified CEO upon having appropriately enlisted the involvement and advice of the Independent Outside Directors, given the notion that appointment of the CEO stands as the Company's most important strategic decision.

[Supplementary Principle 4.3.3] Dismissal of the CEO
The Company does not stipulate specific evaluation standards or dismissal requirements for removing a CEO. In the event that the Company deems there to be objective grounds for dismissing the CEO, amid a scenario where the Company finds, for instance, that the CEO has significantly damaged the Company's corporate value upon having violated laws, regulations, the Articles of Incorporation, etc., the Board of Directors will resolve to remove the CEO upon having appropriately engaged in exhaustive deliberations in a meeting of the Board of Directors attended by the Independent Outside Directors.

[Supplementary Principle 4.10.1] Use of voluntary mechanisms
Whereas Independent Outside Directors of the Company do not constitute a majority of the membership of the Company's Board of Directors, the Company appropriately enlists the involvement and advice of its Independent Outside Directors when considering particularly important matters such as those pertaining to nomination and remuneration of its senior management and Directors. As such, the Company deems that there is no need for it to use a voluntary mechanism at this point in time.

[Principle 4.11] Prerequisites for ensuring the effectiveness of the Board of Directors and Audit and Supervisory Board
The Board of Directors of the Company is currently comprised of nine Directors (including three Directors who are Audit and Supervisory Committee members; all of the Directors are male and hold Japanese citizenship) and operates appropriately with members who have excellent character, insight, ability and extensive experience, as well as a strong sense of ethics. Expertise in management, sales, manufacturing, technology, finance, accounting, law, etc. and differing backgrounds, experience, etc. are considered for the members of the Board of Directors. Currently, although no females or foreign citizens have been appointed to the position of Director, each of the Directors has the qualifications and diversity necessary to address the business challenges facing the Company. Also, because at least one-third of the members of the Board of Directors are Independent Outside Directors, the independence and objectivity of the structure is further secured.

[Supplementary Principle 4.11.3] Analysis and evaluation of the effectiveness of the Board of Directors as a whole
The Company transitioned to the company with audit and supervisory committee format per resolution approved at its 64th Ordinary General Meeting of Shareholders held on June 28, 2016. The Audit and Supervisory Committee ensures audit and supervisory functions, and its members attend meetings of the Board of Directors and accordingly exercise their voting rights. We find that this has heightened the effectiveness of the Board of Directors as a whole.
Going forward, we will keep considering the notion of disclosing results derived from analyzing and evaluating the effectiveness of the Board of Directors as a whole, and methodology thereof.

[Disclosure Based on the Principles of Japan's Corporate Governance Code]

[Principle 1.4] Cross-shareholdings
The Company maintains cross-shareholdings based on the view that doing so helps it to maintain and develop favorable business relationships while also enabling it to maintain stable financing relationships. We accordingly hold stock deemed to help increase our corporate value, and the Board of Directors regularly assesses holdings with respect to the medium- to long-term economic rationale of such holdings, the status of transactions, and other such factors. Based on such policy, we act to reduce holdings if we find there to be an absence of rationale for maintaining such holdings. We appropriately exercise our voting rights upon comprehensively placing consideration on factors that include how the outcome might affect sound management of the issuing company and enhancement of its corporate value over the medium to long term.
[Principle 1.7] Related party transactions
When conducting related party transactions, we appropriately engage procedures with respect to the Board of Directors and disclose such matters in our securities reports and other such documents. We subject all Officers of the Company (including officers of the Kotobuki Spirits Group (the "Group")) to surveys regarding related party transactions, and monitor such activity. When it comes to transactions within the Group, we strive to ensure compliance with our "Regulations on Affiliate Management" which forbid any such transaction that would be detrimental to the interests of either party.

[Principle 2.6] Roles of corporate pension funds as asset owners
Whereas Company and some of its consolidated subsidiaries previously enrolled in an employee's pension fund for companies in Tottori Prefecture's food industry, that fund was dissolved per approval of Japan's Minister of Health, Labour and Welfare granted on March 25, 2016. The Company has no corporate pension funds under management at this time.

[Principle 3.1] Full disclosure
(i) Company objectives (management philosophy, etc.), business strategy, and business plans
The Company's business policies and other such information is disclosed in its financial statements, presented in its financial results briefings, and posted to its corporate website.
(ii) Basic views and basic policy on corporate governance
The Company strives to reinforce and enhance its corporate governance practices while aiming to continuously maximize shareholder value over the long-term. To such ends, we heighten the soundness and efficiency of our management while also focusing on the interests of each and every stakeholder who lends support to our business initiatives, underpinned by management philosophy impelling us "to create happiness, provide happiness," as a basic policy of our business. The Company's basic views and basic policy on corporate governance are stated under "1. Basic Views" of this Report and posted to its corporate website.
(iii) Board of Director policies and procedures in determining remuneration of senior management and Directors
For basic policy on Director remuneration and methods for determining such remuneration, refer to the section, "Disclosure of Policy for Determining Remuneration Amounts or Calculation Methods Thereof" under "Director Remuneration" in this document. Procedures for setting remuneration are determined by a meeting of the Board of Directors attended by the Outside Directors, upon having engaged in prudent deliberation.
(iv) Board of Director policies and procedures in appointing senior management and nominating Director candidates
When deciding on senior management and Director candidates, the Company engages a policy of nominating qualified individuals capable of fulfilling such duties and responsibilities upon making judgment on comprehensive factors that include a candidate's character, experience, knowledge, aptitude and health. Director candidate nominations are proposed at general meetings of shareholders, upon having been deliberated on at meetings of the Board of Directors attended by the Independent Outside Directors.
(v) Individual appointments of the senior management and nominations of Director candidates by the Board of Directors
The Company's Notifications of General Meeting of Shareholders disclose details upon appointment of senior management and nomination of Director candidates by the Board of Directors. Such details include career profiles of Director candidates in relation to their individual appointments and

