

Basic Policy on Corporate Governance

Introduction

ESPEC CORP. (hereinafter, “the Company”), by resolution of the Board of Directors, has established the following basic policy to set forth its basic stance, framework and operating policy on corporate governance.

Chapter 1. General Provisions

Article 1. Basic Stance on Corporate Governance

The Company firmly believes that a corporation is a public institution, or a social apparatus with roles and functions for fulfilling people’s wishes and living up to the expectations of society. Based on this philosophy, the Company aims to become a highly efficient corporate medium for exchanging value. Accordingly, the Company shall provide all stakeholders with higher value through the mutually beneficial relationships it builds with shareholders, customers, business partners, employees and all other stakeholders it interacts with in the course of conducting its corporate business activities.

By continually enhancing corporate governance with this philosophy as an impetus, the Company shall realize sustainable growth and enhance corporate value over the medium to long term, while fulfilling its social responsibility to stakeholders.

Chapter 2. Securing the Rights and Equal Treatment of Shareholders

Article 2. Securing the Rights and Equal Treatment of Shareholders

1. To enable the proper exercise of voting rights by shareholders, the Company shall build an effective environment for securing the rights and equal treatment of shareholders.
2. If a resolution proposed by the Company is approved at the Shareholders Meeting amid the casting of a considerable number of opposing votes, the Board of Directors shall analyze the factors behind such an outcome and deliberate the need for a response such as a dialogue with shareholders.

Article 3. Shareholders Meeting

Under the standpoint that, as the highest decision-making body, the Shareholders Meeting ought to be a forum for proactive and constructive dialogue with shareholders, the Company shall strive to build an environment in which the shareholders can adequately discuss the proposed resolutions and properly exercise their voting rights.

Article 4. Basic Strategy for Capital Policy

1. In principle, the Company shall maintain enough shareholders’ equity to stabilize and strengthen its financial position and proactively invest in growth with the aim of achieving sustainable growth and improving corporate value over the medium to long term.
At the same time, it shall strive to provide stable and ongoing shareholder returns.

2. The Company's Board of Directors shall verify the need and rationale of capital policies shifting control of the Company and substantially diluting shares (including capital increases and management buyouts (MBOs)) from the perspective of their contribution to corporate value and the common interests of its shareholders. At the same time, the Company's Board of Directors shall provide shareholders with adequate information for making appropriate assessments.

Article 5. Cross-Shareholdings

1. To improve corporate value over the medium to long term, the Company will only hold shares of business partners judged to maintain and strengthen stable relationships.
2. In so doing, the Board of Directors shall verify the significance of major cross-shareholdings by individuals from the standpoint of medium- to long-term economic rationale and future prospects. Shareholdings deemed as insignificant shall be reduced.
3. Moreover, the Company shall exercise the voting rights on its cross-shareholdings appropriately in view of the aim behind the holdings and from the standpoint of improving its corporate value and that of its investees over the medium to long term.
In the event a concern emerges in regard to corporate governance, an opposing vote regarding the appointment of officers will be cast until that concern has been resolved.

Article 6. Related Party Transactions

To protect the interests of the Company and the common interests of its shareholders, a director must receive approval from the Board of Directors before conducting a business transaction competing or posing a conflict of interest with the Company.
Moreover, if such a transaction is conducted, the director must report the material facts to the Board of Directors.

Chapter 3. Cooperation with Stakeholders Other than Shareholders

Article 7. The Company's Corporate Philosophy, Management Policy, and Relationship with Stakeholders

1. Based on its belief that "A company is a public entity of society," the Company shall provide all stakeholders with higher value through the mutually beneficial relationships it builds with shareholders, as well as the customers, business partners, employees and all other stakeholders to realize sustainable growth and improve corporate value over the medium- to long-term.
As such, all corporate activities and decisions made by the Company shall be based on THE ESPEC MIND, a document clearly stating this basic philosophy, as well as the Company's corporate philosophy and administration philosophy.
Moreover, the Company has established an ESPEC Code of Conduct and Behavior Guidelines, which specifically states the Company's corporate conduct principles and behavior standards based on the philosophies contained in THE ESPEC MIND.
The Company and all of its corporate officers and employees shall comply with and proactively practice these aforementioned philosophies, code, guidelines, principles, and standards.
2. The Company shall clarify its business directions through the timely disclosure of medium- to long-term visions and management plans.

