

Corporate Governance Report

Last update	April 21, 2025
MonotaRO Co., Ltd.	
President and Chief Operating Officer	Sakuya Tamura
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Securities code:	3064
https://www.monotaro.com	

The corporate governance of MonotaRO (hereinafter “the Company”) is as follows.

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

1. Basic concept

In order to meet the expectations and trust of all stakeholders, including shareholders, and to continuously improve corporate value, the Company believes that it is important to conduct sound and transparent management while striving for agility and efficiency. Corporate governance is a mechanism to support such corporate activities of the Company and to ensure sound and transparent management while striving for agility and efficiency, and the Company will strive to strengthen and enhance its corporate governance.

【Disclosure based on each of the principles of the Corporate Governance Code】

[Principle 1-4: Policy on Cross-Shareholdings]

Cross-shareholdings policy

The Company does not currently hold any cross-shareholdings. We do not intend to hold any cross-shareholdings in the future, except in cases where it is deemed to contribute to the enhancement of our corporate value in the medium- to long-term.

Furthermore, regarding the exercise of voting rights when holding cross-shareholdings, we intend to exercise such rights appropriately based on whether or not it will contribute to the sustainable growth and long-term corporate value of the issuing company.

[Principle 1-7: Related Party Transactions]

Matters concerning competitive and conflict-of-interest transactions between the Company and its directors and executive officers are subject to approval by the Board of Directors. We will determine the terms and conditions of such transactions in accordance with appropriate procedures so as not to harm the interests of the Company and its shareholders, disclose the details of such transactions, and have the Board of Directors monitor them.

[Supplementary Principle 2-4-1: Ensuring Diversity]

The Company aims to be a company where anyone with passion and talent can demonstrate their abilities and play an active role, and we provide opportunities for promotion to management positions regardless of gender, nationality, or whether you are a mid-career hire. At the Company, 18.3% of management positions are held by women, 93.9% of employees are mid-career hires, and 1.7% are foreign nationals. Among assistant-manager-class leaders, 32% are women (as of December 31, 2024). Furthermore, the percentage of locally hired managers at our overseas subsidiaries is 100% at NAVIMRO, 98% at IB MONOTARO, and 90% at MONOTARO INDONESIA, respectively (as of December 31, 2024).

We are aiming to raise the percentage of women in management positions to 25% by 2030. In terms of the percentage of both female employees and female managers, the Company ranks above average within the industry and has been awarded the three-star Eruyoshi certification and the Kurumin certification. We are also making efforts to further promote diversity by improving our internal systems and holding various seminars, and we aim to further expand our pool of potential recruits by disseminating information about our initiatives outside the Company.

[Principle 2-6: Roles of Corporate Pension Funds as Asset Owners]

The Company does not have a corporate pension plan and therefore does not manage corporate pension reserves.

[Principle 3-1: Full Disclosure]

To ensure that all stakeholders have an accurate understanding of the Company and that we continue to develop in a

healthy manner, we disclose information appropriately in accordance with laws and regulations. Even for matters not covered by laws and regulations, we actively and continuously disclose information that may affect investment decisions.

(1) Management philosophy and management strategy

Management philosophy: Please refer to the Company's website.

(https://corp.monotaro.com/en/ir/management/management_02.html).

Management strategy: Please refer to the quarterly financial results presentation materials.

(2) Basic concept and basic policy regarding corporate governance at the Company

Please refer to the Company's website (<https://corp.monotaro.com/en/ir/cg/index.html>) and securities reports.

(3) Policy and procedures regarding compensation of executive officers and directors

Please refer to the Company's website (<https://corp.monotaro.com/en/ir/cg/index.html>).

(4) Policy and procedures for the appointment and dismissal of executive officers and the nomination of candidates for directors

As a company with a Nomination Committee, proposals regarding the appointment and dismissal of directors are determined by the Nomination Committee and are resolved at the General Meeting of Shareholders.

Executive officers are appointed or dismissed by resolution of the Board of Directors, and their appointment is usually accompanied by appointment to other important positions within the Company.

When appointing directors and executive officers, we appoint individuals who meet the following criteria.

(Criteria for appointing internal director candidates)

- a. Possesses both expertise and business experience related to competitive advantages of the Company and the foundations for realizing those advantages, as well as the capability to appropriately manage the Company.
- b. Demonstrates excellent decision-making and executive management abilities.
- c. Exhibits strong leadership, decisiveness, foresight, and planning skills.
- d. Possesses the character and discernment appropriate for a director.
- e. Has no health issues that would impede the performance of duties as a director.

(Criteria for appointing independent director candidates)

- a. A person who meets the requirements for independence set forth in the "Criteria for determining the independence" below.
- b. A person who has the ability to appropriately manage the Company's operations (details are specified separately in the skills matrix).
- c. A person who has the character and insight appropriate for an independent director and is capable of participating in constructive discussions.
- d. A person who has no health or work-related issues that would interfere with the performance of duties as an independent director.

(Criteria for determining the independence of independent director candidates)

An independent director candidate shall be deemed to be independent if they do not fall under any of the following categories.

- 1) An executive officer of the Company, a subsidiary of the Company, a parent company of the Company, or a fellow subsidiary of the Company (i.e., a subsidiary of the Company's parent company).
- 2) A director or auditor of the Company's parent company or subsidiary.
- 3) A person for whom the Company is a major client (i.e., one who received payments from the Company or its subsidiaries amounting to 2% or more of their annual consolidated net sales in the most recent fiscal year), or an executive officer thereof.
- 4) A major business partner of the Company (i.e., one who made payments to the Company or its subsidiaries amounting to 2% or more of the Company's annual consolidated net sales in the most recent fiscal year), or an executive officer thereof.
- 5) An executive officer of a company to which the Company or its subsidiaries has dispatched directors.
- 6) A consultant, accounting professional, or legal professional who has received monetary or other economic benefits (excluding officer compensation) averaging 10 million yen or more annually over the past three years from the Company or its subsidiaries.
- 7) A person who fell under any of the categories listed in (1) through (6) above within the past five years.
- 8) A person who was previously an executive officer of the Company or any of its subsidiaries.
- 9) A spouse or a relative within the second degree of kinship of any person listed in (1) through (8) above.

(Criteria for appointing executive officers)

- a. Specialized business experience in the following areas, which constitute competitive advantages of the Company and the foundations for realizing those advantages.
 - a) Merchandizing
 - b) Marketing and sales
 - c) Procurement and supply chain network
 - d) Operations management
 - e) Data and algorithms
 - f) Software
 - g) Human resources, organization, risk management, and accounting
- b. Curiosity and imagination to create better services
- c. A spirit of challenge and relentless execution
- d. Respectful communication and leadership to create a positive culture worldwide

Furthermore, if a director or executive officer commits an act that violates laws, regulations, or the Articles of Incorporation, deliberations are held to decide on a proposal for the dismissal of the director or a resolution of the dismissal of the executive officer.