nominations, and reasons for appointment and career profiles of all Director candidates. In the event that the Company deems there to be objective grounds for dismissing a senior manager or Director amid a scenario where the Company finds, for instance, that the senior manager or Director has significantly damaged the Company's corporate value upon having violated laws, regulations, the Articles of Incorporation, etc., the Board of Directors will resolve to remove the senior manager or Director upon having appropriately engaged in exhaustive deliberations in a meeting of the Board of Directors attended by the Independent Outside Directors.

[Supplementary Principle 4.1.1] Roles and Responsibilities of the Board of Directors (the scope of matters delegated to the management)
The Company's Board of Directors is bound by stipulations of the Articles of Incorporation, laws and regulations. Meanwhile, the Company's "Regulations of the Board of Directors" stipulate matters to be resolved by the Board of Directors. Through its pure holding company structure, the Company aims to achieve a swift and flexible approach to decision-making and Group management carried out with a sense of immediacy by keeping the Group's functions of management supervision separate from its functions of business execution. To such ends, the Company's "Regulations on Affiliate Management" and its "Regulations on Delegation of Authority" clearly specify the scope of authority delegated in relation to decision-making that pertains to business of Group companies, and the scope of matters subject to reporting.

[Principle 4.9] Independence standards and qualification of Independent Outside Directors
The Company appoints as Independent Outside Directors those who do not maintain interests that might conflict with those of general shareholders, in compliance correspondingly with provisions of the independence criteria of "the Guidelines concerning Listed Company Compliance, etc." stipulated by the Tokyo Stock Exchange. As for qualification required of Independent Outside Directors, the Company appoints those who are likely to constructively engage in deliberations during meetings of the Board of Directors, from a standpoint of neutrality and objectivity.

[Supplementary Principle 4.11.1] Views on balance, diversity and size of the Board of Directors
The Company's Board of Directors consists of Directors and Outside Directors who are familiar with the Group's respective businesses and have sufficient knowledge regarding aspects such as corporate management, financial accounting and legal affairs. Meanwhile, the Articles of Incorporation stipulate that the Board of Directors is to consist of up to ten Directors including Independent Outside Directors (excluding Directors who are Audit and Supervisory Committee members), and up to five Directors who are Audit and Supervisory Committee members. In addition, the Company strives to optimize its Board of Directors from the perspective of striking a balance between knowledge, experience and skills of the Board of Directors as a whole, while ensuring that the diversity and size of the Board of Directors facilitates the Company's efforts to achieve sustainable growth and increase its corporate value over the medium to long term.

[Supplementary Principle 4.11.2] Directors with concurrent assignments
Concurrent assignments of the Company's Directors are disclosed in the General Meeting of Shareholders Notifications and securities reports. Outside Directors of the Company concurrently serving as officers of other listed companies are to rationally limit the scope of such duties so that they are able to devote the time and effort required for them to appropriately fulfill their respective roles and responsibilities as Outside Directors of the Company.

[Supplementary Principle 4.14.2] Training policy for Directors
Upon ushering in Outside Directors, the Company provides them with opportunities to learn and understand details pertaining to the Company's business environment, particularly those involving the Company's history, business overview, and tours of the Group's factories. The Directors engage in diligent study to ensure that they acquire knowledge and information necessary for them to fulfill their roles and responsibilities as Directors. This involves, taking part in seminars that draw on external specialized institutions and other such bodies and participating in training exchanges with external organizations and other such bodies. The Audit and Supervisory Committee members belong to the Japan Audit & Supervisory Board Members Association, and accordingly improve their auditing skills by gaining access to knowledge and information they need as Audit and Supervisory Committee members by participating in various training sessions held by the Association.

[Principle 5.1] Policy on constructive dialogue with shareholders
The Company's policy on systemic development and initiatives for facilitating constructive dialogue with its shareholders is as follows:
(i) The Company's investor relations activities are spearheaded by the President & CEO and the Director and General Manager of the Corporate Planning Division;
(ii) Investor relations information is handled by the Corporate Planning Division which is the department in charge of IR in coordination with related departments of the business company;
(iii) The Company's primary IR activities encompass efforts that involve holding biannual financial results briefings and quarterly meetings with individual institutional investors and analysts, and engaging in planning and operation of the investor relations section of the corporate website. The Company also posts materials and video footage of its financial results briefings and general meetings of shareholders to the investor relations section of its corporate website;
(iv) The Company shares opinions, etc. gained through IR activities by appropriately reporting such feedback in meetings of the Board of Directors and Executive Committee; and
(v) The Company appropriately and prudently controls insider information when engaging in dialogue on the basis of its "Regulations on Information Disclosure" and its "Regulations on Preventing Insider Trading."

