

Last Update: November 15, 2019  
FANUC CORPORATION

Kenji Yamaguchi, President  
Contact: Keisuke Fujii, Manager, Public Relations  
TEL: 0555 (84) 5555  
Securities Code: 6954  
<https://www.fanuc.co.jp/eindex.htm>

The corporate governance of FANUC CORPORATION (the “Company”) is described below.

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

### **1. Basic Views**

Since its foundation, the Company has been engaged in business activities based on “Strict Preciseness and Transparency,” as its fundamental management policy.

The Corporate Governance Guidelines (the “Guidelines”) is posted on the Company’s website to provide basic views and other matters concerning corporate governance of the Company.

(<https://www.fanuc.co.jp/en/ir/guideline/index.html>)

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

The Company has implemented all of the Principles of the Corporate Governance Code.

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

[Principle 1.4 Strategic Share Holdings (So-called “Cross-Shareholdings” in the Corporate Governance Code)]

1 The Company will hold shares of other companies only when it is deemed necessary for the maintenance and expansion of the business of our Group from a medium and long-term perspective based on the benefits, such as the development of new products, the stable procurement of parts and materials, the maintenance of business relationships with customers, etc., upon considering the holding costs, etc. as well. Every year, we will perform an assessment based on such perspectives, and will strive to reduce the number of shares for which the holding significance is determined to be tenuous.

2 In exercising our voting rights of cross-held shares, we will comprehensively consider impact on our business and on management of such other companies, and other such matters, from a medium and long-term perspective, and then we will appropriately exercise such voting rights.

[Principle 1.7 Related Party Transactions]

For transactions involving director conflicts of interest and the like, such directors must obtain approval of the Board of Directors as required by laws and regulations, and we will provide guidance to officers and employees from time to time so that they will not impair the shared interests of shareholders.

[Principle 2.6 Roles of Corporate Pension Funds as Asset Owners]

In order to secure future benefit resources in a stable manner while considering the risks, the corporate pension fund is making investments for the purpose of securing overall profits that are deemed to be necessary in the long term.

Under the fund, the Asset Management Committee, which is led by the chief financial officer and is composed

of executives and staff of the Accounting Department and the Labor Department, is established. The asset management policy and asset composition ratio according to policy are evaluated by the Asset Management Committee, and then determined at the Conference of Representatives. Investment status is monitored on a regular basis.

The party who is entrusted with the investment of the fund accepts the Japanese version of the Stewardship Code.

The fund incorporates personnel who have the appropriate skills as well as having office workers attend outside seminars, etc. in order to improve their skills.

[Principle 3.1 Full Disclosure]

(i) Company Objectives (e.g., Business Principles), Business Strategies and Business Plans

We ensure the practice of the principle, “Strict Preciseness and Transparency,” which has been the principle of FANUC since its foundation.

Strict Preciseness

The permanence and soundness of a company are created by Strict Preciseness.

Transparency

The corruption of an organization and the collapse of a company start from opacity.

While firmly maintaining “Strict Preciseness and Transparency,” our Group strives to practice the following through the unified efforts of the Group.

- While keeping in mind the original notion that FANUC products are equipment to be used at production sites, we will ensure, in product development, that they are “Reliable, Predictable, Easy to Repair” in order to support our customers in minimizing downtime and improving the operating rates of their plants.
- Prioritizing service activities over sales activities, we will take a “Service First” attitude in which we provide high level services that meet the global standards of FANUC in all parts of the world.
- As long as customers continue to use FANUC products, we will keep on providing maintenance service, which we call “lifetime maintenance.”
- Under the slogan of “one FANUC,” we will make the fullest use of the following strength of our Group: the provision of total solutions that integrate FA, robots and robomachines, and the provision of customer service around the world as a united group.

(ii) Basic Views and Guidelines on Corporate Governance

We think it is important for the practical functioning of governance to share such an easy-to-understand and simple principle among all officers and employees of the Group.

We have the code of conduct while practicing “Strict Preciseness and Transparency,” we will make efforts to maintain a high level of awareness of officers and employees of our Group into the future.

(iii) Board Policies and Procedures in Determining the Remuneration of the Senior Management and Directors.