(5) Explanation of the appointment and dismissal of executive officers and the appointment, dismissal, and nomination of candidates for directors

The reasons for the appointment of directors are disclosed in the notice of convocation of the General Meeting of Shareholders at the time the proposal for the appointment of directors is submitted. When appointing executive officers, we make decisions based on a comprehensive evaluation of each candidate's business experience and specialized knowledge, in accordance with the appointment policy outlined in (4) above. The main career histories of directors and executive officers are disclosed in the securities report.

Furthermore, if a director or executive officer commits an act that violates laws, regulations, or the Articles of Incorporation, deliberations are held to decide on a proposal for the dismissal of the director or a resolution of the dismissal of the executive officer.

[Supplementary Principle 3-1-3 (Sustainability Initiatives)]

Sustainability initiatives of the Company are disclosed on its website.

Sustainability: https://corp.monotaro.com/en/ir/sustainability/sustainability_01.html

TCFD: https://corp.monotaro.com/en/ir/sustainability/sustainability_02.html#anchor14

[Supplementary Principle 4-1-1 (Clarification of the Role of the Board of Directors and the Scope of Delegation to Management)]

The Board of Directors shall determine the strategic direction of the Company and welcome proposals based on sound entrepreneurial spirit from the management team, consisting of the President and Chief Operating Officer, other executive officers, and division managers, and shall review such proposals from an independent perspective in a multifaceted and thorough manner to ensure accountability. When such proposals are implemented, they will be supported and monitored effectively.

In addition, in order to separate business execution and supervision and ensure management transparency, the Company has established a Nomination Committee. Executive officers conduct organizational operations based on authority delegated by the Board of Directors, and the Board of Directors supervises the execution of duties by executive officers.

[Principle 4-9 (Criteria for Determining the Independence and Qualifications for Independent Outside Directors)]

The Company appoints independent outside directors in accordance with its standards, which are based on the criteria for independence established by the Tokyo Stock Exchange.

[Supplementary Principle 4-10-1 (Approach to the Independence of the Composition of the Committees, as well as its Authority, Roles, etc.)]

In order to separate business execution and supervision and ensure management transparency, the Company has opted to be a company with a Nomination Committee, and has established a Nomination Committee, an Audit Committee, and a Compensation Committee. For details on the independence, authority, and roles of each committee, please refer to "II 2. 1) a. (a) Board of Directors."

[Supplementary Principle 4-11-1 (Approach and Procedures Regarding the Diversity and Size of the Overall Board of Directors)]

The Company has set the number of members of the Board of Directors at 10 or fewer in order to enhance deliberations, and has appointed a majority of independent outside directors. We also strive to ensure a system that enables discussions from diverse and insightful perspectives by inviting individuals with high levels of expertise and

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experience from a wide range of fields to serve as directors.
The skills matrix for directors of the Company can be found on the last page of this report.

[Supplementary Principle 4-11-2 (Concurrent Positions Held by Directors)]

The Company discloses information regarding the significant concurrent positions held by directors in the notice of convocation of the General Meeting of Shareholders, securities reports, and other documents. Candidates are selected after confirming that their concurrent positions will not interfere with their duties as directors of the Company, taking into consideration the time and effort required to perform their duties as directors.

[Supplementary Principle 4-11-3 (Results of Analysis and Evaluation of the Effectiveness of the Overall Board of Directors)]

The Company will conduct an evaluation of the effectiveness of the Board of Directors by all directors at least once a year at a meeting of the Board of Directors, and based on that evaluation, we will discuss ways to further improve the functioning of the Board of Directors and disclose the details as necessary.

The results and analysis of the evaluation of the effectiveness of the Board of Directors conducted in FY2024 are summarized below.

The Company conducted a survey of each director regarding the effectiveness of the Board of Directors and analyzed and evaluated the results at a meeting of the Board of Directors. Based on the results, we have determined that the Board of Directors is effective in general, with active discussions taking place among its members, who represent a diverse range of backgrounds. On the other hand, it has been pointed out that there are issues regarding the selection of agenda items and the weight given to the length of discussions with a view to the medium to long term. Therefore, we have decided to review agenda items and improve the annual schedule development of the Board of Directors with a view to further enhancing effectiveness. In addition, we confirmed specific initiatives for the future regarding the establishment of a system to enable new directors to quickly demonstrate their expertise and contribute to stimulating discussion, as well as the sharing of information on committee activities. We will continue to promote initiatives to further enhance effectiveness.

[Supplementary Principle 4-14-12 (Training Policy for Directors)]

The Company provides opportunities for independent directors to visit customers and explains its business to newly appointed directors so that they can participate in discussions with an appropriate understanding of its business and situation. We also provide opportunities for directors to deepen their understanding of agenda items, such as by holding education sessions with outside lecturers as necessary.

[Principle 5-1 (Policy on Constructive Dialogue with Shareholders)]

The Company believes that it is important to engage in constructive dialogue with shareholders on a daily basis in order to achieve sustainable growth and enhance corporate value over the medium to long term. Therefore, we have established an IR system led by the Executive Officer and General Manager of Business Administration Department in charge of IR and the Investor Relations and Public Relations Group overseeing IR, and we will actively engage in dialogue with shareholders and investors within reasonable limits while managing insider information in order to deepen their understanding of the Company. As means of communication other than individual meetings, we hold financial results briefings for analysts once every six months and individual investor briefings at least once a year. In addition, we have established a system under which the IR Group reports the opinions and concerns of shareholders and investors obtained through dialogue to management in a timely manner.

[Principle 5-2 (Establishing and Disclosing Management Strategies and Business Plans)]

[Measures for realizing management that takes into account capital costs and stock prices] [English disclosure available]

The Company discloses an overview of its basic approach to capital allocation based on an understanding of its capital costs.

The Company calculates the cost of equity capital using the CAPM method and the equity yield method, which reflects the return expected by the stock market for the Company. Under the CAPM method, the estimated dividend yield is approximately 7%, and under the equity yield method, assuming that the stock market expects the Company's medium- to long-term profit growth rate to be 15%, we estimated the dividend yield to be approximately 17% based on the current stock price and PER. With regard to growth investments, we will invest in technological innovation and operational improvements aimed at expanding our business both domestically and internationally, and as for dividends, we will aim to pay a dividend payout ratio of 50% or more of the consolidated net income attributable to our parent company. We will aim to maintain ROE at 30% or higher, and will make growth investments to achieve sales growth of 15% or more, or if we do not make such investments, we will return profits to shareholders through share buybacks.