2. Capital Structure

Foreign Shareholding Ratio	From 10% to less than 20%

[Status of Major Shareholders]

Name	Number of Shares Owned (Shares)	Shareholding Ratio (%)
S. Kawagoe Corporation	9,300,000	29.88
The Master Trust Bank of Japan, Ltd. (Trust account)	1,706,300	5.48
Japan Trustee Services Bank, Ltd. (Trust account)	1,090,900	3.51
Japan Trustee Services Bank, Ltd. (Trust account 9)	911,800	2.93
The San-in Godo Bank, Ltd.	900,000	2.89
TORIGIN LEASE Corporation	762,000	2.45
Kotobuki Spirits Employee Stock Ownership Association	693,047	2.23
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	678,189	2.18
Japan Trustee Services Bank, Ltd. (Trust account 5)	394,500	1.27
The Shoko Chukin Bank, Ltd.	360,000	1.16

Controlling Shareholder (except for Parent)	–
Parent (Listed Stock Market)	N/A

Supplementary Explanation

The information in the “Status of Major Shareholders” above is based on the shareholder register as of March 31, 2020.

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Foods
Number of Employees (Consolidated) at End of the Previous Fiscal Year	1,000 or more
Net Sales (Consolidated) for the Previous Fiscal Year	From ¥10 billion to less than ¥100 billion
Number of Consolidated Subsidiaries at End of the Previous Fiscal Year	From 10 to less than 50

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

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5. Special Circumstances Which May Have Material Impact on Corporate Governance

No items to report.

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

1. Organizational Composition and Operation

Organization Form	Company with audit and supervisory committee

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	15
Term of Office Stipulated in Articles of Incorporation	1
Chairperson of the Board	President
Number of Directors	9
Appointment of Outside Directors	Appointed
Number of Outside Directors	3
Number of Independent Officers Designated from among Outside Directors	3

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Matsuo Iwata	From another company											○
Koichi Noguchi	Attorney at law											○
Yasuhiro Tanaka	Certified public tax accountant											○

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

a. Executive (a person who executes business; hereinafter, the same) of the Company or its subsidiary
b. Non-executive director or executive of the parent of the Company
c. Executive of a fellow subsidiary of the Company
d. 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, accounting professional 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 corporation)
h. Executive of a client or supplier of the Company (which does not correspond to any of d., e., or f.) (the director himself/herself only)
i. Executive of a corporation to which outside officers are mutually appointed (the director himself/herself only)
j. Executive of a corporation that receives a donation from the Company (the director himself/herself only)
k. Other

Outside Directors' Relationship with the Company (2)

Name	Membership of Audit and Supervisory Committee	Designation as Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Matsuo Iwata		○	–	Mr. Matsuo Iwata has been involved in corporate management over many years, and accordingly draws on the abundant experience and extensive knowledge he has gained as a manager throughout his career. Accordingly, the Company has appointed him to the position of Outside Director upon having deemed that he is capable of applying such strengths to management of the Company, from a perspective of neutrality and objectivity. Moreover, the Company has furthermore assigned him the designation of Independent Officer given that there are no special interests between him and the Company, and he does not pose concerns regarding potential conflict of interest with general shareholders.
Koichi Noguchi	○	○	–	Mr. Koichi Noguchi is qualified as an attorney at law and wields expert knowledge and abundant experience in the realm of legal affairs as an attorney at law. Accordingly, the Company has appointed him to the position of Outside Director upon having deemed that he is capable of applying such strengths to management of the Company, from a perspective of neutrality and objectivity. Moreover, the Company has furthermore assigned him the designation of Independent Officer given that there are no special interests between him and the Company, and he does not pose concerns regarding potential conflict of interest with general shareholders.
Yasuhiro Tanaka	○	○	–	Mr. Yasuhiro Tanaka wields expert knowledge and abundant experience in the realms of finance and accounting as a certified public tax accountant.

				Accordingly, the Company has appointed him to the position of Outside Director upon having deemed that he is capable of applying such strengths to management of the Company, from a perspective of neutrality and objectivity. Moreover, the Company has furthermore assigned him the designation of Independent Officer given that there are no special interests between him and the Company, and he does not pose concerns regarding potential conflict of interest with general shareholders.

[Audit and Supervisory Committee]

Committee's Composition and Chairperson's Attributes

	Total Committee Members	Full-time Members	Inside Directors	Outside Directors	Chairperson
Audit and Supervisory Committee	3	1	1	2	Inside director

Appointment of Directors and/or Employees to Support Duties of the Audit and Supervisory Committee	Not appointed

Reasons for Applying Current Systems

The Audit and Supervisory Committee does not assign employees to assist in the duties of the Audit and Supervisory Committee because it cooperates with the Internal Audit Department as necessary.

Cooperation among Audit and Supervisory Committee, Financial Auditor and Internal Audit Department

With respect to mutual cooperation involving internal audits, the Audit and Supervisory Committee, and accounting audits, the Audit and Supervisory Committee receives explanations from the Financial Auditor regarding accounting audits, and coordinates efforts that involve exchanging information. In addition, the Internal Audit Office coordinates efforts with the Audit and Supervisory Committee and the Financial Auditor by reporting findings of operational audits to the Audit and Supervisory Committee and the Financial Auditor. As for such audits, the Internal Audit Office appropriately furnishes reports and exchanges opinions with the Administrative Division which acts as an internal control department and strives to maintain internal controls through initiatives that include following up on issues identified and areas for improvement.