For remuneration of directors, we determine an amount of remuneration of inside directors, basically based on their positions, that consists of performance-based remuneration and fixed remuneration, and an appropriate amount of fixed remuneration of outside directors from the standpoint of ensuring independence, which are both determined by resolution of the Board of Directors within the remuneration limit approved at the shareholders’ meeting. This decision shall be made through the deliberation of the Nomination and Remuneration Committee, the majority of which is composed of independent outside

directors.

(iv) Board Policies and Procedures in the Appointment and Dismissal of Senior Management and the Nomination of Director and Audit & Supervisory Board Member Candidates

The appointment and dismissal of the candidates for directors, including the chief executive officer, shall be conducted through the deliberation of the Nomination and Remuneration Committee, the majority of which is composed of independent outside directors.

(v) Explanations with Respect to the Appointment, Dismissal and Nomination of Individuals

Explanations on each of the election and nomination of candidates for Directors and Audit & Supervisory Board Members upon their nomination

For the reasons for electing candidates for Outside Directors and those for Outside Audit & Supervisory Board Members, please refer to the sections “Directors” and “Audit & Supervisory Board Members” in this report. For other candidates for Directors and Audit & Supervisory Board Members, please refer to their personal histories in the Notice of Convocation of the Ordinary General Meeting of Shareholders posted on the Company’s website.

(<https://www.fanuc.co.jp/en/ir/meeting/index.html>)

[Supplementary Principle 4.1.1 Disclosure of Scope and Content of Matters Delegated to Management.]

In principle, the Board of Directors will delegate determinations regarding the execution of business to the President and CEO in order to make quick decisions, except matters that will be subject to arbitrary decisions by the Board of Directors as required by laws and regulations, and other important matters as set forth in the standards for matters referred to the meetings of the Board of Directors.

[Principle 4.9 Independence Standards and Qualification for Independent Directors]

We will select, as candidates for independent outside directors, individuals who have no material conflicts of interest and are expected to freely make honest statements, etc., at the meetings of the Board of Directors and in other situations. (For example, we would ensure that the amount of transactions between the company the individual worked for and our company accounts for small percent of the consolidated sales of each group, and (in the case where the individual worked for a bank) there are no borrowings.)

[Supplementary Principle 4.11.1 Balance between Diversity, Knowledge, and Experience etc. of the Board as a Whole]

We will select, as inside directors, individuals who are expected to contribute to the enhancement of corporate values, considering their past commitment to business, and we will select, as outside directors, individuals who have no material conflicts of interest and are expected to freely make honest statements, etc., at the meetings of the Board of Directors and in other situations.

[Supplementary Principle 4.11.2 The status of Directors and Audit & Supervisory Board Members Holding Concurrent Posts]

We disclose important concurrent posts of Directors and Audit & Supervisory Board Members along with the reasons for being selected as a candidate, in the reference documents for the notice of convocation of the general meeting of shareholders where the elections of Directors and Audit & Supervisory Board Members are proposed.

Additionally, at least once a year, the status of Directors and Audit & Supervisory Board Members holding of concurrent posts are checked and disclosed.

(<https://www.fanuc.co.jp/en/ir/meeting/index.html>)

[Supplementary Principle 4.11.3 Analyzing and Evaluating the Effectiveness of the Board of Directors]

As regards the evaluation of the effectiveness of the Board of Directors meetings, an external organization was contracted to perform a survey of all directors and auditors who constitute the Board of Directors this fiscal year.

As a result thereof, in addition to the evaluation being particularly high for there being an atmosphere in which opinions can be stated frankly, positive results were also obtained for the evaluation of the deliberation time and number of deliberation items, etc. as being appropriate. Through this, it has been confirmed that the Board of Directors meetings are sufficiently effective.

[Supplementary Principle 4.14.2 Training Policy for Directors and Audit & Supervisory Board Members]

We will provide explanation to directors and auditors from time to time, focusing on important matters under laws and regulations. The section in charge will provide explanation about the overview of management of our company, etc., at the time of their assumption of office, especially to outside directors and outside auditors, and provide other such opportunities so that they can deepen their understanding about management of our company, and we will also provide opportunities for lectures, etc., by outside experts and provide other such opportunities, and thus provide them with necessary support.