For details, please see below.

https://corp.monotaro.com/en/ir/upload_file/m004-m004_01/20250131ENG.pdf

2. Capital structure

Foreign ownership ratio	30% or more
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[Major Shareholders]

Name or title	Number of shares held	Percent-age (%)
GRAINGER GLOBAL HOLDINGS, INC.	250,112,000	50.33
THE MASTER TRUST BANK OF JAPAN, LTD. (TRUST ACCOUNT)	40,996,100	8.25
STATE STREET BANK AND TRUST COMPANY 505001	23,159,267	4.66
CUSTODY BANK OF JAPAN, LTD. (TRUST ACCOUNT)	12,003,900	2.42
STATE STREET BANK AND TRUST COMPANY 505103	11,211,914	2.26
CITIBANK, N.A.-NY, AS DEPOSITARY BANK FOR DEPOSITARY SHARE HOLDERS	11,192,731	2.25
THE BANK OF NEW YORK MELLON 140044	7,540,478	1.52
BNYM AS AGT/CLTS NON TREATY JASDEC	5,971,645	1.20
STATE STREET BANK WEST CLIENT - TREATY 505234	5,288,100	1.06
MSIP CLIENT SECURITIES	4,548,900	0.9

Controlling shareholders (excluding parent companies)	———
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Parent company	W.W. Grainger, Inc. (Listed: Overseas) (Code)
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Supplementary explanation

The Company is a subsidiary of W. W. Grainger, Inc. (hereinafter “Grainger”), which operates a business primarily focused on the sale of indirect materials and consumables for maintenance, repair, and operations (MRO) to industrial facilities in the United States. Thus, Grainger indirectly holds 50.34% of the voting rights of the Company through its wholly owned subsidiaries, Grainger International, Inc., and Grainger Global Holdings, Inc. In addition, two employees of Grainger have been appointed to the Company’s Board of Directors. The Company conducts its business in cooperation with Grainger and its group companies while maintaining managerial independence. Please note that the Company purchases some of its products from Grainger and sell some of its products to companies within the Grainger group.

3. Company attributes

Listed stock exchange and market segment	Tokyo Stock Exchange Prime Market
Fiscal year-end	December
Industry	Retail industry
Number of employees (consolidated) at the end of the most recent fiscal year	Over 1,000
Sales (consolidated) for the most recent fiscal year	Over 100 billion yen and less than 1 trillion yen
Number of consolidated subsidiaries at the end of the most recent fiscal year	Less than 10 companies

4. Guidelines for protecting minority shareholders when conducting transactions with controlling shareholders

In order to ensure that the Company is able to make independent management decisions, the Board of Directors currently consists of two directors who also serve as officers or employees of its parent company, and it will continue to ensure that such directors do not constitute more than half of the total number of directors.

5. Other special circumstances that may have a significant impact on corporate governance

- (1) De facto constraints, risks, and benefits associated with belonging to a corporate group headed by a parent company, as well as the impact on management and business activities arising from business relationships and human/capital ties with the parent company and its group companies.

The Company conducts its business while working in cooperation with its parent company and group companies, while maintaining managerial independence. Of the nine directors of the Company, two concurrently serve as employees or other positions of our parent company; however, we do not anticipate that such concurrent appointments will affect the independence of our management. We engage in the sale and purchase of products with our parent company and group companies, but the transaction amounts are insignificant and we are not significantly dependent on them.

- (2) Approach and measures to ensure a certain degree of independence from the parent company, etc.

The Company conducts its business based on the principle of maintaining independence in business operations and transactions with its parent company and group companies. As of the date of submission of this document, the Board of Directors consists of a total of nine members: two directors who concurrently serve as employees or other positions of our parent company, six independent directors, and one other internal director. The number of directors concurrently serving with the parent company accounts for two out of nine, and we do not

anticipate that these concurrent appointments will affect the independence of our management.

(3) Status of ensuring a certain degree of independence from the parent company, etc.

The Company conducts its business based on the principle of maintaining independence in business operations and transactions with its parent company and group companies. As of the date of submission of this document, two directors concurrently serve as employees or other positions of its parent company, but this does not hinder the Company's autonomous management decisions. Regarding our business activities, the volume of transactions with our parent company and group companies is minimal at present, and there is no significant dependence. Therefore, we recognize that a certain degree of independence from our parent company is ensured.

Additionally, while ensuring independence from its parent company, the Company respects its parent company as a stable shareholder and has entered into a memorandum of understanding regarding the following: ① we shall not issue new shares or take other actions that would result in the parent company's shareholding ratio falling below 50% without the prior written consent of the parent company; ② the parent company shall have the right to appoint one director or the number of directors mutually agreed upon in writing to serve as directors of the Company; and ③ if the parent company reduces its shareholding ratio to 50% or less, it shall provide prior notification to the Company.

II. Status of Management Organization and Other Corporate Governance Systems Related to Business Decision-Making, Execution, and Supervision

1. Matters related to organizational structure and management, etc.

Organizational structure	Company with a Nomination Committee
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[Directors]

Number of directors as stipulated in the Articles of Incorporation	10
Term of office of directors as stipulated in the Articles of Incorporation	1 year
Chairperson of the Board of Directors	Chairman (excluding cases where the chairman also serves as president)
Number of directors	9

[Independent directors]

Number of independent directors	6
Number of independent directors designated as independent officers	6

Relationship with the company (1)

Name	Attribute	Relationship with the company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Masahiro Kishida	From another company								△			
Tomoko Ise	Attorney-at-law											
Mari Sagiya	From another company											
Hiroshi Miura	Certified public accountant											
Kiyoshi Nakashima	From another company								△			
Peter Kenevan	From another company											

* Selection items regarding relationship with the company

* "○" if the individual currently or recently falls under any of the items; "△" if they fell under any of the items in the past.

* "●" if a close relative currently or recently falls under any of the items; "▲" if they fell under any of the items in the past.

a. Executive officer of a listed company or its subsidiary

b. Executive officer or non-executive director of the parent company of a listed company

c. Executive officer of an affiliated company of a listed company

d. Person whose main business partner is a listed company or their executive officer

e. Major business partner of a listed company or their executive officer

f. Consultant, accounting expert, or legal expert receiving substantial monetary or other property benefits from a listed company besides director compensation

g. Major shareholder of a listed company (if the major shareholder is a corporation, the executive officer of that corporation)

h. Executive officer of a business partner of a listed company (who does not fall under d, e, or f) (applicable only to the individual)

i. Executive officer at a company with a mutual independent director appointment relationship (applicable only to the individual)

j. Executive officer at an organization receiving donations from a listed company (applicable only to the individual)

k. Other

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Relationship with the company (2)