[Voluntary Committees]

Voluntary Establishment of Committee(s) Equivalent to Nominating Committee or Remuneration Committee	Not established

[Independent Officers]

Number of Independent Officers	3

Matters relating to Independent Officers
The Company has assigned the designation of Outside Officer to all of its Independent Officers who qualify as independent officers.

[Incentives]

Implementation of Measures to Provide Incentives to Directors	None

Supplementary Explanation
The Company makes decisions regarding Director remuneration upon having considered factors that include business results relative to specific positions of the Directors. We strive to ensure that management remuneration functions as a healthy incentive for generating sustainable growth. To such ends, when it comes to remuneration mechanisms that better link management remuneration to medium- to long-term business results and shareholder value going forward, the Board of Directors will consider factors that include objective and transparent procedures, as well as the notion of appropriately setting proportions of management remuneration linked to business results over the medium to long term, and proportions of cash-based remuneration and stock-based remuneration, upon having appropriately taken into account the involvement and advice of the Independent Outside Directors.

Recipients of Share Options	

Supplementary Explanation
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[Director Remuneration]

Disclosure of Individual Directors' Remuneration	No individual disclosure

Supplementary Explanation
The Company distinguishes between the remuneration paid to Directors and the remuneration paid to Audit and Supervisory Board Members when disclosing remuneration. Officer remuneration for the year ended March 31, 2020 Annual total amount of remuneration for Directors (excluding Audit and Supervisory Committee members): ¥109,200 thousand Annual total amount of remuneration for Directors (Audit and Supervisory Committee members): ¥26,400 thousand

Policy for Determining Remuneration Amounts or Calculation Methods Thereof	Established

Disclosure of Policy for Determining Remuneration Amounts or Calculation Methods Thereof

The Company determines maximum amounts of Officer remuneration, etc. by resolution of a general meeting of shareholders. At the Ordinary General Meeting of Shareholders held on June 28, 2016, approval was granted for maximum remuneration amounts, such that remuneration for Directors (excluding Directors who are Audit and Supervisory Committee members) is to amount to no more than ¥300 million annually (of which, remuneration for Outside Directors is to amount to no more than ¥25 million annually), and remuneration for Directors who are Audit and Supervisory Committee members is to amount to no more than ¥50 million annually.
With respect to decision-making bodies and procedures pertaining to Officer remuneration, etc., the Company's President Seigo Kawagoe consulted with the Board of Directors, in a meeting attended by the Outside Directors, regarding basic policy on the amount of Officer remuneration, etc. and methodology for calculation thereof. Accordingly, the Board of Directors has determined the following in that regard.

- Remuneration of Directors (excluding Directors who are Audit and Supervisory Committee members) is to be within the aforementioned remuneration limits, determined through prudent deliberations of meetings of the Board of Directors attended by the Outside Directors. In so doing, the Board of Directors considers factors that include the Director's social status, relative position, and the extent of his or her contribution to the Company's business results relative to his or her specific position, and listens to opinions of the Audit and Supervisory Committee members beforehand.
- Remuneration of Directors who are Audit and Supervisory Committee members is to be within the aforementioned remuneration limits, determined through discussions of the Audit and Supervisory Committee, upon having considered such duties and responsibilities.

We strive to ensure that management remuneration functions as a healthy incentive for generating sustainable growth. To such ends, when it comes to remuneration mechanisms that better link management remuneration to medium- to long-term business results and shareholder value going forward, the Board of Directors will consider factors that include objective and transparent procedures, as well as the notion of appropriately setting proportions of management remuneration linked to business results over the medium to long term, and proportions of cash-based remuneration and stock-based remuneration, upon having appropriately taken into account the involvement and advice of the Independent Outside Directors.

[Supporting System for Outside Directors]

Whereas there is no section in charge of assisting the Outside Directors, the Administrative Division and Corporate Planning Division take action as necessary, particularly in terms of furnishing prior notification regarding matters to be discussed in the meetings of the Board of Directors and explanations in that regard.

2. Matters on Functions of Business Execution, Audit and Supervision, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

<Board of Directors>
The Company's Board of Directors has nine members (of which, three are Outside Directors), consisting of President & CEO Seigo Kawagoe who serves as the Chairperson, and Directors Masamichi Yamane, Shinji Matsumoto, Masayuki Shirouchi, and Ryoichi Sakamoto, Outside Director Matsuo Iwata, Director (Audit and Supervisory Committee member) Takashi Kuchiki, and Outside Directors (Audit and Supervisory Committee members) Koichi Noguchi and Yasuhiro Tanaka. The Company's Board of Directors determines important matters related to business execution and supervises execution of duties by Directors, as stipulated in the Articles of Incorporation, laws and regulations, and pursuant to the "Regulations of the Board of Directors" which define matters to be resolved by the Board of Directors.
To ensure that the Directors execute their duties efficiently, the Board of Directors meets once per month, in principle, and holds extraordinary meetings when necessary.

