

Sumitomo Chemical Corporate Governance Guidelines

1. A Basic View on Corporate Governance

Sumitomo Chemical cherishes deeply the Sumitomo Spirit which has been passed down through generations over nearly 400 years, the basic teaching of which is, among others, not to seek its own interests alone, but to contribute to society through its business activities. In accord with this business credo, the Company strives to take on challenges of constantly creating new value by capitalizing on its proprietary technologies toward contributing to the solving of social issues, and in doing so, achieving the Company's own sustained growth while at the same time cultivating corporate culture full of vigor and growing as a company that earns trust from the public at large. Recognizing that highly effective corporate governance is vital to attaining these ends, the Company keeps working to further enhance its corporate governance in accordance with the policies and principles set forth in these Guidelines, centering particularly on closer cooperation with shareholders and various other stakeholders, faster decision-making, proper oversight of business execution, enhanced systems of compliance and internal control, and active dialog with stakeholders.

2. Securing the Rights and Equal Treatment of Shareholders

The Company not only shall respect the rights of shareholders, but shall endeavor to provide an environment where shareholders can exercise their rights smoothly and also to ensure the effectively equal treatment of shareholders.

(1) Providing an environment in which shareholders can exercise their rights smoothly

(a) The Company, fully recognizing the importance of shareholders, including minority shareholders, exercising their rights, shall endeavor to have the rights exercised smoothly in accordance with relevant laws and regulations when the rights are exercised. Further, the Company shall endeavor to provide an environment capable of facilitating the exercise of the rights in the General Meeting of Shareholders via such means as early sending of a convocation notice of the General Meeting of Shareholders, posting the notice of the Meeting on the Company's website prior to sending the convocation notice, and improving convenience for institutional investors, overseas shareholders, etc. to exercise their rights.

(b) Recognizing that the General Meeting of Shareholders is an occasion for the Company to promote constructive dialog with shareholders, the Company shall endeavor to operate the Meeting in a manner appropriate from the standpoint of shareholders, such as scheduling the Meeting so as not to be held on a day when many of other companies hold their general meetings of shareholders, providing opportunities for Directors and Senior Management to give thorough explanations on their own, and creating an atmosphere where attending shareholders can feel comfortable about asking questions or expressing opinions.

(2) Ensuring the effectively equal treatment of shareholders

(a) The Company regards ROI (return on investment = NOPAT/invested capital) as a material management indicator and shall, as a general rule, set a figure of ROI in excess of WACC as an internal hurdle rate for an investment to be authorized so that sustained growth in shareholder value can be achieved through continued investments. Moreover, the Company shall always be mindful of maintaining financial soundness and an optimal capital structure as it conducts business. Specifically, the Company shall disclose information publicly on its interest-bearing liabilities, a target D/E ratio, etc. as well as setting and securing an appropriate level of internal reserves for making capital or other investments or otherwise providing loans to strengthen the competitiveness of the Company's major businesses or enhancing its overseas business operations, thereby improving the Company's earning power.

(b) The Company holds strategically shares in other companies only when judged necessary for ensuring smooth business operation or maintaining and enhancing mutual business relations, after such factors as medium- to long-term economic rationality and prospects of future business developments have been considered as a whole. The Company shall annually assess the necessity of holding such shares in light of changes in the business climate, medium- to long-term economic rationality, etc. and then, from time to time as appropriate, sell the shares which have been assessed less necessary to be held. Whether or not voting rights related to such strategically held shares are to be exercised on a given proposal shall be decided for each specific proposal, from viewpoints of whether or not the proposal would help raise the mid- to long-term corporate value of the company in which the Company holds shares and promote the company's sustainable growth or whether or not it would potentially harm the benefit of the Company.

(c) With respect to transactions involving conflict of interest between the Company and Directors, the Company shall ensure that the transactions be subject to resolution by and reporting to the Board of Directors in accordance with the law and the Company's internal rules governing the Board of Directors. Transactions between the Company and related other parties shall be determined after due consideration given to market prices, market interest rates, etc., and the transactions so made shall be identified in notes to the Company's financial statements and disclosed in annual securities reports, in accordance with the law, etc.