Article 8. Policy on Sustainability

1. Aiming to contribute to the creation of a sustainable society through business activities, the Company recognizes that measures to address sustainability-related issues are important management priorities that will not only reduce risks but also lead to earnings opportunities. Accordingly, the Company will positively and proactively carry out such measures from the standpoint of improving corporate value over the medium to long term.
2. The Company shall analyze the effect of climate change-related risks and earnings opportunities on business activities and finance, etc., and commit to appropriate and proactive disclosure of information based on an internationally established framework for disclosures.

Article 9. Promotion of Diversity

1. The Company shall advocate diversity and provide opportunities for a broad range of human resources to build highly creative and vigorous workplaces underpinning sustainable growth.
2. The Company shall accept diversity including gender, age, and nationality, and operate systems for personnel hiring, promotion, training and evaluation, etc. appropriately so that a wide range of human resources can demonstrate their unique traits and abilities.
3. The Company shall offer varied growth support and opportunities for challenges to employees with a desire for growth and potential, and commit to arranging work environments that address diverse working styles required by the times, within a range that is appropriate.

Chapter 4. Ensuring Appropriate Information Disclosure and Transparency

Article 10. Ensuring Appropriate Information Disclosure and Transparency

The Company shall ensure management transparency and promote understanding for its activities by disclosing material facts on a timely basis in compliance with laws and regulations. This will include the honest, fair, expeditious and specific provision of corporate information useful to shareholders and all other stakeholders.

Article 11. Ensuring Appropriate Audits by the Accounting Auditors

1. The Audit & Supervisory Committee shall establish standards for the appropriate evaluation of the accounting auditors and decide the content of resolutions for the appointment, dismissal, or resignation of the accounting auditors.
Moreover, Audit & Supervisory Committee shall monitor that the accounting auditors are executing their duties and confirm that an auditing structure and their independence is appropriately maintained.
2. To realize an appropriate audit from the accounting auditors, the Board of Directors and Audit & Supervisory Committee shall strive to enhance the audit quality and improve the audit environment.

Chapter 5. Corporate Governance Structure and Duties of the Board of Directors and Other Committees

Section 1. Board of Directors and Audit & Supervisory Committee

Article 12. Roles of the Board of Directors

1. In response to their mandate from shareholders, the Board of Directors have a duty to realize

sustainable growth and enhance corporate value for the Company over the medium to long term by establishing and executing an effective corporate governance structure.

2. The Board of Directors deliberate and decide matters provisioned by laws and regulations and the Company's Articles of Incorporation as well as business strategies, management plans, and other important management issues while supervising the execution of business duties by directors, including the allocation of business resources and the implementation of business portfolio-related strategies. Moreover, the Board of Directors delegates the representative director or chief executive officer with discretion to deliberate and execute business, excluding the aforementioned matters, from the standpoint of expediting management decisions and business execution.
3. The Board of Directors shall establish internal control and Company-wide risk management systems and supervise the operational status of those systems by utilizing the Internal Audit Division, from the standpoint of embedding compliance in the ESPEC Group and raising the accountability of risk management.

Article 13. Roles of the Audit & Supervisory Committee

1. As an independent body with a mandate from shareholders, the Audit & Supervisory Committee supervises the Company's directors in their execution of duties and conducts audits that encompass the Company's internal control system and financial statements.
2. The Audit & Supervisory Committee shall exchange information and secure cooperation with the Company's outside directors from the standpoint of strengthening the information gathering capability of the outside directors and enhancing the effectiveness of audits.

Article 14. Composition of the Board of Directors and the Audit & Supervisory Committee

1. The number of directors (excluding directors who are Audit & Supervisory Committee members) shall be no more than eight, as stipulated in the Company's Articles of Incorporation.
2. The number of Audit & Supervisory Committee members shall be no more than four, as stipulated in the Company's Articles of Incorporation, among which a majority shall be outside directors. Moreover, at least one Audit & Supervisory Committee member shall be suitably well-versed in finance and accounting.
3. At least one-third of the Company's directors shall be outside directors, in order to actively reflect the knowledge of outside experts in management and to ensure the efficiency of management supervision.