[Principle 5.1 Policy for Constructive Dialogue with Shareholders]

We have an SR (Shareholder Relations) Department to serve as a point of contact in relation to constructive dialogue with shareholders, and we are taking the following actions.

#### 1. Overview of SR (Shareholder Relations) Department

We think we should promote dialogue with shareholders, for the sustainable growth of the company and the medium and long-term enhancement of corporate value, while putting emphasis on our core business. We have an SR Department, as a section responsible for the promotion of constructive dialogue with shareholders both within and outside Japan.

#### 2. Policy on Promotion of Constructive Dialogue with Shareholders

The SR Department works on the following as measures for the promotion of constructive dialogue with shareholders.

##### (1) Dialogue with Shareholders

The SR Department actively promotes dialogue by providing shareholders with opportunities to participate in various meetings, factory tours, etc. Dialogues are lively, except that information that is likely to be regarded as insider information or may interfere with our business activities is not discussed.

##### (2) Opinions, etc. Provided in Dialogue

To promote the sustainable growth of our company and the medium and long-term enhancement of corporate value, we will make efforts to utilize opinions, etc., provided by shareholders through such dialogues.

#### 3. Point of Contact for Dialogue

Contact information is posted on our website (<https://www.fanuc.co.jp/en/ir/index.html>)

## 2. Capital Structure

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

### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	28,825,100	14.87
Japan Trustee Services Bank, Ltd. (Trust Account)	16,212,800	8.36
JPMorgan Chase Bank, N.A. 380055	6,549,542	3.38
SSBTC Client Omnibus Account	4,475,279	2.31
Citibank, N.A. - NY, as Depositary Bank for Depositary Shareholders	4,386,574	2.26
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,729,200	1.92
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,435,500	1.77
State Street Bank West Client - Treaty 505234	3,094,626	1.60
JPMorgan Chase Bank 385151	3,012,415	1.55
The Bank of New York Mellon 140044	2,974,836	1.53

Controlling Shareholder (excluding Parent Company)	—
Parent Company	None

### Supplementary Explanation

- As of March 31, 2019, the Company holds 10,211 thousand shares of treasury stock, but is excluded from the above list of the major shareholders.
- As of December 20, 2018, a large shareholding report was filed with the EDINET system by Sumitomo Mitsui Trust Bank, Limited which reported that Sumitomo Mitsui Trust Bank, Limited, together with other joint holders, held the following shares as of December 14, 2018. However, we are not able to confirm the substantial ownership of the shares. The said large shareholding report includes the following information:

Company Name : Nikko Asset Management Co., Ltd. and 1 other joint holder  
Number of shares owned : 13,162,300 shares  
Shareholding Ratio : 6.45%

### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Electric Appliances
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Net Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100.0 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

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

—

### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

—

## 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 Audit & Supervisory Board
-------------------	--

#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	18
Term of Office of Directors Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Chairman
Number of Directors	11
Appointment of Outside Directors	Appointed
Number of Outside Directors	3
Number of Independent 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	
Kazuo Tsukuda	From another company								Δ				
Yasuo Imai	From another company								○				
Masato Ono	From another company								Δ				

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"Δ" 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. Executive or non-executive Director 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/Audit & Supervisory Board Member

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's Outside Directors/Audit & Supervisory Board Members 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)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Kazuo Tsukuda	○	Although the Company has business transactions with Mitsubishi Heavy Industries, Ltd., at which Kazuo Tsukuda serves as Executive Corporate Advisor and served as Chairman and President, the transaction value accounts for less than 0.5% of consolidated net sales of both of the companies. Therefore, there is no risk of his independence being affected by that position.	In order to develop the Company's business steadily and to enhance its corporate value, it is quite effective to introduce to the Board of Directors an outsider's eye with a broad perspective and excellent insight. Kazuo Tsukuda has been providing the Company with extremely valuable advice, with his outstanding knowledge of manufacturing and extensive experience in management, having a deep understanding of the Company's business. He will be expected to continue to contribute to the Company's Board of Directors from an independent position as Outside Director. He does not correspond to any of the matters as defined by financial instrument exchanges that may involve conflict of interests with general shareholders, and is therefore deemed to be independent.
Yasuo Imai	○	Although the Company has business transactions with Air Water Inc., at which Yasuo Imai serves as Director, Vice Chairman of the Board, the transaction value accounts for less than 0.5% of consolidated net sales of both of the companies. Therefore, there is no risk of his independence being affected by that position.	After joining in the Ministry of International Trade and Industry (currently, the Ministry of Economy, Trade and Industry), Yasuo Imai had experience of being posted overseas as General Manager of the Washington Office of Japan National Oil Corporation. He successfully held a number of positions starting from the post of Deputy Director-General, Director-General of the Petroleum Department of Agency for Natural Resources and Energy. Subsequently he moved to the post of Director-General of the Manufacturing Industries Bureau, and then to the post of Commissioner of the Japan Patent Office. Based on these experiences, Yasuo Imai, being familiar with foreign affairs, has a global perspective and extensive knowledge concerning the manufacturing industry and the protection of intellectual property, etc. At the same time, he is currently an active corporate executive and is also knowledgeable about corporate management due to having more than 12 years' experience in business. Yasuo Imai has been providing the Company with extremely valuable