Name	Affiliated committee			Independent officer	Supplementary explanation of applicable items	Reason for appointment
	Nomination Committee	Compensation Committee	Audit Committee			
Masahiro Kishida	○	○		○	Independent officer of the Company Representative Partner, INTEGRITY LLC.	Due to his specialized knowledge and extensive experience in corporate management and marketing strategies as a management consultant, we have appointed him as an independent director in order to utilize his expertise in the management of the Company. Furthermore, he attends meetings of the Board of Directors in an independent capacity and performs the management oversight function of the Board of Directors by expressing appropriate opinions, and does not meet any of the criteria for independence or additional disclosure requirements, nor does he fall under any of the matters deemed by the Tokyo Stock Exchange, where our shares are listed, to pose a risk of conflict of interest with general shareholders. Therefore, we have determined that he meets the criteria for independence and have designated him as an independent officer.
Tomoko Ise	○		○	○	Independent officer of the Company Partner, TMI Associates Osaka Office	Due to her specialized knowledge and extensive experience as a lawyer, we have appointed her as an independent director in order to utilize her expertise in the management of the Company. Furthermore, she attends meetings of the Board of Directors in an independent capacity and performs the management oversight function of the Board of Directors by expressing appropriate opinions, and does not meet any of the criteria for independence or additional disclosure requirements, nor does she fall under any of the matters deemed by the Tokyo Stock Exchange, where our shares are listed, to pose a risk of conflict of interest with general shareholders. Therefore, we have determined that she meets the criteria for independence and have designated her as an independent officer.
Mari Sagiya		○		○	Independent officer of the Company	Due to her broad insight and extensive experience as an executive at multiple IT-related companies, we have appointed her as an independent director in order to utilize her expertise in the management of the Company. Furthermore, she attends meetings of the Board of Directors in an independent capacity and performs the management oversight function of the Board of Directors by expressing appropriate opinions, and does not meet any of the criteria for independence or additional disclosure requirements, nor does she fall under any of the matters deemed by the Tokyo Stock Exchange, where our shares are listed, to pose a risk of conflict of interest with general shareholders. Therefore, we have determined that she meets the criteria for independence and have designated her as an independent officer.
Hiroshi Miura			○	○	Independent officer of the Company Representative CPA of Global Management Advisory Office	Due to his specialized knowledge and extensive experience as a certified public accountant, we have appointed him as an independent director in order to utilize his expertise in the management of the Company. Furthermore, he attends meetings of the Board of Directors in an independent capacity and performs the management oversight function of the Board of Directors by expressing appropriate opinions, and does not meet any of the criteria for independence or additional disclosure requirements, nor does he fall under any of the matters deemed by the Tokyo Stock Exchange, where our shares are listed, to pose a risk of conflict of interest with general shareholders. Therefore, we have determined that he meets the criteria for independence and have designated him as an independent officer.
Kiyoshi Nakashima	○	○		○	Independent officer of the Company	Due to his broad insight and extensive experience as a business manager, we have appointed him as an independent director in order to utilize his expertise in the management of the Company. Furthermore, he attends meetings of the Board of Directors in an independent capacity and performs the management oversight function of the Board of Directors by expressing appropriate opinions, and does not meet any of the criteria for independence or additional disclosure requirements, nor does he fall under any of the matters deemed by the Tokyo Stock Exchange, where our shares are listed, to pose a risk of conflict of interest with general shareholders. Therefore, we have determined that he meets the criteria for independence and have designated him as an independent officer.

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Peter Kenevan			○	○	Independent officer of the Company	Due to his specialized knowledge and extensive experience in corporate management and finance as a management consultant and head of Japanese operations at a business company, we have appointed him as an independent director in order to utilize his expertise in the management of the Company. Furthermore, he attends meetings of the Board of Directors in an independent capacity and performs the management oversight function of the Board of Directors by expressing appropriate opinions, and does not meet any of the criteria for independence or additional disclosure requirements, nor does he fall under any of the matters deemed by the Tokyo Stock Exchange, where our shares are listed, to pose a risk of conflict of interest with general shareholders. Therefore, we have determined that he meets the criteria for independence and have designated him as an independent officer.
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[Committees]

Composition of each committee and attributes of chairperson

	Total number of committee members	Number of full-time committee members	Number of internal directors	Number of independent directors	Chairperson (Presiding officer)
Nomination Committee	4	0	1	3	Independent director
Compensation Committee	4	1	1	3	Independent director
Audit Committee	3	0	0	3	Independent director

[Executive officers]

Number of executive officers	8
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Concurrent positions

Name	Representative authority	Concurrently serving as director			Concurrently serving as an employee
			Nomination Committee	Compensation Committee	
Masaya Suzuki	Yes	Yes	No	Yes	No
Sakuya Tamura	Yes	Yes	No	No	Yes
Tetsuya Koda	No	No	No	No	Yes
Hidetoshi Taura	No	No	No	No	No
Taisuke Fukawa	No	No	No	No	Yes
Koichi Kitashita	No	No	No	No	Yes
Yohei Yuki	No	No	No	No	Yes
Xinpeng Zhang	No	No	No	No	Yes

[Auditing system]

Directors and employees to assist the Audit Committee in its duties	Yes
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Matters concerning the independence of said directors and employees from executive officers

The Company has designated the Management Audit Department for “Matters concerning directors and employees to assist the Company’s Audit Committee in the performance of its duties,” as stipulated in Article 112, paragraph (1) of the Ordinance for Enforcement of the Companies Act. The members of the Management Audit Department are full-time employees and have established a system to report the status of daily operations to the Audit Committee in a timely manner. In addition, to ensure the independence of employees belonging to the Management Audit Department, decisions regarding personnel transfers, performance evaluations, and salary revisions are made after prior consultation with the Audit Committee.

Cooperation between the Audit Committee, accounting auditors, and the internal audit division

The auditing firm receives reports on the results of quarterly reviews, year-end audits, and other audits as appropriate, and engages in the exchange of information and opinions as necessary to maintain close cooperation. At the Company, the Management Audit Department conducts internal audits of the entire company, while also assisting the Audit Committee in its duties, and the Audit Committee and Management Audit Department work closely together to conduct audits. Specifically, the Management Audit Department reports to the Audit Committee on the status of internal audits and any issues discovered during audits. In addition, when necessary, the Management Audit Department shares issues with internal audits and Audit Committee audits and proposes necessary countermeasures or improvement measures to each other.

[Independent officers]

Number of Independent Officers	6
Other Matters concerning Independent Officers	

[Incentive]

Implementation status of measures related to providing incentives to directors and executive officers	Introduction of performance-based compensation system, etc.
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Supplementary explanation regarding the relevant items

In order to maintain independence and to monitor management separately from business execution, only fixed remuneration is paid to directors who do not concurrently serve as executive officers.

With regard to the compensation of executive officers, a resolution was passed at the Compensation Committee meeting held on February 25, 2021, to introduce a restricted stock-based compensation plan (hereinafter the “Plan”) in place of the stock option compensation plan, with the aim of providing incentives to promote the sustainable improvement of our medium- to long-term corporate value and shareholder value.