Article 15. Evaluating the Effectiveness of the Board of Directors

Each fiscal year, the Company's Board of Directors must analyze and evaluate its own effectiveness as a whole, by means including self-evaluations by each director, and disclose an overview of the results.

Article 16. Active Board Deliberations

1. The Board of Directors shall strive to provide appropriate and ample information that enables its members to hold discussions and exchange information in a free, open and constructive

manner. To this end, it shall distribute materials on the agenda and proposals for discussion at each Board of Directors meeting ahead of the meeting dates and provide preliminary briefings as the need arises.

2. The Board of Directors shall schedule the dates it plans to meet in an ensuing fiscal year in advance and notify this, along with the items it plans to discuss, to the directors and audit & supervisory board members.

Section 2. Directors

Article 17. Method and Procedures for Nominating a Candidate for Director

1. Regardless of gender, age, or nationality, a candidate for director shall be a knowledgeable and competent person of outstanding character who is capable of sharing a common understanding of THE ESPEC MIND.
2. Candidates for internal directors (excluding directors who are Audit & Supervisory Committee members) shall be persons with abundant professional knowledge and business experience in their field of specialization, while candidates for outside directors (excluding directors who are Audit & Supervisory Committee members) shall be persons with abundant knowledge and experience in their field of specialization, who also satisfy the Criteria for the Independence of Outside Officers (Appendix 1) and are sufficiently capable of providing management with advice and supervisory functions.
3. Candidates for directors (excluding directors who are Audit & Supervisory Committee members) shall be approved by the Board of Directors following a fair and rigorous review by the Nomination and Compensation Committee.
4. Candidates for internal directors who serve as Audit & Supervisory Committee members shall be persons with knowledge and experience for rigorously and effectively auditing the execution of business duties by the Company's directors, while candidates for outside directors who serve as Audit & Supervisory Committee members shall be persons with abundant knowledge and experience in professional fields such as management, financial accounting, and the law, who also satisfy the Criteria for the Independence of Outside Officers (Appendix 1) and are sufficiently capable of providing management with supervisory functions.
5. Candidates for directors who serve as Audit & Supervisory Committee members shall be approved by the Board of Directors following a fair and rigorous review by the Nomination and Compensation Committee.

Article 18. Tenure of Outside Directors and Their Concurrent Positions at Other Companies

1. The tenure of outside directors (excluding directors who are Audit & Supervisory Committee members) shall be five years in principle and no longer than eight years from the standpoint of ensuring independence. The Nomination and Compensation Committee must exercise particular caution in approving or denying reappointment in the event that outside directors (excluding directors who are Audit & Supervisory Committee members) are about to be reappointed for a sixth year of tenure. The tenure of outside directors who serve as Audit & Supervisory Committee members shall be three terms or six years in principle, and no more than four terms or eight years.

2. If an outside director serves concurrently as a director or Audit & Supervisory Board Member of other listed companies, that outside director shall not be permitted to serve concurrently as director or Audit & Supervisory Board Member at more than three other listed companies.

Section 3. Validity of the Board of Directors and the Audit & Supervisory Committee

Article 19. Nomination and Compensation Committee

1. The Nomination and Compensation Committee shall review the appointment and dismissal of directors (excluding directors who are Audit & Supervisory Committee members), the Company's policy on the compensation and other financial benefits of directors (excluding directors who are Audit & Supervisory Committee members) and the content of compensation and other financial benefits for individual directors (excluding directors who are Audit & Supervisory Committee members) based on the viewpoints of diversity, such as gender, and skills, along with evaluations of factors such as the Company's business performance.
2. The Nomination and Compensation Committee shall review the appointment and dismissal of directors who are Audit & Supervisory Committee members, the Company's policy on the compensation and other financial benefits of directors who are Audit & Supervisory Committee members, and the content of compensation and other financial benefits for individual directors who are Audit & Supervisory Committee members.
3. The majority of the members of the Nomination and Compensation Committee shall be outside directors from the standpoint of ensuring management transparency and objectivity, and the chairperson and members are decided by the Board of Directors.

