

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

Aiming to contribute to the creation of a sustainable society through business activities, the Company shall appropriately, positively and proactively engage in resolving issues of sustainability.

Article 9. Promotion of Diversity

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.

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 Board 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, the Audit & Supervisory Board 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 Board 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. Directors and Board of Directors

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.
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 also establish and supervise the appropriate operation of the Company's internal control system, risk management, legal compliance and other governance structures from the standpoint of embedding compliance in the Company and raising the accountability of risk management.

Article 13. Composition of the Board of Directors

The Board of Directors shall consist of no more than eight members as stipulated in the Company's Articles of Incorporation. Furthermore, the Company shall appoint two or more outside directors to its Board of Directors to actively reflect the knowledge of outside experts in management and ensure that management is supervised effectively.

Article 14. 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.

Moreover, a candidate for internal director shall be a person with abundant professional knowledge and business experience in his or her field of specialization. Meanwhile, a candidate for outside director shall be a person with abundant knowledge and experience in his or her field of specialization, who also satisfies the Criteria for the Independence of Outside Officers (Appendix 1) and is sufficiently capable of providing management with advice and supervisory functions.

2. A candidate for director shall be approved by the Board of Directors following a fair and rigorous review by the Nomination and Compensation Advisory Committee.

Section 2. Audit & Supervisory Board Members and Audit & Supervisory Board

Article 15. Roles of the Audit & Supervisory Board

1. As an independent body with a mandate from shareholders, the Audit & Supervisory Board 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 Board 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 16. Composition of the Audit & Supervisory Board

The Audit & Supervisory Board shall consist of no more than four audit & supervisory board members as stipulated in the Company's Articles of Incorporation, with outside audit & supervisory board members comprising a majority. Moreover, at least one audit & supervisory board member shall be suitably well-versed in finance and accounting.

Article 17. Method and Procedures for Nominating a Candidate for Audit & Supervisory Board Member

1. Regardless of gender, age, or nationality, a candidate for audit & supervisory board member shall be a knowledgeable and competent person of outstanding character who is capable of sharing a common understanding of THE ESPEC MIND.

Moreover, a candidate for internal audit & supervisory board member shall be a person with the knowledge and experience for rigorously and effectively auditing the execution of business duties by the Company's directors. Meanwhile, a candidate for outside audit & supervisory board member shall be a person with abundant knowledge and experience in professional fields such as management, financial accounting, and the law, who also satisfies the Criteria for the Independence of Outside Officers (Appendix 1) and is sufficiently capable of providing management with supervisory functions.

2. A candidate for audit & supervisory board member shall be approved by the Board of Directors following a fair and rigorous review by the Nomination and Compensation Advisory Committee.

Section 3. Validity of the Board of Directors

Article 18. Nomination and Compensation Advisory Committee

1. The Nomination and Compensation Advisory Committee shall review the appointment and dismissal of directors, the Company's policy on the compensation and other financial benefits of directors and the content of compensation and other financial benefits for individual directors in view of the Company's business performance and other evaluations.
2. The Nomination and Compensation Advisory Committee shall review the appointment and dismissal of audit & supervisory board members, the Company's policy on the compensation and other financial benefits of audit & supervisory board members, and the content of compensation and other financial benefits for individual audit & supervisory board members.
3. The main members of the Nomination and Compensation Advisory Committee shall be outside directors and audit & supervisory board members from the standpoint of ensuring management transparency and objectivity.

Article 19. Compensation of Directors and Audit & Supervisory Board Members

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 internal directors 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. Outside directors receive only a fixed amount of basic compensation because of their non-executive status and from the standpoint of ensuring independence. The Board of Directors decides the amount of compensation for each director following a review by the Nomination and Compensation Advisory Committee.
3. Audit & supervisory board members receive only a fixed amount of basic compensation from the standpoint of ensuring independence. The Audit & Supervisory Board decides the amount of compensation for each audit & supervisory board member following a review by the Nomination and Compensation Advisory Committee.

Article 20. Tenure of Outside Directors and Outside Audit & Supervisory Board Members and Their Concurrent Positions at Other Companies

1. The tenure of an outside director shall be five years in principle and no longer than eight years from the standpoint of ensuring independence.
The Nomination and Compensation Advisory Committee must exercise particular caution in approving or denying reappointment in the event that an outside director is about to be reappointed for a sixth year of tenure.
The tenure of an outside audit & supervisory board member shall be a maximum of two terms, or eight years.

2. If an outside director or outside audit & supervisory board member of the Company is to serve concurrently as a director or audit & supervisory board member of other listed companies, that outside director or outside audit & supervisory board member shall not be permitted to serve concurrently as director or audit & supervisory board member at more than three other listed companies.

Article 21. 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 22. 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.

Article 23. Information Gathering and Support Structure

1. The directors or audit & supervisory board members, 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 the results periodically to the Board of Directors and Audit & Supervisory Board.
3. The Company shall provide an appropriate budget and establish secretariats to the Board of Directors and Audit & Supervisory Board to ensure that the outside directors and outside audit & supervisory board members are able to perform their duties appropriately.

Article 24. Training for Directors and Audit & Supervisory Board Members

Upon their appointment, the Company shall provide directors and audit & supervisory board members 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 and audit & supervisory board members.

Chapter 6. Dialogue with Shareholders

Article 25. 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 Officers

The Company shall judge outside officers or candidate outside officers 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 5 million yen or more per year or other financial compensation, excluding remuneration as a director or audit & supervisory board member, 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 5 million yen or more 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.