			<p>advice as Outside Director with his extensive experience in various fields and from his broad vision. He will be expected to continue to contribute to the Company's Board of Directors from an independent position as Outside Director.</p> <p>He does not correspond to any of the matters as defined by financial instrument exchanges that may involve conflict of interests with general shareholders, and is therefore deemed to be independent.</p>
Masato Ono	○	<p>Although the Company has business transactions with Total Insurance Service Limited, at which he served as Special Advisor until November 2018 and previously as President and CEO, the transaction value accounts for less than 1.0% of consolidated net sales of both of the companies. Therefore, there is no risk of his independence being affected by that position.</p>	<p>Our company has specialized in business activities in the narrow field of the automation of manufacturing and as such the Board of Directors consists mostly of Directors with engineering background focusing on its core business. Given this context, Masato Ono has been providing the Company with extremely valuable advice on enhancing corporate value from a totally different point of view by contributing to active discussions at the meeting of the Board of Directors based on his many years of experience in management of financial institutions. Although Masato Ono has served as Deputy President and Representative Director of Mizuho Financial Group, Inc., he meets the Company's criteria for independence of Outside Directors and Outside Audit &amp; Supervisory Board Members (see the section "Independent Directors/Audit &amp; Supervisory Board Members"), (The Company has never applied for a loan from any bank of Mizuho Financial Group.), it has been over 11 years since he retired as Director of the Mizuho Financial Group, Inc., and there is no risk of his independence being affected by this position. He will be expected to continue to contribute to the Company's Board of Directors from an independent position as Outside Director.</p> <p>He does not correspond to any of the matters as defined by financial instrument exchanges that may involve conflict of interests with general shareholders, and is therefore deemed to be independent.</p>

Establishment of Voluntary Committee(s)  
Corresponding to Nomination Committee or  
Remuneration Committee

Established

## Advisory Committee(s) to the Board, Composition and Attribution of Chairperson

	Name of Committee	Total Number of Members	Internal Directors	Outside Directors	Chairman
Committee Corresponding to Nomination Committee	Nomination and Remuneration Committee	5	2	3	Inside Director
Committee Corresponding to Remuneration Committee	Nomination and Remuneration Committee	5	2	3	Inside Director

With respect to the appointment and dismissal and remuneration of the directors, as well as the plan for the successors, such as the chief executive officer, etc., we will establish the Nomination and Remuneration Committee, the majority of which is composed of independent outside directors, and we will secure the objectiveness, transparency, etc. of the procedures through the deliberation of such Committee.

### [Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	5
Number of Audit & Supervisory Board Members	5

## Cooperation among Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Departments

Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Department exchange information as needed, in an effort to achieve better mutual coordination.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board Members	3
Number of Independent Audit & Supervisory Board Members	3

## Outside Audit & Supervisory Board Member's Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Masaharu Sumikawa	From another company										Δ			
Hajime Harada	Attorney at law													
Hidetoshi Yokoi	Professor													

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"Δ" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

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

a. Executive of the Company or its subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