3. Appropriate Cooperation with Stakeholders Other than Shareholders

Recognizing that cooperation with various stakeholders, including employees, customers, business partners, creditors, and local communities, is essential to the Company's sustained growth, the Company shall proactively work to fulfill its corporate social responsibility and strive to cultivate corporate culture of a company that can be trusted by society.

(1) Formulating Business Philosophy, A Charter for Business Conduct, etc.

(a) The Company understands that its Business Philosophy embraces Sumitomo Chemical's business principles, mission and values that have consistently been inherited since the commencement of its business. The Company shall, while endeavoring to have the Business Philosophy understood thoroughly by all Directors, Officers & Employees through trainings and other educational programs, carry out corporate management with due consideration to creating value to the stakeholders, which includes contributing to the solving of social issues, and also disclose non-financial information, including achievements of such endeavor, through posting on the Company's website, etc.

(b) Recognizing that compliance is the cornerstone of corporate management, the Company shall devote its efforts to ensuring that it not only observes the laws of each country in which it does business, but also follows business ethics in the country. To this end, the Company shall prepare a Sumitomo Chemical Charter for Business Conduct as the basic guiding principles on which the Company's compliance system is built, as well as a Compliance Manual, a document setting forth a code of conduct specifically. The Company shall endeavor to have such guiding principles and a code of conduct fully understood and observed thoroughly by Directors, Officers & Employees through providing various trainings and other educational sessions.

(2) Response to sustainability and diversity

The Company shall positively and proactively work on initiatives relating to ESG (Environmental, Social and Governance), sustainability, and diversity, and shall proactively disclose the progress status of such

initiatives on the Sumitomo Chemical Annual Report (Integrated Report), Sustainability Data Book, the Company's website, etc. In order to promote the initiatives, the Company sets forth the Basic Principle of Sustainability Promotion, under which the Company establishes the Sustainability Promotion Committee, thereby comprehensively reviewing the progress of the initiatives and promoting the integrated initiatives throughout the Sumitomo Chemical Group.

(3) Providing a whistleblowing system

The Company shall provide and operate a whistleblowing system or a Speak-Up System properly, under which any Directors, Officers & Employees, his or her family member, business partner, or anyone currently involved in the Company's business may report a violation or suspected violation of compliance by others when he or she has become aware of the same.

In addition, in order to ensure independence in the handling of whistleblowing cases, the Company has introduced a system in which whistleblowing regarding the Senior Management is only reported to the Company's Board of Corporate Auditors, and investigations on such reports are conducted based on the advice of the Board of Corporate Auditors, which may, if necessary in light of the results of such investigation, give advice on the necessary countermeasures.

4. Ensuring Appropriate Information Disclosure and Transparency

As part of efforts to build a foundation for constructive dialog with stakeholders, the Company shall endeavor to provide information that is highly reliable and useful to recipients thereof.

(1) Full disclosure of information

(a) The Company shall disclose on its website and elsewhere its Business Philosophy as well as business strategies and medium-term corporate business plans that have been formulated and are to be implemented on the basis of the Business Philosophy.

(b) Policies and procedures for determining remuneration for Senior Management and Directors as well as policies and procedures for the Board of Directors to follow in electing and dismissing Senior Management or nominating candidates for Directors and the Company's Corporate Auditors shall be as stated in **Appendix 1**.

(2) Outside accounting auditors

The Board of Corporate Auditors shall take appropriate measures to ensure proper auditing, such as formulating criteria for election of outside accounting auditors and confirming their independence and qualifications.

5. Responsibilities of the Board of Directors and other bodies

The Company adopts a Corporate Auditor System. A majority of Corporate Auditors shall be Outside Corporate Auditors. The Company shall endeavor to enhance the functions of Corporate Auditors and strengthen their oversight functions by seeking useful opinions from them regarding not only the soundness of corporate management but also the efficiency of the same and then making the best use of those opinions in the execution of business. In addition to the above, the Company shall appoint multiple Outside Directors in order to further strengthen the oversight functions of the Board of Directors and increase the transparency and objectivity of corporate management.