Eligible recipients of stock options	—
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Supplementary explanation regarding the relevant items

[Compensation of directors and executive officers]

Disclosure status (of individual directors’ compensation)	Only some items disclosed individually
Disclosure status (of individual executive officers’ compensation)	Only some items disclosed individually

Supplementary explanation regarding the relevant items

The compensation paid to directors and executive officers of the Company for the fiscal year ended December 2024 is as follows.

Compensation paid to internal directors: 208 million yen

Compensation paid to independent directors: 48 million yen

Compensation paid to executive officers: 137 million yen

The amount of compensation includes amounts recorded as bonuses to directors and executive officers and restricted stock-based compensation.

The total number of directors and executive officers eligible for compensation is 14. As of the end of the fiscal year, there were eight directors, including five independent directors, and six executive officers, two of whom are concurrently serving as directors and executive officers.

Policy on determining the amount or calculation method of compensation	Yes
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Disclosure of the policy on determining the amount or calculation method of compensation

(Directors)

In order to maintain independence and to monitor management separately from business execution, only fixed remuneration is paid to directors who do not concurrently serve as executive officers.

Compensation decisions are made by the Compensation Committee. In accordance with the Compensation Committee rules, the director in question does not participate in the resolution regarding their own compensation.

(Executive Officers)

a. Basic policies on compensation

The Company designs and manages executive compensation based on the following five basic policies.

- The remuneration system should contribute to the Company’s continuous growth and medium- to long-term improvement of corporate value and be consistent with the Company’s corporate philosophy and code of conduct.
- The remuneration system should be highly performance-linked and strongly motivate the achievement of management strategies and corporate performance targets.
- The remunerations of directors and executive officers must reflect the Company’s business performance and medium- to long-term initiatives.
- The remuneration system should share profits and risks with shareholders and raise awareness of the need to increase shareholder value.
- Objectivity, transparency, and fairness are ensured through the Compensation Committee’s deliberation process to fulfill accountability to stakeholders.

b. Compensation structure

Compensation for the Company’s executive officers consists of monthly compensation and stock-based compensation. In order to ensure that the remuneration contributes to continuous growth and medium- to long-term improvement of corporate value, the following composition ratios have been established.

- Set the ratio of variable remuneration (performance-linked monthly remuneration and stock-based remuneration) to the annual remuneration amount in order to provide incentives to improve business performance and corporate value.
- Set appropriate compensation ratios for each position.

c. Monthly remuneration

Monthly remuneration consists of fixed remuneration and performance-linked remuneration.

Fixed remuneration is paid to each executive officer for the role and responsibility they assume, and is commensurate with their position and years in office, taking into consideration market standards and other factors. The amount of performance-linked remuneration is determined based on the rate of achievement of the consolidated operating income plan and individual evaluation.

d. Stock-based compensation

Stock-based compensation is positioned as an incentive to improve corporate value over the medium to long term and to raise awareness of value sharing with shareholders. The number of shares to be granted is determined based on the base amount based on the executive officer's position and the amount of growth in consolidated operating income. It is designed to be granted once each year in the form of restricted stock, and to be exercisable after retirement.

e. Process for determining compensation

As a company with a Nomination Committee, the Compensation Committee determines the compensation of executive officers. The Compensation Committee consists of three directors, including two independent directors. The Company abolished the retirement benefit system for directors and corporate auditors by the resolution of the Compensation Committee meeting held on January 12, 2018, but the amount accumulated through 2017 will be paid upon retirement.

f. Return of compensation, etc. (malus clause)

The Company may forfeit the stock-based compensation during the malus provision (forfeiture during the restricted period) in the event that the Compensation Committee determines that material revisions to the financial statements, material violations of the Company's internal rules, material damage to the Company's business or reputation, or material deficiencies in risk management or other events specified in the Company's rules have occurred.

[Support system for independent directors]

Although we do not have dedicated staff to support independent directors, we provide support as necessary by sharing information with internal directors, the Legal Department, and the Executive Officers' Office.

[Status of individuals who have resigned from positions such as President and Chief Operating Officer, etc.]

Names and other information of advisors, consultants, etc. who are former President and Chief Operating Officer, etc.

Name	Position/ Title	Job description	Type of employment and conditions (full-time, part-time, with or without compensation, etc.)	Date of resignation as President, etc.	Tenure
Kinya Seto	Founder and Honorary Advisor	To provide advice based on his knowledge of management as the founder of the Company	Part-time/no compensation	03/26/2014	Unspecified

Total number of advisors, consultants, etc. who are former President and Chief Operating Officer, etc.	1
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Other matters

The date of resignation as President, etc. is the date of resignation as representative executive officer.

2. Matters related to functions such as business execution, auditing and supervision, appointment, and determination of compensation (summary of the current corporate governance system)

The Company transitioned to a company with committees (currently a company with a Nomination Committee) following the conclusion of the Ordinary General Meeting of Shareholders held on March 29, 2006. Our corporate governance system is as follows.

(1) Corporate governance system

a. Management supervisory function

(a) Board of Directors

The Company is a company with a Nomination Committee. As the highest management decision-making body, the Board of Directors meets at least nine times a year to make decisions on important matters, mainly on matters of exclusive authority as stipulated in Article 416 of the Companies Act of Japan. The Board of Directors consists of nine directors, six of whom are independent directors. Independent directors include one attorney-at-law and one certified public accountant. The Company has established the following committees within the Board of Directors.

1) Nomination Committee

This committee is a body that determines the content of proposals to be submitted to the General Meeting of Shareholders concerning the election and dismissal of directors, and is composed of four directors, including three independent directors.

2) Audit Committee

This committee meets once a month in principle to audit the appropriateness, legality, and propriety of the execution of duties by directors and executive officers, and to determine the details of proposals submitted to the General Meeting of Shareholders concerning the appointment and dismissal of accounting auditors. It consists of three independent directors, including one attorney-at-law and one certified public accountant.

3) Compensation Committee

This committee is composed of four directors, including three independent directors, and determines the remuneration of directors and executive officers on an individual basis in accordance with the Company's guidelines on remuneration.

b. Business execution functions

(a) Representative executive officers and executive officers

The Company appoints two representative executive officers from the executive officers. The representative executive officers represent the Company as the chief executive officers and execute duties delegated to them by the Board of Directors. The representative executive officers are obligated to report and explain the status of business execution and monthly financial results to the Board of Directors once a month. The executive officers assist the representative executive officers and are responsible for promoting and supervising the execution of business operations.

(b) Executive Officers' Meeting

Consisting of representative executive officers and executive officers, the Executive Officers' Meeting resolves important business execution matters delegated by the Board of Directors.

(c) Division Managers' Meeting

Consisting of heads of divisions, the Division Managers' Meeting reports, discusses, and resolves important business execution matters.