- c. Non-executive director or executive of a parent company of the Company
- d. Audit & Supervisory Board Member of a parent company of the Company
- e. Executive of a fellow subsidiary company of the Company
- f. A party whose major client or supplier is the Company or an executive thereof
- g. Major client or supplier of the Company or an executive thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an Audit & Supervisory Board Member
- i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board Member himself/herself only)
- k. Executive of a company, between which and the Company's Outside Directors/Audit & Supervisory Board Members are mutually appointed (the Audit & Supervisory Board Member himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board Member himself/herself only)
- m. Others

---

Outside Audit & Supervisory Board Member's Relationship with the Company (2)

---

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons of Appointment
Masaharu Sumikawa	○	Although the Company has business transactions with Hitachi, Ltd., at which Masaharu Sumikawa served as Executive Vice President and Executive Officer, the transaction value accounts for less than 0.5% of consolidated net sales of both of the companies. Therefore, there is no risk of his independence being affected by that position.	Masaharu Sumikawa, who has extensive knowledge based on his many years of experience in corporate management in the manufacturing industry, has been providing the Company with advice, etc. from a point of view different from that of the Company while having a deep understanding of the manufacturing industry, contributing greatly not only to statutory audit activities but to the Board of Directors and other meetings that require active and rational discussions. We believe that we can expect him to continue to contribute to the Board of Directors. He does not correspond to any of the matters as defined by financial instrument exchanges that may involve conflict of interests with general shareholders, and is therefore deemed to be independent.

Hajime Harada	○	—	<p>Hajime Harada has been providing the Company with extremely valuable advice whenever necessary based on his wide experience and knowledge as a lawyer.</p> <p>Although his term of office as Outside Audit &amp; Supervisory Board Member of the Company will have been for 15 years, he has no business transactions with or interest in the Group. As a lawyer, Hajime Harada has a responsibility under the Basic Rules on the Duties of Practicing Attorneys to “maintain his or her freedom and independence” (Article 20 of the Rules) and to “perform his or her duties fairly” (Article 5), and in fact he gives his frank opinion from an independent standpoint. We therefore believe that he maintains sufficient independence now and in the future. In particular, he has a deep understanding of corporate governance, an issue that has grown increasingly important in recent years, gained through his experience including service as a lawyer on compliance committees at another listed company for many years. Furthermore, he has advanced, wide-ranged and specialized knowledge, based on his experience including court cases in a variety of fields such as systems development, intellectual property rights, antimonopoly law, international joint ventures, and claims collection. For these reasons, we can expect him to continue to offer appropriate advice from an extremely broad perspective with regard to risks that the Company may face in the future and other matters. He does not correspond to any of the matters as defined by financial instrument exchanges that may involve conflict of interests with general shareholders, and is therefore deemed to be independent.</p>
---------------	---	---	--

Hidetoshi Yokoi	○	—	Hidetoshi Yokoi has extensive knowledge in the manufacturing field as well as insight built upon his activities at Japan Science and Technology Agency, which tackles various issues in response to the needs of society. As we believe that we can expect him to provide appropriate advice with a broad perspective eyeing society as a whole based on these knowledge and insight. He does not correspond to any of the matters as defined by financial instrument exchanges that may involve conflict of interests with general shareholders, and is therefore deemed to be independent.
-----------------	---	---	--

#### [Independent Directors/Audit & Supervisory Board Members]

Number of Independent Directors/Audit & Supervisory Board Members	6
---	---

#### Matters relating to Independent Directors/Audit & Supervisory Board Members

The Company has designated all of its Outside Directors/Audit & Supervisory Board Members who satisfy the qualification for an Independent Director/Audit & Supervisory Board Member as Independent Director/Audit & Supervisory Board Members.

With regard to Independent Outside Directors and Outside Audit & Supervisory Board Members, the Company nominates candidates who do not have any certain interest in the Company, and who can be expected to make frank comments without hesitation at Board of Directors meetings, etc. Furthermore, in order to ensure such real independence, as minimum requirements, candidates must meet each of the following conditions.

1. Business transactions between the Company and the company from which the candidate comes must amount to less than 2% of the respective consolidated sales of both companies.
2. The Company must not have any loans from the company from which the candidate comes (if the candidate comes from a bank.)
3. The Company must not have any important transactions such as advisory contracts with the candidate or the firm he works for (if the candidate is a lawyer or other professional.)
4. The candidate must not come from the audit firm that is the Company's Accounting Auditor.
5. There must be no other particular reason that could give rise to a conflict of interest with the Company.
6. The candidate must not be the spouse or a relative within the second degree of anyone who does not meet the above conditions 1 through 5.