The Company's Board of Directors shall fulfill its role and mission properly, based on their fiduciary responsibilities and accountability to shareholders and recognizing the important role of Independent Outside Directors & Auditors, through such measures as presenting appropriate corporate management policies and

business strategies that have taken into account changing socioeconomic conditions, and conducting highly effective oversight over the execution of business.

(1) Roles and responsibilities of the Board of Directors

- (a) The Company shall cause its Board of Directors to resolve on management policies, business strategies, and other important matters related to business execution, etc. in accordance with legal requirements for matters that are a prerogative of the Board of Directors as well as with the provisions of the Company's Articles of Incorporation. Further, the Company shall endeavor to enhance reporting to the Board of Directors about the progress status of business execution for the purpose of oversight to ensure that duties entrusted to the Management are being carried out properly.
- (b) The Company considers Managing Executive Officers and other Executive Officers above to be prospective successors to chairmanship and presidentship, and shall provide them with opportunities to engage in important duties and participate in day-to-day corporate management, thereby acquiring knowledge and experience, and cultivating required capabilities. The Board of Directors shall conduct oversight to ensure that Managing Executive Officers and other Executive Officers above are provided with such opportunities properly and are acting as required.

(2) Establishing systems for timely disclosure, internal control, risk management, etc.

- (a) The Corporate Communications Department of the Company shall have main responsibility for conducting timely and continual disclosure of information in cooperation with relevant offices and departments of the Company. In addition to the disclosure of matters required under the Financial Instruments and Exchange Act or disclosure rules of stock exchanges, the Company shall make proactive disclosure of information that it believes could affect investment decisions by investors.
- (b) The Company shall establish an Internal Control Committee which takes charge of internal control. In accordance with the Basic Policy for Enhancement of the Internal Control System laid down by the Board of Directors, the Internal Control Committee shall endeavor to enhance an internal control system of the Sumitomo Chemical Group to ensure proper execution of business and shall constantly inspect and refine the internal control system according to changes in business circumstances.
- (c) As far as an internal control system for financial reporting is concerned, the Internal Control & Audit Department of the Company, acting as a secretariat office to the Internal Control Committee, shall work to comply with the requirements regarding an internal control reporting system and shall report the progress status of such work to the Internal Control Committee. In addition, the Internal Control & Audit Department shall work as appropriate to ensure receiving a fair and proper opinion from an auditing firm on internal control reports.
- (d) The Company shall establish a Compliance Committee which is responsible for the Company's Group-wide compliance system. The Compliance Committee shall survey, monitor, and oversee the situation of compliance in the entire Group, and, as necessary, shall recommend to responsible committees or relevant organizations in the Company or the Group that appropriate improvements be made.
- (e) With respect to a system for company-wide risk management, the Internal Control Committee shall be responsible for preparing a policy on risk management encompassing the entire Group, gathering information related to risks, and deliberating on measures to keep everyone in the Company fully informed of various matters. In addition, the Company shall establish a Risk Crisis Management Committee to respond promptly to a situation where any major risk has manifested itself. The Risk

Crisis Management Committee shall deliberate on policies and principles to follow in individual instances of risks and crises.

(f) The Company ensures that the plans, progress, and results of the implementation of internal audits conducted by the department in charge of internal audits and the internal control reporting system shall be, according to circumstances, directly reported from the department in charge of internal audits to the Board of Directors and the Board of Corporate Auditors, thereby achieving necessary coordination based on such information sharing.

(3) Roles and responsibilities of Corporate Auditors and Board of Corporate Auditors

(a) The Auditing Standards for Corporate Auditors of the Company shall stipulate matters regarding Corporate Auditors, such as a basic stance to take, objectives to achieve, and an attitude to maintain, and Corporate Auditors shall conduct an audit in accordance with the Standards.

(b) Outside part-time auditors, as an independent third party, shall provide advice, recommendations, or other opinions based on their individual experiences and from viewpoints of a person specialized in a relevant field. Internal Standing Corporate Auditors, having ever worked for the Company and being knowledgeable about internal matters of the Company, shall conduct auditing and information gathering on a continuous basis. Both auditors shall cooperate closely with each other in operating the Board of Corporate Auditors.