(2) Human relationships, capital relationships, business relationships, or other relationships between independent directors and the Company

The Company has no special relationships with any of its independent directors, and there are no special interests between the Company and any of them.

Independent directors: Masahiro Kishida, Tomoko Ise, Mari Sagiya, Hiroshi Miura, Kiyoshi Nakashima, Peter Kenevan

(3) Status of development of the risk management system

With regard to compliance (adherence to laws and regulations), which forms the foundation of corporate governance, we have established compliance guidelines, and with regard to risk management, we have established risk management regulations, which are thoroughly communicated to all employees, from top management down.

(4) Status of accounting audits

Accounting audits of the Company were conducted by certified public accountants Miho Ueda and Daiki Takai, who are members of Ernst & Young ShinNihon LLC. Seven certified public accountants and 18 other personnel assisted in the accounting audits.

The audit fees paid to our auditing firm for the fiscal year ended December 2024 are as follows.

Audit fees

Fees for audit certification services: 37 million yen

(5) Initiatives to strengthen the functions of auditors

As the Company is a company with a Nomination Committee, it has established an Audit Committee, and there are no relevant matters.

(6) Limited liability agreement

The Company has entered into agreements with independent directors to limit their liability for damages as stipulated in Article 423, paragraph (1) of the Companies Act. Under these agreements, the maximum amount of liability for damages is set at the sum specified in each item of Article 425, paragraph (1) of the same Act. It should be noted that such limitation of liability is permitted only in cases where the independent director has performed the duties that gave rise to the liability in good faith and without gross negligence.

3. Reasons for choosing the current corporate governance structure

Corporate governance is the basic framework of corporate management in relation to various stakeholders. We believe that our corporate governance is an organizational structure to establish a system to ensure the validity, legality, and appropriateness of the content of disclosures regarding the Company's decision-making and business execution in order to respond to the trust and expectations of all stakeholders, including shareholders, and to continuously enhance corporate value.

Based on this recognition, "separation of management supervision and business execution" is important for effective corporate governance, and based on the resolution of the Ordinary General Meeting of Shareholders held on March 29, 2006, the Company transitioned to a company with committees (currently a company with a Nomination Committee). Accordingly, three committees, the Nomination Committee, the Compensation Committee, and the Audit Committee, have been established.

III. Implementation Status of Measures for Shareholders and Other Stakeholders**1. Initiatives to revitalize shareholders' meetings and facilitate the exercise of voting rights**

	Supplementary explanation
Early dispatch of notice of convocation of General Meeting of Shareholders	We have expedited our financial closing process and are now sending out documents one week earlier than required by law.
Setting a date for the General Meeting of Shareholders that avoids busy periods	Since our fiscal year ends in December, we do not anticipate any particularly busy days, but we will carefully consider the date and time of the meeting, including the venue, and make every effort to ensure that as many shareholders as possible are able to attend.
Exercise of voting rights by electronic means	Currently being implemented.
Participation in electronic voting platforms and other initiatives aimed at improving the environment for institutional investors to exercise their voting rights	Currently being implemented.
Provision of English summary of convocation notice	Currently being implemented.

2. Status of IR activities

	Supplementary explanation	Explanation by the representative himself/herself
Holding regular briefings for analysts and institutional investors	We plan to hold meetings at least twice a year, including for the second quarter and the full fiscal year.	Yes
Posting of IR materials on our website	We publish financial results summaries, securities reports, materials for earnings briefings for analysts, and other timely disclosure documents.	---
Establishment of a section (person in charge) for IR	The section in charge of IR is the Investor Relations and Public Relations Group within the Business Administration Department.	---

3. Status of initiatives related to respecting the perspectives of stakeholders

	Supplemental Explanation
Formulation of policies, etc. regarding provision of information to stakeholders	We will comply with the Financial Instruments and Exchange Act and other relevant laws and regulations, as well as the rules established by the Tokyo Stock Exchange, and will disclose information in a timely and appropriate manner, based on the principles of speed, accuracy, fairness, and continuity.

IV. Matters Concerning Internal Control Systems**1. Basic policy on Internal Control Systems and status of its development**

The Company establishes the following basic policies regarding "items necessary for the execution of the duties of the Audit Committee" as stipulated in Article 416, paragraph (1), item (i), (b) of the Companies Act and the "system

to ensure the appropriateness of operations” as stipulated in (e) of the same item.

[Items necessary for the execution of the duties of the Audit Committee]

- (1) Matters concerning directors and employees to assist the Company’s Audit Committee in the performance of its duties (Article 112, paragraph (1), item (i) of the Ordinance for Enforcement of the Companies Act)
In the event that it becomes necessary for the Audit Committee to investigate matters relating to the execution of duties by other committees in the course of performing its duties, the director who is the chairperson of such committee is obligated to actively cooperate in such investigation. With respect to employees who are to assist the Audit Committee in the performance of its duties, there is one or more members of the Management Audit Department, which assists the Audit Committee in the performance of its duties.
- (2) Matters concerning independence of directors and employees in (1) above from the Company’s executive officers (item (ii))
After obtaining the approval of the Audit Committee, the President & Executive Officer of the Company decides matters concerning employment conditions including appointment, personnel transfer, wages, and other remuneration of employees belonging to the Management Audit Department.
- (3) Matters concerning ensuring the effectiveness of instructions given by the Audit Committee to the directors and employees set forth in item (i) (item (iii))
If it becomes necessary for the Audit Committee to investigate matters relating to the execution of duties by another committee in the course of the performance of its duties, but the Audit Committee determines that the cooperation of the director who chairs that committee is insufficient, the Audit Committee reports to the Board of Directors that in a timely manner and actively seeks cooperation from all directors, making it known to all directors.
The President & Executive Officer informs executive officers and employees that the employees who assist the Audit Committee in the performance of its duties are subject to the direction and orders of the Audit Committee and that such employees have the authority to collect information necessary for the performance of audits.
- (4) The following systems and other matters related to reporting to the Audit Committee (item (iv))
 - a. System for reporting to the Audit Committee by the Company’s directors (excluding directors who are Audit Committee members), executive officers, and employees (item (iv), (a))
 - (a) The President & Executive Officer reports to the Audit Committee on matters deliberated and reported at the Executive Officers’ Meeting and the Division Managers’ Meeting, and has other opportunities to exchange opinions with Audit Committee members as necessary and appropriate.
 - (b) The President & Executive Officer ensures that the results of internal audits conducted by the Management Audit Department are also reported to the Audit Committee.
 - (c) The Company establishes the Internal Reporting System, which facilitates the discovery of misconduct by executive officers, directors, or employees in the performance of their duties or other facts that may violate laws, regulations, or the Articles of Incorporation or cause significant damage to the Company and establishes the system to ensure that the status of such misconduct is appropriately reported to the Audit Committee.
 - b. System for reporting to the Company’s Audit Committee by directors, auditors, executive officers, employees who execute the business of the Company’s subsidiaries and other persons equivalent to these persons and employees or persons who receive reports from these persons (item (iv), (b))
 - (a) Directors and employees of the subsidiaries promptly make appropriate reports when requested by the Company’s Audit Committee on matters concerning the execution of business.
 - (b) The President & Executive Officer ensures that major subsidiaries have the Internal Reporting Systems in place and that reports through such systems are made not only to the relevant bodies of the subsidiaries but also to the Audit Committee and the compliance department of the Company. This will facilitate the discovery of any misconduct by directors and employees of the subsidiaries in the performance of their duties and other facts that may violate laws, regulations, or the Articles of Incorporation or cause significant damage to the Company or the subsidiaries, and establish the system to ensure that the status of such misconduct is appropriately reported to the Audit Committee.
 - (c) The President & Executive Officer ensures that the results of internal audits of subsidiaries conducted by the Management Audit Department are also reported to the Company’s Audit Committee.
- (5) System to ensure that a person who makes a report as described in (4) above will not be subjected to any disadvantageous treatment because of such report (item (v))
The President & Executive Officer prohibits any person who makes a report to the Audit Committee from being treated disadvantageously by reason of such report and ensures that executive officers and employees, as well as directors and employees of subsidiaries, are informed to this effect.
- (6) Matters concerning procedures for prepayment or reimbursement of expenses incurred in connection with the execution of duties by Audit Committee members of the Company (limited to those related to the execution of duties by the Audit Committee) and other policies concerning the treatment of expenses or liabilities incurred in connection with the execution of such duties (item (vi))
When an Audit Committee member makes a request for advance payment of expenses, etc. in connection with