#### [Incentives]

Incentive Policies for Directors	Implementation of Performance-linked Remuneration System
----------------------------------	--

#### Supplementary Explanation

—

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

#### Supplementary Explanation

—

**[Director Remuneration]**

Disclosure of Individual Directors' Remuneration	Selected Directors on an individual basis
--	---

**Supplementary Explanation**

The Company discloses the information of remuneration above in accordance with the relevant laws and regulations including the Companies Act, the Financial Instruments and Exchange Act, and the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc.

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

**Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods**

The upper limit of the total annual remuneration, etc. for Directors was set at the total amount of followings by resolution of the 37th Ordinary General Meeting of Shareholders of June 28, 2006.

- 1) Fixed annual aggregate ceiling amount of ¥1 billion
- 2) Variable aggregate ceiling amount, which is set at the consolidated net profit of each half year multiplied by 1/25 of the dividend payout ratio (%). (It should be noted, however that the variable amount for the first half of the fiscal year shall be paid in the second half of the relevant fiscal year and that for the second half shall be paid in the first half of following fiscal year.)

Note: The payout ratio (%) shall be calculated in accordance with the following formula for each half year:

Payout ratio for the first half of the fiscal year (April to September)= Amount of interim dividend per share for said period ÷ Consolidated net income per share for said period × 100

Payout ratio for the second half of the fiscal year (October to March next year)= Amount of year-end dividend per share for said fiscal year ÷ (Consolidated net income per share for said fiscal year—consolidated net income per share for first half of said fiscal year) × 100

The upper limit of the total annual remuneration, etc. for Audit & Supervisory Board Members was set at 250 million yen by resolution of the 45th Ordinary General Meeting of Shareholders of June 27, 2014.

**[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]**

Information is provided as necessary to Outside Directors from the concerned department of the Company, and to Outside Audit & Supervisory Board Members from Standing Audit & Supervisory Board Members.

**[Those who Resign from President and Representative Director etc.]**

Name etc. of Senior Advisor/Advisor who is a Former President and Representative Director etc.

Name	Title/Status	Content of Operation	Working Pattern/Conditions (Full time/Non-Full time, With/Without Compensation, Etc.)	Resignation Date from President, Etc.	Term of Office
Seiuemon Inaba	Honorary Chairman	*	Non-Full time / Without Compensation	June 29, 2000	Not Specified

Total Number of Senior Advisor/Advisor who is a Former President and Representative Director, etc.	1
--	---

- \* Only using an official title “Honorary Chairman” without substance of operation, service and compensation, etc.

The above only describes relevant persons as of June 27, 2019.

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

The Company is a company with an Audit & Supervisory Board.

The Company has a Board of Directors comprised of 11 Directors (including 3 Outside Directors), as well as an Audit & Supervisory Board comprised of 1 Standing Member and 3 Outside Members.

A Nomination and Remuneration Committee, the majority of which is comprised of independent Outside Directors, has been established to deliberate the appointment and dismissal of Directors and their remuneration, in order to ensure objectivity and transparency of the procedures.

Presidents of subsidiaries regularly report the status of their businesses to the Company and receive prior approval on important matters.

Ernst & Young ShinNihon LLC is in charge of the accounting audit of the Company.

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

As the business environment in which the Company operates evolves rapidly, the Board of Directors will not be able to make appropriate management decisions without obtaining accurate information on customers, market trends, service status, and others. Given such circumstances, in principle, Directors other than Outside Directors, engage in the execution of business under a scheme in which they are routinely involved in business operations, individually seek out accurate information, and bring such information to the attention of the Board of Directors. The Company has elected to establish an Audit and Supervisory Board to enhance such functions.

In addition, an optional Nomination and Remuneration Committee has been established to ensure objectivity and transparency of procedures regarding the nomination and remuneration of Directors.