(4) Independent Outside Directors

(a) The Company's Independent Outside Directors shall oversee corporate management and business execution, and, in addition, shall offer advice on corporate management policies and improvements to be made on corporate management as well as other opinions which will be useful from a perspective of stakeholders. They also serve as members on the Nomination Advisory Committee that reports to the Board of Directors, thereby exerting a significant influence on appointment and dismissal of Senior Management and enhancing the effectiveness of oversight functions.

(b) The Company shall provide, as appropriate, Independent Outside Directors with opportunities for briefing in advance of Board of Directors meetings, those for briefing about the Company's business plans, business strategies, the operational status of each Business Sector, etc. or those for visiting branches inside and outside of Japan as well as hold, several times a year, informal gatherings for discussions by Independent Outside Directors and Independent Outside Corporate Auditors only so that Independent Outside Directors can take an active part in discussions at the Board of Directors meetings. Independent Outside Directors shall make use of these opportunities to exchange information with each other and share common understanding of various matters among them.

(c) The Company shall establish certain routes, means, etc. for contact or coordination between Outside Directors and the Company's Management or for cooperation with Corporate Auditors or the Board of Corporate Auditors so that such contacts, coordination or the like can be taken in a timely manner whenever such need arises. In addition, the Company shall endeavor to promote cooperation between Outside Corporate Auditors and Outside Directors in order to enhance Outside Directors' activities to gather information.

(d) Criteria by which the Company designates Outside Directors and Outside Corporate Auditors as Independent Directors & Auditors shall be as stated in [Appendix 2](#).

(5) Establishment of non-mandatory committees

The Company shall establish, as committees under the Board of Directors, a Nomination Advisory Committee and a Remuneration Advisory Committee, each of which are composed mainly of Outside Directors & Auditors. The Company shall seek from these Committees necessary advice on nomination of candidates for Directors or Corporate Auditors, election of Senior Management, a remuneration system for Directors, Etc. (as defined in Appendix 1) or others, levels of the remuneration, etc.

In addition, the Remuneration Advisory Committee is entrusted by the Board of Directors to determine the individual amounts of remuneration for the Senior Management and Directors based on the “Policies for Determining Remuneration of Senior Management and Directors”.

(6) An overall balance, diversity, and size of the Board of Directors

For the Board of Directors to fulfill its roles and responsibilities more effectively and make decisions more swiftly, the Company, in principle, shall make sure that the number of members on the Board of Directors be less than the maximum number provided in the Company's Articles of Incorporation, and shall form the Board of Directors consisting of a diversity of persons with the following knowledge and experience.

- Persons with broad knowledge of and abundant experience in the Company’s business
- Persons with broad knowledge of and abundant experience in accounting and finance
- Persons with broad knowledge of and abundant experience in law, compliance, and internal control
- Persons with broad knowledge of and abundant experience in industries, society, etc. as well as corporate management of other companies
- Persons capable of harnessing their abundant international experience for the handling of global business development

(7) Ensuring the effectiveness of the Board of Directors

The Company’s Board of Directors shall carry out analysis and appraisal annually regarding the effectiveness of the Board of Directors through exchanging opinions at Outside Directors & Auditors meetings attended by Outside Directors, Outside Corporate Auditors, the Chairman, and the President, and at Management Committee meetings attended by Directors, etc. as well as by taking into account questionnaire replies from Directors and Corporate Auditors and opinions expressed by the Board of Corporate Auditors. Based on these opinions, the Board of Directors shall make an overall review of the appraised effectiveness of the Board of Directors. An outline of the appraisal results thus reviewed shall be disclosed as required.

(8) Invigorating deliberations at the Board of Directors meetings

- (a) Outside Directors shall express opinions actively at the Board of Directors meetings based on their specialized knowledge and extensive experience, while the Company's Management shall duly respect the opinions of Outside Directors and make the best of them in promoting corporate management.
- (b) As far as the operation of the Board of Directors meetings is concerned, an annual schedule for the meetings to be held from July to next June for each year shall be determined in the previous year with the Regular Board of Directors meetings to be held once a month, and the schedule determined shall be made known to Directors and Corporate Auditors. A sufficient amount of time shall be spared for each of the Board of Directors meetings, without setting any specific finishing time for the meetings in advance.