Article 20. Compensation of Directors

1. As a basic policy, the Company shall ensure that its decisions regarding the compensation of directors are fair and rational. At the same time, the compensation structure shall provide directors with suitable incentives for raising their motivation to achieve sustainable growth and improve corporate value over the medium to long term for the Company.
2. Compensation of directors (excluding outside directors and directors who are Audit & Supervisory Committee members) shall consist of a fixed amount of basic compensation set based on considerations such as rank and tenure, and a performance-linked compensation set based on the Company's business performance in each fiscal year.
3. Outside directors shall receive only a fixed amount of monetary compensation because of their non-executive status and from the standpoint of ensuring independence.
4. The Board of Directors decides the amount of compensation for each director (excluding any director who is an Audit & Supervisory Committee member) following a review by the Nomination and Compensation Committee.
5. Directors who are Audit & Supervisory Committee members shall receive only a fixed amount of monetary compensation because of their non-executive status and from the standpoint of ensuring independence. The Audit & Supervisory Committee decides the amount of compensation for each director who is an Audit & Supervisory Committee member following a review by the Nomination and Compensation Committee.

Article 21. Information Gathering and Support Structure

1. The directors, if they see a necessity, can request internal directors and employees to submit explanations, reports and internal materials, as well as obtain advice from external specialists at the Company's expense.
2. The Internal Audit Division shall audit the compliance status of each business execution division and report directly the results periodically to the Board of Directors and Audit & Supervisory Committee.
3. The Company shall provide an appropriate budget and establish secretariats to the Board of Directors and Audit & Supervisory Committee to ensure that the outside directors are able to perform their duties appropriately.

Article 22. Training for Directors

Upon their appointment, the Company shall provide directors with opportunities on an ongoing and updated basis to gain an ample understanding of the material information such as the Company's philosophy, management strategy, financial position and corporate governance that they will need to fulfill their roles and perform their duties as directors.

Chapter 6. Dialogue with Shareholders

Article 23. Dialogue with Shareholders

1. The Company shall sincerely, fairly and promptly provide accurate corporate information to its shareholders and other investors. At the same time, it will proactively engage in a constructive dialogue with shareholders to promote their understanding toward the Company and build a relationship of trust with the aim of obtaining appropriate corporate evaluations. The Company will also strive to enhance corporate value by reflecting the market evaluations and opinions gathered from IR activities in the Company's management.
2. This basic stance mentioned above shall be realized by setting forth and disclosing a separate investor relations IR policy.

Appendix

Criteria for the Independence of Outside Directors

The Company shall judge outside directors or candidate outside directors to be independent unless any of the following items apply.

- (1) The party is a business executor of the ESPEC Group*¹, or was a business executor of the ESPEC Group during the past 10 years.
- (2) The party is an entity for which the ESPEC Group is a major business partner*², or a business executor of said entity.
- (3) The party is a major business partner of the ESPEC Group*³, or a business executor of said major business partner.
- (4) The party receives over 10 million yen per year or other financial compensation, excluding remuneration as a director, from the ESPEC Group as a consultant, accountant, or lawyer (or an employee of a corporation, cooperative and other organization receiving such compensation).
- (5) The party is a person or corporate business executor receiving contributions or subsidies in the amount of over 10 million yen per year from the ESPEC Group during the most recent fiscal year.
- (6) The party is a person who falls under 2 through 5 above during the past 3 years.
- (7) The party is the next of kin*⁵ of a person who falls under 2 through 6 above (limited to important persons*⁴)

*1. "A business executor" refers to an executive director, executive officer or equivalent party or employee.

*2. "A major business partner" refers to a business partner providing products or services to the ESPEC Group whose transaction amounts exceeded 2% of yearly consolidated net sales in the most recent business year.

*3. "The party is a major business partner of the ESPEC Group" refers to a business partner refers to a business partner which the ESPEC Group provides products or services to whose transaction amounts exceeded 2% of yearly consolidated net sales in the most recent business year.

*4. "Important persons" refers to officers or employees in upper management with a rank of department head or higher.

*5. "Next of kin" refers to a spouse or relative to the second degree.