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

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

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Notice of Convocation of the Ordinary General Meeting of Shareholders for the fiscal year ended March 31, 2019 held on June 27, was sent on June 6. In addition, the Company posted the same Notice on its website prior to its delivery on May 31.
Exercise of Voting Rights by Electronic Methods	Shareholders can cast their votes from the website for exercise of voting right for General Meeting of Shareholders designated by the Company.
Participation in Electronic Voting Platform and Other Efforts to Enhance the Environment for the Exercise of Voting Rights by Institutional Investors	The Company participates in an electronic voting platform.
Provision of Convocation Notice (Summary) in English	For the convenience of foreign shareholders, the Company prepared an English translation of the Notice of Convocation of the Ordinary General Meeting of Shareholders for referential purpose.
Others	The Notice of Convocation of the Ordinary General Meeting of Shareholders has been posted on the Company's website.

#### 2. IR Activities

	Supplementary Explanations	Explanation by Representative
Regular Briefings for Analysts and Institutional Investors	After the announcement of the financial result of the second quarter and the fourth quarter, financial results briefings and factory tours were held for analysts and institutional investors. After the announcement of the financial result of the first quarter and the third quarter, conference calls were held. The Company will organize such financial results briefings, etc. going forward as well.	Yes
Posting of IR Materials on the Website	Reference materials related to financial results have been posted on the Company's website.	
Others	The Company established Shareholder Relations Department on April 1, 2015, and has held constructive dialogues with shareholders both at home and abroad.	



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

	Supplementary Explanations
Implementation of Environmental Activities, CSR Activities, etc.	<p>The Company set out its environmental policies in an effort to contribute to the conservation of nature. Detailed information about this activity is described in the Company's "Environmental Report", which is posted on the Company's website.</p> <p>In addition, the Company also discloses the Company's activities including CSR Activities as ESG-Related Information on the Company's website.</p>
Other	<p><b>【Promoting the Active Participation of Women】</b></p> <p>The Company strives to ensure that employees can play an active part in the workplace regardless of factors such as nationality or gender. We make it a priority to support the active participation of women by creating a comfortable workplace environment that allows women to pursue their careers continuously. This includes enhancing various benefits such as maternity leave, child-care leave, and shorter working hours until children finish elementary school. In addition, we offer an in-house nursery among others. (Thanks to these endeavors, 100% of female employees who have taken child-care leave during the past three years have returned to work.)</p> <p>We aim to have 10% of its regular workforce be composed of women, and 5% of employees who are newly appointed in managerial positions be female. We already have women in the roles of Managing Officer and Officer, and are always on the lookout for suitable female candidates who can contribute to increasing enterprise values as board members.</p>

## IV. Matters Related to the Internal Control System

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

**(1) Policy concerning the storage and management of information regarding the execution of the Company's Directors' duties:**

Pursuant to its documentation rules, the Company shall document and store information on the execution of the Directors' duties. The Directors and Audit & Supervisory Board Members shall have access to such documents at all times.

**(2) Rules concerning management of the Company's exposure to the risk of loss and other policies:**

With regard to risks related to compliance with law, environment, disasters, quality, export control, etc., officers in charge of risk management shall institute rules and guidelines, conduct training, and prepare and distribute manuals. Upon the occurrence of any new risk, any officer responsible thereof shall be designated promptly. The Internal Audit Section, which is under direct control of the representative director, will conduct internal auditing of the execution of each department's functions.

**(3) Policy to ensure efficient execution by the Company's Directors of their duties:**

The Company shall ensure efficient execution by the Directors of their duties by using the following management policies:

- (i) Deliberation of vital matters in various major meetings between Directors and main employees.
- (ii) Approval of vital matters and reports on monthly settlement of accounts at meetings of the Board of Directors, to be held at least once per month.

**(4) Policy to ensure the execution by the Company's Directors and employees of their duties to comply with laws or ordinances and the Articles of Incorporation:**

The Company shall offer training to the Directors and employees with regard to laws, ordinances, Articles of Incorporation, and other internal rules to ensure that the execution of the duties of the Directors and

employees complies with laws or ordinances, and the Articles of Incorporation. Furthermore, the basic policy of having no affiliation with anti-social forces will be thoroughly made known to the Directors and employees, and unreasonable demands from anti-social forces will be handled systematically in collaboration with lawyers, police and other such experts and institutions outside the Company.