(9) Trainings to Directors and Corporate Auditors

The Company shall provide Directors, Corporate Auditors, and candidates for those positions with various opportunities of trainings and other programs for enhancing required skills mutually, aimed at helping them gain knowledge of corporate management and broaden their perspectives so that they can fulfill their roles

and responsibilities properly.

6. Dialog with Shareholders

The Company shall endeavor to promote constructive dialog with shareholders with the aim of seeking to attain the Company's sustained growth and to enhance corporate value in the medium to long term.

(1) A basic policy on dialog with shareholders

The Company shall promote timely and proper communication with shareholders regarding its management policies, business strategies, and business performance developments in order to fulfill its accountability to shareholders and also to have the Company's stock priced properly and its corporate value enhanced further through developing shareholders' accurate understanding of the Company's activities.

(2) Organization

An Executive Officer in charge of Corporate Communications shall have overall responsibility for dialog with shareholders. A dedicated organizational unit, Corporate Communications Department, shall engage in gathering pertinent information in cooperation with the Company's relevant departments, sections, etc. as well as arranging for and operating meetings for dialog between the Company's Management, Etc. and shareholders.

(3) Regular initiatives and reporting to the Company's Management, Etc.

Meetings to explain about the Company's business strategies, meetings to report the Company's financial performance, etc. shall be held regularly to promote constructive dialog with shareholders. In the dialog, the Company shall take the utmost care about matters of compliance, preventing disclosure of insider information. Views and opinions expressed by shareholders during such dialog shall be reported regularly to the Company's Management, Etc.

Appendix 1

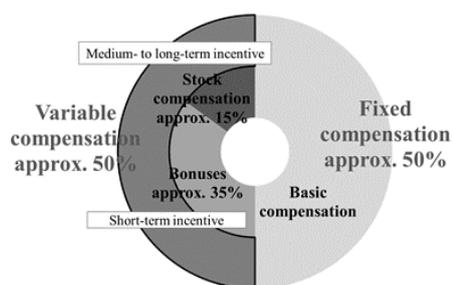
[Policies and Procedures for Determining Compensation of Senior Management and Directors]

1. Basic policy for remunerations of Directors, etc.

- (1) The remuneration of senior management and Directors (excluding Outside Directors) shall consist of Basic Compensation as fixed compensation and Bonuses and Stock Compensation as variable compensation. In addition, the remuneration of Outside Directors shall consist of Basic Compensation and Bonuses.
- (2) Basic Compensation is designed according to roles and responsibilities as basic remuneration for the performance of duties so that the actions of senior management and Directors are not aimed at short-term or sub-optimal effects.
- (3) The amount of Bonuses shall largely reflect the Company's consolidated financial results for a fiscal year in order to heighten short-term incentive to achieve the annual target of the business plans.
- (4) Stock Compensation is designed to promote further value sharing with shareholders and serve as a medium- to long-term incentive for the continuous growth of the Company.
- (5) The remuneration shall be set at levels which are designed to be objectively competitive to attract and retain outstanding talent while comprehensively taking into consideration such factors as the scale and content of the Company's business and external evaluations of ESG and other non-financial factors. Based on surveys by a third-party organization and other materials, such levels shall be checked annually whether or not to be objectively appropriate.
- (6) When the consolidated performance target (core operating income) for the final fiscal year of the Corporate Business Plan (FY2022-2024) is achieved, the remuneration of Directors (excluding Outside Directors) shall be designed so that the ratio of the fixed compensation to variable compensation is approximately 1 to 1 and the ratio of short-term incentives (Bonuses) to medium- to long-term incentives (Stock Compensation) in variable compensation is approximately 7 to 3.

<Illustration of composition of remuneration of Directors (excluding Outside Directors)>

Remuneration composition when the performance target in the Corporate Business Plan is achieved



* Based on the target of FY2022-FY2024 Corporate Business Plan

2. Mechanisms of each remuneration element

(1) Basic Compensation

The level of Basic Compensation shall be determined based on the policy described in 1. (5) to (6) above. While Basic Compensation for each year shall be fixed, the Company will adopt a mechanism where the Basic Compensation level would be changed in the event where the Company's position has changed in terms of "growth," "earnings capacity," and "outside evaluations" from a comprehensive and medium- to long-term perspective.