<Audit and Supervisory Committee>
The Company's Audit and Supervisory Committee takes on the role of auditing the Directors' execution of business, and has three members (of which, two are Outside Directors), consisting of Director (full-time Audit and Supervisory Committee member) Takashi Kuchiki and Outside Directors (Audit and Supervisory Committee members) Koichi Noguchi and Yasuhiro Tanaka. Meetings of the Audit and Supervisory

Committee are held once a month, in principle, on an as-necessary basis, in order to decide audit plans and report on audit execution.
The Audit and Supervisory Committee members attend meetings of the Board of Directors, and also attend the Group Executive Committee meetings and other important meetings in order to gain an understanding of important decision-making processes and the status of business execution. The Audit and Supervisory Committee members may view important documents related to business execution and may furthermore seek explanations from Directors or employees as necessary.

<Internal Audit Office>
The Company's Internal Audit Office consists of one member, General Manager of Internal Audit Office Manabu Ashiho. The Internal Audit Office conducts internal audits with respect to the Company and the Group, pursuant to the "Internal Audit Regulations" which stipulate basic matters regarding the Company's internal audits, thereby ensuring that business operations are undertaken appropriately and effectively in accordance with relevant laws and regulations, the Articles of Incorporation, and internal regulations, and subject to internal controls. The Company's President & CEO makes direct appointments with respect to the Internal Audit Office, which acts as an organization under direct control of the President. Upon performing audits, the Internal Auditors are able to seek submission of documents, explanation of content thereof, and other necessary information. They also wield authority, etc. to seek confirmation from external parties when necessary.

<Compliance Committee>
The Compliance Committee is chaired by the Company's President & CEO Seigo Kawagoe and the Company's Director in charge of management Masamichi Yamane serves as the Chief Compliance Officer. Meanwhile, its membership consists of individuals appointed to the committee from the respective Group companies. The committee holds meetings once every three months, in principle, on an as-necessary basis in order to address exclusive prerogatives, pursuant to the "Compliance Regulations" which define compliance initiatives, such as training and education on compliance and corporate ethics, action taken based on findings of investigations into matters such as reporting through the whistleblowing system, and measures involving risk management to address risk events.
The Compliance Committee acts as a system that facilitates monitoring, with its meetings attended by Director (full-time audit and Supervisory Committee member) Takashi Kuchiki and General Manager of Internal Audit Office Manabu Ashiho.

<Group Executive Committee>
The Group Executive Committee is chaired by the Company's President & CEO Seigo Kawagoe, and its members include Directors Masamichi Yamane, Shinji Matsumoto, Masayuki Shirouchi, and Ryoichi Sakamoto, and respective Directors and relevant department heads of the Group companies. It holds meetings once per month, in principle, and acts to ensure managerial efficiency, soundness and transparency, while accelerating decision-making. To such ends, it promotes guidance and training with respect to affiliated companies, while also communicating the Group's business policies, reporting on business activities of respective Group companies, and supervising business execution, pursuant to the "Regulations on Affiliated Companies" which stipulate aims of streamlining management of the Group.
The Group Executive Committee acts as a system that facilitates monitoring, with its meetings attended by Director (full-time Audit and Supervisory Committee member) Takashi Kuchiki, Outside Directors (Audit and Supervisory Committee members) Koichi Noguchi and Yasuhiro Tanaka, and General Manager of Internal Audit Office Manabu Ashiho.

<CPA Audit>
CPA audits are assigned to Deloitte Touche Tohmatsu LLC, which undertakes them as ordinary accounting audits and is subject to advice on managerial issues and other such matters in the course of performing such audits. The Company furnishes various forms of information and data, and otherwise maintains an environment that facilitates the performance of swift and accurate audits. The certified public accountancy that performs such services and assistants involved with audit work are as follows:

Designated Unlimited Liability Partner, Engagement Partner, Certified Public Accountant: Takahiro Shinohara
Designated Unlimited Liability Partner, Engagement Partner, Certified Public Accountant: Joji Furukawa

Six Certified Public Accountants, five persons who have passed the certified public accountant examination and ten other persons

3. Reasons for Adoption of Current Corporate Governance System

When it comes to corporate governance, the Company believes the notion of ensuring that the function of management oversight enlists external objectivity and neutrality is of key importance, and has accordingly established its Audit and Supervisory Committee such that a majority of its membership consists of Outside Directors, one of whom possesses a high degree of independence. As such, the Company deems that the system operates sufficiently in terms of the function of management oversight, and has accordingly adopted the current system.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Energize General Shareholders Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholders Meeting	The Company strives to send out its Notifications of General Shareholders Meetings prior to the legally mandated deadline.
Scheduling AGMs Avoiding the Peak Day	The Company arranges to hold its annual general meetings of shareholders on dates that will make it possible for many shareholders to attend, and accordingly avoids holding such meetings on dates that are likely to have a concentration of such meetings held by other companies.
Allowing Electronic or Magnetic Exercise of Voting Rights	The Company posts Notifications of General Shareholders Meetings and notices of resolutions to its corporate website. In addition, the Company strives to make the explanations easy for shareholders to understand by presenting information in a visual format using slides at General Shareholders Meetings.