the performance of his or her duties, the Company promptly handles such expenses or liabilities, unless the expenses or liabilities in connection with such request are not necessary for the performance of the Audit Committee member's duties.

[System to ensure the appropriateness of operations]

- (1) Matters concerning the storage and management of information related to the execution of duties by the Company's executive officers (Article 112, paragraph (2), item (i) of the Ordinance for Enforcement of the Companies Act)
The President & Executive Officer stores and manages information in accordance with internal rules and takes necessary measures to prevent leakage of such information outside the Company.
- (2) Rules and other systems for management of risk of loss (item (ii))
 - a. The President & Executive Officer establishes risk management regulations, designates a person responsible for each type of risk, establishes risk management procedures based on manuals, and ensures that an appropriate management system is established and operated.
 - b. The Management Audit Department checks the operation of the risk management system at least once a year and reports to the President & Executive Officer and the Audit Committee.
 - c. In the event of the emergence of new risks, the President & Executive Officer promptly assumes responsibility for responding to such risks.
- (3) Other matters concerning the system to ensure that the execution of duties by the Company's executive officers and employees comply with laws and regulations and the Articles of Incorporation and that they perform their duties efficiently (items (iii) and (iv))
 - a. The President & Executive Officer establishes and follows the "Compliance Training Manual" to ensure that executive officers and employees strictly comply with relevant laws and regulations and the Articles of Incorporation in all aspects of corporate activities and act in accordance with social common sense based on high ethical and moral standards, and establishes the Compliance Committee to promote compliance.
 - b. The President & Executive Officer establishes the Internal Reporting System.
 - c. The President & Executive Officer deliberates important matters concerning ordinary business operations at the Executive Officers' Meeting and the Division Managers' Meeting and reports the contents of such deliberations to the Audit Committee on a regular basis.
 - d. The President & Executive Officer formulates rules of authority and ensures efficient execution of duties.
 - e. The Management Audit Department conducts internal audits and reports to the President & Executive Officer and the Audit Committee.
- (4) The following systems and other systems to ensure the appropriateness of operations of the corporate group consisting of the Company, its parent company, and its subsidiaries (hereinafter the "Company Group") (item (v))
 - a. System for reporting to the Company on matters pertaining to the execution of duties by directors, executive officers, employees executing business of the Company's subsidiaries and other persons equivalent thereto (hereinafter "directors, etc." in (c) and (d)) (item (v), (a))
 - (a) The President & Executive Officer, in accordance with the Subsidiary Management Rules, requests subsidiaries to submit relevant materials, etc. as necessary in order to accurately understand the management details of the subsidiaries.
 - (b) The President & Executive Officer requests directors, etc. or employees of subsidiaries to attend meetings of the Board of Directors of the Company, as necessary, in order for the subsidiaries to report to the Company on their business performance, financial position, and other important information.
 - b. Rules and other systems for managing the risk of loss of the Company's subsidiaries (item (v), (b))
 - (a) The President & Executive Officer formulates risk management regulations that stipulate risk management for the Company Group as a whole, requires subsidiaries to manage risks under the said regulations, and exhaustively and comprehensively manages risks for the entire group.
 - (b) The Management Audit Department confirms the status of operation of the risk management system of the subsidiaries and reports to the President & Executive Officer and the Audit Committee.
 - c. System to ensure the efficient execution of duties by directors, etc. of the Company's subsidiaries (item (v), (c))
 - (a) The President & Executive Officer formulates the Subsidiary Management Rules in order to contribute to the efficient operation of the Company Group's management, while respecting the autonomy and independence of the management of subsidiaries.
 - (b) The subsidiaries formulate rules of authority to ensure efficient execution of duties.
 - d. System to ensure that the execution of duties by directors, etc. and employees of the Company's subsidiaries complies with laws and regulations and the Articles of Incorporation (item (v), (d))
 - (a) The President & Executive Officer establishes a system to assign an appropriate number of auditors and compliance promotion officers to each subsidiary in accordance with the nature and scale of the subsidiary's business.
 - (b) The President & Executive Officer has subsidiaries establish a system under which subsidiary auditors

audit the execution of duties by directors, etc. and employees of subsidiaries including the status of establishment and operation of the Internal Control System.

- (c) The subsidiary is a company with a board of directors, and the Company's officers and employees serve as directors so that the Company can monitor the appropriateness of the subsidiary's operations.
- (d) The President & Executive Officer has major subsidiaries establish the Internal Reporting System.

[Summary of operation of the system to ensure the appropriateness of operations]

The Management Audit Department conducts regular operational audits of each department to verify from an independent standpoint whether the Internal Control System is functioning properly, whether any irregularities are taking place, and whether there are any matters requiring improvement. Problems that emerge through audits are addressed by issuing improvement recommendations to the audited divisions on the spot, reporting them to the Audit Committee and the representative executive officers, and ensuring that appropriate improvements are made in a timely manner. In addition, the Business Administration Department and Management Audit Department take the lead in raising awareness of the importance of the Internal Control System and compliance among related departments and subsidiaries through periodic training and audits.