**(5) Policy to secure the properness of business activities of the corporate group comprised of the Company and its subsidiaries:**

- (i) Policy regarding reporting to the Company of the execution of the duties of the Directors of the Company's subsidiaries.**
- (ii) Rules and other policies regarding management of exposure to the risk of loss of the Company's subsidiaries.**
- (iii) Policy to ensure efficient execution of the duties of the Directors of the Company's subsidiaries.**
- (iv) Policy to ensure that the execution of the duties of the Directors and employees of the Company's subsidiaries complies with laws or ordinances and the Articles of Incorporation:**

We will strive to enhance corporate governance in our corporate group by thoroughly disseminating the group's code of conduct applied to our corporate group. The top official of the subsidiary of the Company shall periodically report the state of its business to the Company as well as receiving prior approval on important issues. Furthermore, the officers in charge of risk management set forth in item (2) above shall institute rules and guidelines, conduct training, and prepare and distribute manuals for the Company's subsidiaries whenever necessary. In addition, the Company's Internal Audit Department will conduct internal audits of the Company and its subsidiaries, in an effort to enhance the risk management system.

**(6) Policy concerning the assignment of employees to assist the Company's Audit & Supervisory Board Members to execute their duties, when the Audit & Supervisory Board Members so request:**

The Company shall assign its employees to assist the Audit & Supervisory Board Members to execute their duties whenever necessary.

**(7) Policy for below, other policies for reporting to the Company's Audit & Supervisory Board Members, and other policies to ensure effective audits by the Company's Audit & Supervisory Board Members:**

- (i) Policy for the Company's Directors and employees to report to the Company's Audit & Supervisory Board Members**
- (ii) Policy for Directors, Audit & Supervisory Board Members or employees of the Company's subsidiaries, or a person who has received a report from a Director, Audit & Supervisory Board Member or employee of the Company's subsidiary to report to the Company's Audit & Supervisory Board Member.**

By attending meetings of the Board of Directors and various major meetings set forth in (3) above, the Audit & Supervisory Board Members shall share information necessary for management with the Directors and employees. When directors and employees detect any material fact of violation of laws and ordinances and the Articles of Incorporation or incident which could have a materially negative impact on the Company, they are required to immediately report such facts or incidents to the Audit & Supervisory Board Members.

**(8) Policy for protecting the person conducting the internal reporting in the above 7 (whistleblower) from retaliation for having reported.**

The person reporting as in the above 7 (whistleblower) will not receive any disadvantageous treatment due to having reported to an Audit & Supervisory Board Member.

- (9) **Matters concerning advance payment or reimbursement for expenses incurred from the execution of the Company's Audit & Supervisory Board Member's duties and other policies regarding expenses incurred from the execution of the Company's Audit & Supervisory Board Member's duties or processing of debts.**

Requests for advance payment and others for expenses generated for the execution of an Audit & Supervisory Board Member's duties will be granted except in such cases where the expense is deemed unnecessary for the execution of the Audit & Supervisory Board Member's duties.

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

The Company has no relationship with anti-social forces or organizations that threaten order and safety of society.

The Company is a member of the Council for Measures for Corporate Protection in Yamanashi, and has established a system to closely cooperate with external specialists such as attorneys at law and the police as well as relevant public agencies.

## **V. Others**

### **1. Adoption of Anti-Takeover Measures**

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

Supplementary Explanation
---------------------------

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

The Company has an internal system as follows for the purpose of timely disclosure of corporate information.

- (1) Information on the Company and its subsidiaries that may be subject to obligation for timely disclosure shall be collected by the departments of the Company which are in charge of information disclosure (Legal Department, Public Relations Department, Shareholder Relations Department, Finance & Accounting Department, etc.).
- (2) The departments of the Company which are mainly in charge of information disclosure shall evaluate whether timely disclosure is required or not, pursuant to the Financial Instruments and Exchange Act, rules for timely disclosure in financial instruments exchanges, etc.
- (3) The departments of the Company which are in charge of information disclosure shall make a report to the Chairman and President without delay, and shall make timely disclosure of determined material facts and financial results after obtaining approval from the Board of Directors, as well as disclose facts which occurred regardless of the Company's intent, immediately after they occurred.

Overview of the Company’s Internal Control System