2. IR Activities

	Supplementary Explanations	Explanation by Representative
Regular Investor Briefings for Analysts and Institutional Investors	A Company's representative explains details of financial results and forward-looking strategy twice annually, with the first-half financial and year-end financial results.	Yes
Posting of IR Materials on Website	The following website link provides access to Financial Reports, other timely disclosure materials, and financial Results Briefings Materials: https://www.kotobukispirits.co.jp/	
Establishment of Department and/or Manager in Charge of IR	Department in charge of IR: Corporate Planning Division Manager in charge of IR: Shinji Matsumoto, Director and General Manager of the Corporate Planning Division	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Provisions to Ensure Due Respect for Stakeholders in Internal Rules, etc.	The Kotobuki Spirits Group Ethics Guidelines constitute codes and standards of conduct applicable to all Group employees. Accordingly, the guidelines stipulate that we show due respect toward all stakeholders involved with the Group, while endeavoring to maintain sound and positive relationships.
Formulation of Policies for Information Provision to Stakeholders	The Company strives to disclose information to each of its stakeholders in a timely, appropriate, and fair manner, and has accordingly established "Regulations on Information Disclosure" and "Regulations on Preventing Insider Trading."

IV. Matters Related to Internal Control System

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

1. Basic policy on business operations
The Company and the Group maintain basic policies applicable to all Officers and employees with respect to their execution of duties, underpinned by the management philosophy as follows.

[Management Philosophy]
To create happiness, provide happiness.

[Corporate Motto]
Thankfulness & Gratitude
Originality & Ingenuity
Earnestness & Sincerity

[Business Creed]
• We take our pleasure in pleasing our customers.
• We talk dreams each other, and strive daily to be the number one.
• We have consciousness of being professionals and true courage, and inspire people.
• We set high goals, earnestly strive, and accomplish them without fail.
• We will realize both materialistic and spiritual affluences by creating higher values.

The Company is aware that developing and operating systems that ensure proper business execution is a key responsibility of management, and accordingly builds its internal control system as follows. The Company keeps striving to appropriately develop its system of internal control in a manner that addresses changes in its internal and external environments.

2. Basic policy on internal controls
(1) System for retaining and managing information pertaining to execution of duties by Directors
Information pertaining to execution of duties by Directors is to be retained and managed in a manner that enables Directors to view it as necessary, and accordingly managed in adherence to laws and regulations, as well as with the regulations on document management and other internal regulations.

(2) Regulations and other system for managing risk of loss
The Company stipulates matters involving managing risk of loss stemming business executed by the Company and the Group in its regulations on approval document, regulations on accounting, regulations on sales management, regulations on purchasing management, and other such regulations on managing operations.
When risk of loss materializes, the Director in charge of duties relevant thereof addresses such risk in accordance with stipulations of internal regulations, and accordingly makes final decisions upon engaging procedures that include deliberations of the Board of Directors and approval, tailored to the degree of such risk.

(3) System for ensuring that the Directors execute their duties efficiently
To ensure that the Directors execute their duties efficiently, the Board of Directors holds meetings once per month, in principle, and extraordinary meetings when necessary, during the course of which the Directors are to make decisions on important matters and supervise the status of the Directors' execution of business.
With respect to business executed on the basis of decisions made by the Board of Directors, the organizational regulations, regulations on segregation of duties, and Regulations on Delegation of Authority stipulate matters involving respective persons in charge and their responsibilities, and procedures for executing their duties.
In managing their business results, the Company and the Group draw up quantitative targets constituting business plans, in a manner that involves clearly assigning targets and remaining thoroughly committed to profitability. The Group Executive Committee consists of the President & CEO, Officers in charge and relevant department heads, and holds meetings on a monthly basis. Its duties involve checking

business results and status of implementation of measures, ensuring managerial efficiency, soundness, and transparency, and prompt decision-making.

(4) System for ensuring that Directors and employees execute their duties in compliance with laws, regulations and the Articles of Incorporation

The Company and the Group clearly state the business philosophy (released on January 1, 2003) which forms criteria for assessing all matters based on the management philosophy. Furthermore, we draw up the "Kotobuki Spirits Group Ethics Guidelines" and "Compliance Regulations" with the aims of clarifying our fundamental stance on corporate ethics and legal compliance, and thoroughly adhere to the management philosophy and corporate ethics keeping all Officers and employees informed of such matters.

Moreover, we have established the "Compliance Committee" which acts as an organization that extends laterally across the Group and strives to develop, maintain and improve our compliance system.

The Board of Directors develops the regulations of the Board of Directors based on laws, regulations and the Articles of Incorporation, and furthermore sets standards for Board deliberations and reporting. The respective Directors mutually monitor and supervise execution of the Company's business, in accordance with such standards for deliberations and reporting.

The "Internal Audit Office" performs internal audits based on the Internal Audit Regulations in order to ensure appropriateness of systems of business operation.

The Company and the Group have established a whistleblowing system upon having specified "Regulations on Whistleblowing" that aim to facilitate corrective action and preventative measures appropriately taken on the basis of preventing violations of laws and regulations, etc., and achieving early detection thereof. The Company maintains confidentiality of details reported and ensures that whistle-blowers are not subjected to disadvantageous treatment.

(5) System for ensuring proper business operations in the Group, which consists of the Company as well as its parent company and subsidiaries

In managing its operations, the Group manages subsidiaries based on the "Regulations on Affiliate Management." Moreover, the Group Executive Committee engages in efforts that involve communicating the Group's business policies, reporting on business activities of respective Group companies, and supervising business execution.