As main indicators for determining the change in the Company position, the Company will apply the following: 1) in terms of "growth," sales revenue, total assets and market capitalization, 2) in terms of "earnings capacity," net income (attributable to the parent company), ROE, ROI and D/E ratio, and 3) in

terms of “outside evaluations,” credit ratings and ESG index selected by GPIF (Government Pension Investment Fund).

The amounts to be paid to each person will be determined in accordance with the base amount set by each position.

(2) Bonuses (short-term incentive)

Bonuses shall be paid on the condition that performance for that fiscal year exceeds a particular level and shall be determined based on the bonus calculation formula.

In order to reflect the current earnings capacity of the relevant business year (including financial activities) to the amount of bonuses, the Company will apply the combined value of consolidated core operating income and financial profit and loss to the performance indicator concerning the bonus calculation formula. In addition, the Company will set the coefficient of the calculation formula so that it will get larger as the position of a person gets higher.

<Bonus calculation formula>

$$\begin{array}{|c|} \hline \text{Consolidated performance indicator} \\ \hline \text{(core operating income + financial profit and loss)} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Coefficient} \\ \hline \end{array}$$

(3) Stock Compensation (medium- to long-term incentive)

Stock Compensation shall be restricted stock compensation. Restricted stocks shall be allocated at a certain time after the ordinary general meeting of shareholders each year according to the amount determined for each position, and it shall be obligatory to hold the stocks during the term of office. In addition, the Company shall set the ratio of Stock Compensation to total remuneration so that it will get larger as the position of a person gets higher.

<Overview of restricted stock compensation plan>

(a) Transfer restriction period

Until the retirement from the position of Director and Executive Officer not concurrently serving as a Director at the Company

(b) Removal of transfer restrictions

On the condition that the eligible person continuously served as a Director or Executive Officer not concurrently serving as a Director at the Company during his or her terms of office, the Company shall remove transfer restrictions on all allotted shares when the transfer restriction period ends.

However, a) if the eligible person resigns from his or her position as a Director and Executive Officer not concurrently serving as a Director at the Company before the end of his or her term of office owing to a justifiable reason, or b) if the eligible person resigns from his or her position as a Director and Executive Officer not concurrently serving as a Director at the Company after the end of his or her term of office, but before the end of the transfer restriction period for any reason other than justifiable cause, the Company shall reasonably adjust the number of allotted shares from which to remove transfer restrictions and the timing of the removal of transfer restrictions, as necessary.

(c) Conditions for forfeiture of shares

If the eligible person is found to be in material violation of any law, regulation or internal rule, all allotted shares, including those whose transfer restrictions have been removed, shall be forfeited (the Company shall acquire them without consideration).

3. Procedures for determining remunerations of Directors, etc.

The Company shall establish a Remuneration Advisory Committee as an advisory body to the Board of

Directors on a remuneration system for senior management and Directors, levels of remuneration, and other matters incidental thereto. Composed of Directors (a majority are Outside Directors), the Committee shall advise the Board of Directors, when determining officer remuneration system, levels of remuneration, etc., so that greater transparency and fairness can be ensured regarding the remuneration.

The remuneration amount of Directors shall be set at a level not higher than the upper limit of a total remuneration prescribed by the resolution of the 125th Ordinary General Meeting of Shareholders held on June 23, 2006 (i.e., 1.0 billion yen or less per year). Furthermore, the amount of remuneration to be paid to Directors (excluding Outside Directors) for granting restricted stock shall be determined within the upper limit of 400 million yen per year set by the resolution of the 141st Ordinary General Meeting of Shareholders held on June 23, 2022.

The Board of Directors shall deliberate on and decide the method of determining remunerations of Directors, etc., based on the advice from the Remuneration Advisory Committee. Furthermore, the individual remuneration of senior management and Directors shall be determined by the Remuneration Advisory Committee, which is authorized by the Board of Directors, in accordance with the policies for determining compensation of senior management and Directors.