2. Basic policy and status of establishment for elimination of antisocial forces

In order to eliminate any relationship with antisocial forces, the Company has established the Compliance Training Manual and Business Conduct Guideline, which state that "the Company takes, under all circumstances, a firm stand against such forces and groups, never has any relationship with them, never allows them to interfere improperly, and resolutely excludes them."

As part of our internal system, we have designated a department and a person in charge to oversee the response to compliance issues, regularly collaborate with outside professional organizations such as the local police department and legal counsel, and strive to collect information by attending workshops and other events. In addition, the Compliance Training Manual stipulates how to respond to violent acts or unreasonable demands, and the Company as a whole is committed to appropriate measures against antisocial forces, such as thorough training on how to deal with antisocial forces in the compliance training provided to all employees at least once a year.

V. Other

1. Introduction of takeover defense measures

Adoption of takeover defense measures	No
Supplementary explanation regarding the relevant items	----

2. Other matters concerning the corporate governance system, etc.

The Company believes that timely disclosure of company information is an important responsibility of listed companies in order to prevent unexpected damage to investors, and aims to disclose information accurately, promptly, and fairly.

The Company manages company information in accordance with the "Information Security Regulations."

In addition, we have established the "Insider Trading Management Regulations" to prevent insider trading and will ensure strict compliance with these regulations. Our information management system is centrally managed by the Executive Officer and General Manager of Business Administration Department, who is responsible for information handling.

[Understanding facts and information]

(1) Financial settlement information

Financial settlement information is decided by the Board of Directors.

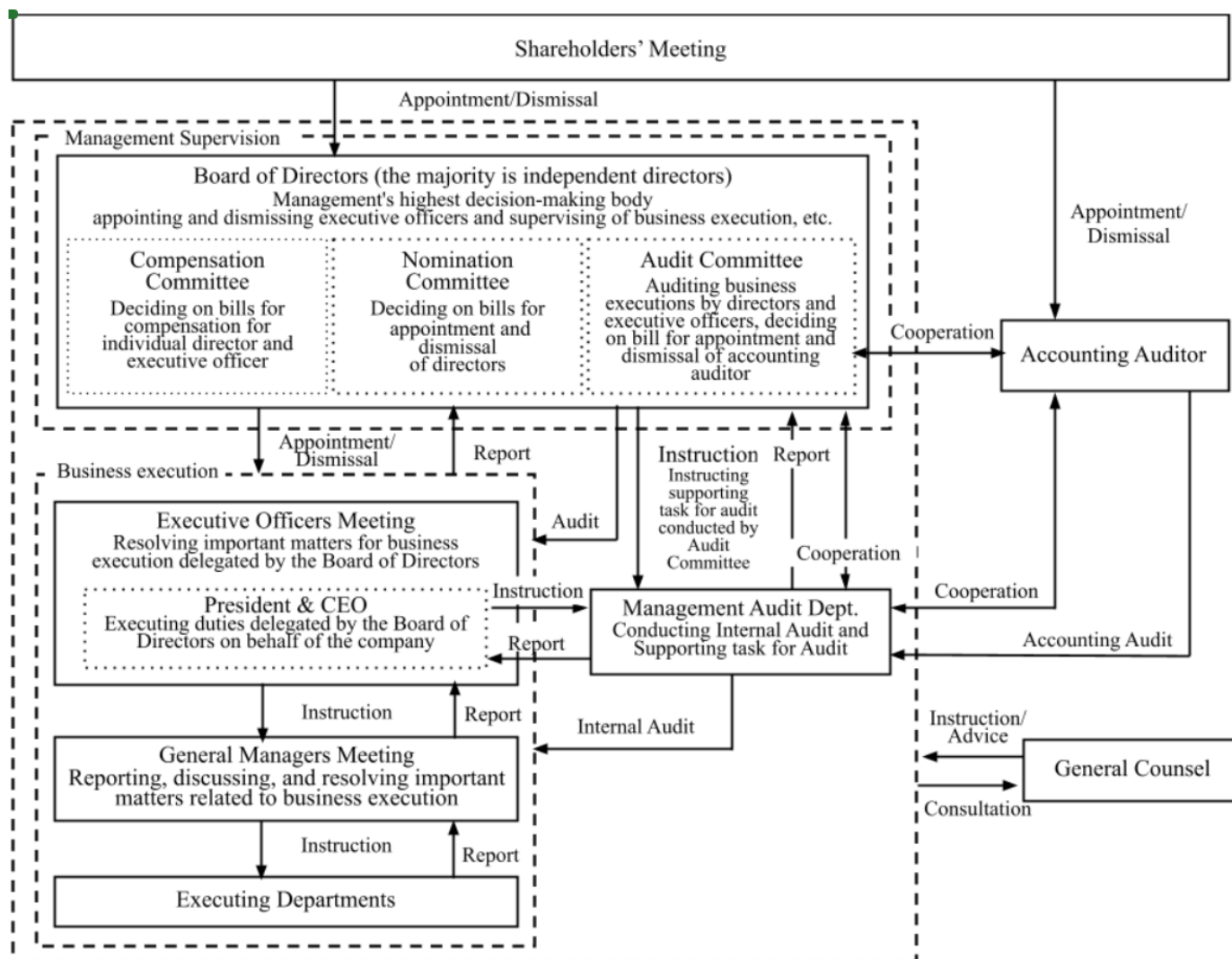
(2) Material facts

Important business operations are decided by the Board of Directors, the Executive Officers' Meeting, and the Division Managers' Meeting.

(3) Occurrence of material facts

Any occurrences of material facts at the Company will be reported promptly by the relevant division head to the Executive Officer and General Manager of Business Administration Department. Significant occurrences of material facts shall be disclosed after reporting to the Division Managers' Meeting and the Board of Directors.

If the Executive Officer and General Manager of Business Administration Department determines that a situation is "urgent," they shall report to the representative executive officers without going through the Board of Directors, and disclosure shall be decided upon with the approval of the representative executive officers. In this case, the Board of Directors shall be notified promptly after disclosure.



(Reference) Skills Matrix for Director Candidates

This table indicates areas in which we have particular expectations for each director candidate, and does not indicate all of the skills possessed by each director candidate.

Name	CEO/top management of the company	Merchandising/marketing/sales	Procurement/supply chain/operations management	IT/digital	Risk management/legal affairs	Finance/accounting
Masaya Suzuki	Has extensive knowledge of the Company's business and the ability to adequately execute the Company's management control					
Sakuya Tamura						
Masahiro Kishida		○				
Tomoko Ise					○	
Mari Sagiya		○		○		
Hiroshi Miura					○	○
Kiyoshi Nakashima	○	○				
Peter Kenevan				○		○
Barry Greenhouse		○	○			

End of the Report