In addition, decisions of key importance made by subsidiaries require approval procedures of the Company's Board of Directors, which makes adjustments to ensure that resources are allocated efficiently.

Business transactions between companies belonging to the Group are to be appropriately carried out in accordance with laws, regulations, accounting principles, tax laws, and other social norms.

The Internal Audit Office performs internal audits with respect to the Company and the Group, and reports its findings to the Representative Directors and Audit and Supervisory Committee of the Company and the Group.

(6) Matters regarding employees who assist in the duties of the Audit and Supervisory Committee, matters regarding such employees' independence from Directors, and ensuring effectiveness of instructions given to such employees

The Audit and Supervisory Committee may request that the Board of Directors assign an employee to assist with the duties of the Audit and Supervisory Committee when necessary. Moreover, decisions on the appointment, change, etc. of such employees are to be made upon having obtained prior consent from the Audit and Supervisory Committee in order to ensure independence in regard to such decisions.

The right to lead and direct such employees resides with the Audit and Supervisory Committee.

(7) System for enabling Directors, employees and others of the Company and its subsidiaries to report to the Company's Audit and Supervisory Committee, and system for ensuring that those who have reported will not become subject to unfavorable treatment as a consequence of having reported

Directors, employees and others of the Company and its subsidiaries are to swiftly report to the Audit and Supervisory Committee of the Company: statutory matters; incidents involving serious violations of laws, regulations, the Articles of Incorporation, and any facts of misconduct; and, details involving incidents that significantly affect the Company and Group, upon having become aware of such incidents.

Moreover, the Company has the department in charge of the whistleblowing system regularly report the status of whistleblowing and other such matters to the Audit and Supervisory Committee.
The Company ensures that the Group's Officers and employees who have reported to the Audit and Supervisory Committee are not subject to dismissal or unfavorable treatment otherwise as a consequence of their having reported.

(8) Other system for ensuring that Audit and Supervisory Committee audits are performed effectively
The Audit and Supervisory Committee members attend the Group Executive Committee meetings and other important meetings in order to gain an understanding of important decision-making processes and the status of business execution of the Board of Directors. The Audit and Supervisory Committee members may view important documents related to business execution and may furthermore seek explanations from Directors and employees as necessary.
Moreover, the Audit and Supervisory Committee receives explanations regarding accounting audits and explanations regarding operational audits from the Financial Auditor and the Internal Audit Office, respectively. The Audit and Supervisory Committee also coordinates efforts that involve exchanging information.
The Company honors requests from the Audit and Supervisory Committee members for the expenses, etc. incurred in performing their duties, unless such expenses, etc. are deemed unnecessary with respect to performing the duties of the Audit and Supervisory Committee.

(9) System for ensuring reliability of financial reporting
The Company builds the internal control system related to financial statements to appropriately take action with respect to its system for evaluating internal controls based on the Financial Instruments and Exchange Act, and also continuously evaluating such systems and taking corrective action to address any deficiencies. Meanwhile, the Company ensures that its financial reporting is reliable by striving to achieve appropriate operation of such systems.

Please refer to the "Timely Disclosure System Overview" diagram in the reference materials at the end of this report.

2. Basic Views on Eliminating Anti-Social Forces and Progress of Related Efforts

The Company and the Group maintain a basic policy of taking a firm stance on an organization-wide basis with respect to severing any and all ties with organizations or individuals that threaten safety and social order, and pose a serious threat to sound business operations.
The Company has clearly stated the basic policy in the "Kotobuki Spirits Group Ethics Guidelines" and has also prepared a manual detailing action to be taken in addressing unreasonable demands made by crime syndicates and other antisocial forces. Our efforts in this regard involve: striving to ensure that all of our Officers and employees are thoroughly informed; establishing a department to address such matters and assigning a manager to take charge of preventing unreasonable demands; enhancing coordination with external specialist institutions that include locally-based centers for removal of criminal organizations, police, and legal advisors; and, striving to improve systems and gather information.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not adopted

Supplementary Explanation
There are no plans for adoption at this time.

2. Other Matters Concerning Corporate Governance System

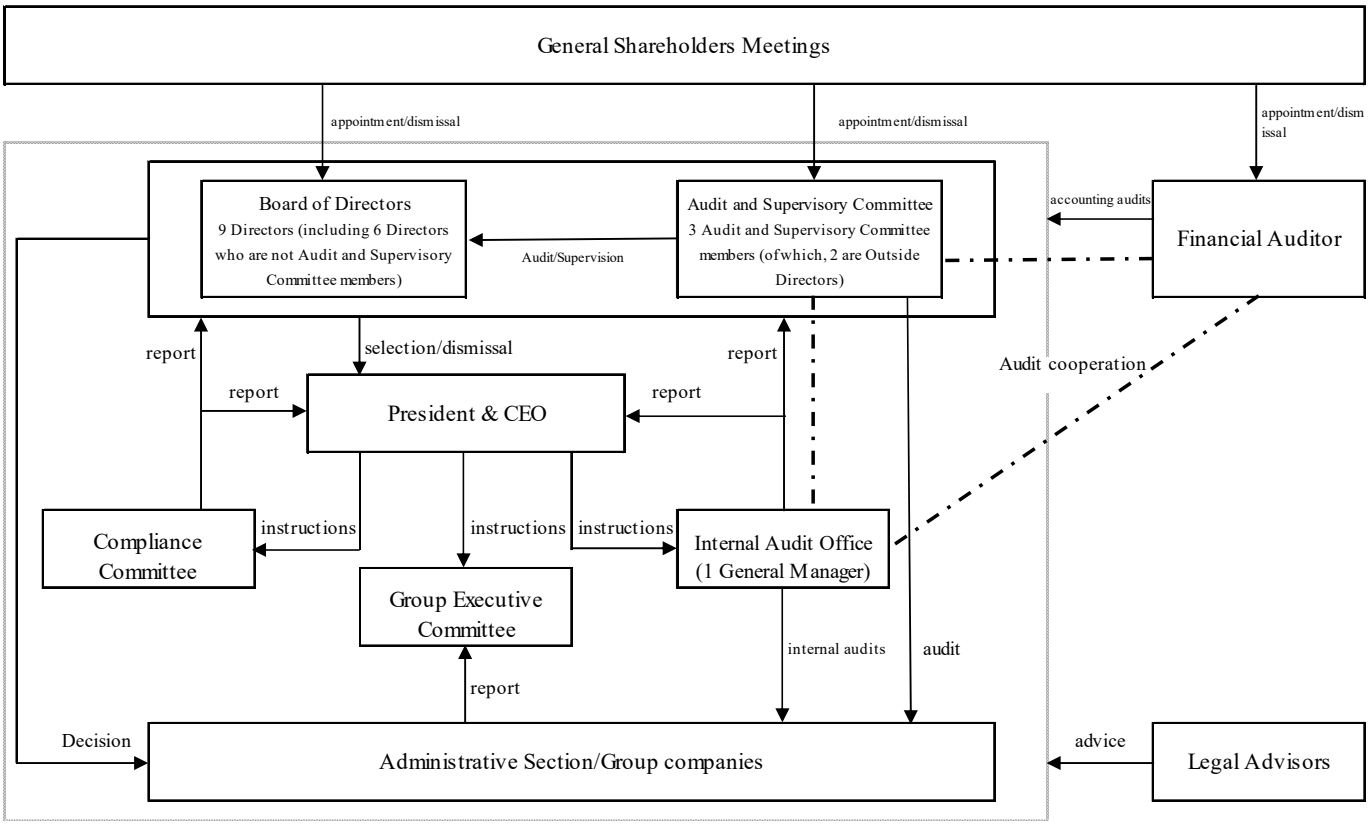
Details regarding the Group's internal system for ensuring timely disclosure of corporate information are as follows.
The Group handles information subject to timely disclosure as follows, premised on its fundamental stance with respect to providing timely and appropriate disclosure of corporate information to investors, such that is necessary in order for them to accurately determine investment value.
The Group has drawn up "Regulations on Information Management" and "Regulations on Information Disclosure," which accordingly stipulate basic matters necessary for management and disclosure of important information of the Group.

1. Organization responsible for timely disclosure
(1) Manager in charge of handling information: Shinji Matsumoto, Director and General Manager of the Corporate Planning Division
(2) Departments in charge of information disclosure: Corporate Planning Division

2. Internal system and the disclosure process
(1) Matters regarding facts of decisions made
Acting under the manager in charge of handling information, the departments in charge of information disclosure give prior consideration to the necessity of disclosing proposals requiring resolution by the Board of Directors. If such disclosure has been deemed necessary, then the departments in charge of information disclosure gain approval of the Board of Directors upon having reported the matter to the President & CEO, then promptly follow procedures for disclosure.

(2) Matters regarding facts of actual events
The manager in charge of handling information and the general managers of the departments in charge of information disclosure attend meetings of the Board of Directors and meetings of the Group Executive Committee, and accordingly strive to swiftly gain an understanding of facts that are potentially subject to disclosure.
If such an event occurs, then the general manager of the department involved and a manager of a subsidiary are to promptly report the matter to the manager in charge of handling information, and the department in charge of information disclosure is to immediately consider the need for disclosure. If disclosure has been deemed necessary, then the manager in charge of handling information follows the disclosure procedures without delay, upon having gained approval from the President & CEO.

(3) Matters regarding financial results
Acting under the manager in charge of handling information, the departments in charge of information disclosure prepare financial results disclosure materials and report the matter to the President & CEO, then subsequently follow procedures for disclosure upon having gained approval from the Board of Directors.


General Shareholders Meetings
appointment/dismissal
appointment/dismissal
appointment/dismissal
Board of Directors
9 Directors (including 6 Directors who are not Audit and Supervisory Committee members)
Audit/Supervision
Audit and Supervisory Committee
3 Audit and Supervisory Committee members (of which, 2 are Outside Directors)
accounting audits
Financial Auditor
report
selection/dismissal
report
Audit cooperation
report
report
President & CEO
report
Compliance Committee
instructions
instructions
instructions
Internal Audit Office
(1 General Manager)
Group Executive Committee
internal audits
audit
report
Decision
Administrative Section/Group companies
advice
Legal Advisors

【Timely Disclosure System (Overview Diagram)】