[Policies and Procedures for electing and dismissing Senior Management and nominating candidates for Directors and Corporate Auditors]

Electing and Nominating Policies

Persons suitable for each position of responsibility shall be selected based on an overall assessment of various factors, including business accomplishments, knowledge and experience, and character and insight, from the viewpoints of whether or not the person is capable of making adequate and quick decision or whether or not the person is "the right person in the right place." In principle, when an elected person has reached a certain age, the person shall retire from the position at the end of the tenure of office, in accordance with rules set by the Company. As far as nomination of candidates for Outside Directors and Outside Corporate Auditors is concerned, if a candidate also serves as a director, officer, etc. in other publicly traded companies, the number of such other companies shall be limited to four or less so that the person can properly fulfill his or her duties as Director or Corporate Auditor of the Company.

Electing and Nominating Procedures

A Representative Director shall select candidates suitable for the positions of Senior Management, Directors and Corporate Auditors in accordance with the above Policies.

Deliberation shall be made on whether the selection made is adequate or not at the Nomination Advisory Committee established under the Board of Directors, consisting mainly of Outside Directors and Outside Corporate Auditors. The Committee shall give advice to the Board of Directors meetings on electing Senior Management or nominating candidates for Directors and Corporate Auditors, and a decision shall be made at the Board of Directors meetings based on such advice. Directors and Corporate Auditors shall be elected by a resolution of a General Meeting of Shareholders.

Dismissing Policies and Procedures

A deliberation and decision to dismiss Senior Management shall be made at the Board of Directors meetings when a Senior Management has been suspected of malfeasance, impropriety, or a breach of faith, or when there exists any other reason that implicates he/she is unsuitable as a Senior Management.

Appendix 2

[Criteria for Designation of Independent Directors & Auditors]

(Revised June 23, 2015)

1. These criteria set conditions for designation of the Company's Outside Directors & Auditors (meaning Outside Directors and Outside Corporate Auditors) as "Independent Directors & Auditors" defined in the listing rules of stock exchanges in Japan.
2. If none of the conditions given in (1) to (9) below applies, a person, in principle, shall be considered to have no material interest in the Company and may be designated as Independent Directors & Auditors.

The person

- (1) Is an executor of business, i.e. someone who executes business of the Company or a company of the Company's Group (a Director (other than Outside Director), an executive officer, or an employee (by whatever name, someone having an employment relationship with the Company or with the company of the Group)).
- (2) Is an executor of business who executes business of a major client or business partner of the Company. The "a major client or business partner" means any of the following.
 - (a) A vendor providing products or services to the Company, or a customer to which the Company is providing products or services, of which the total amount of such transactions in the fiscal year nearest to the time of intended designation as an Independent Directors & Auditors exceeds 2% of their total sales or exceeds 2% of the Company's nonconsolidated sales, respectively.
 - (b) A financial institution providing loans to the Company, of which the total amount of the loans at the end of the fiscal year nearest to the time of intended designation as Independent Directors & Auditors exceeds 2% of the Company's total nonconsolidated borrowings; provided that, even if the amount does not exceed 2%, a financial institution indicated as a lender to the Company on annual securities reports, business reports or other public documents shall be considered "a major business partner."
- (3) A consultant, certified public accountant, attorney or other expert receiving remuneration from the Company in addition to the remuneration payable to the Company's Directors, Officers, Etc., of which the total amount of the remuneration paid, other than the remuneration payable to the Company's Directors, Officers, Etc., in the fiscal year nearest to the time of intended designation as Independent Directors & Auditors exceeds 10 million yen; provided that, even if the amount does not exceed 10 million yen, the person shall be considered a recipient of a substantial amount of remuneration if it exceeds 50% of that person's annual income.
- (4) A person who works for an organization that is a consulting firm, tax accounting firm, law office, other corporate body, partnership, etc., whose sales to the Company in the fiscal year nearest to the time of intended designation as Independent Directors & Auditors exceeds 2% of the organization's total sales or 10 million yen, whichever is larger.
- (5) A shareholder of the Company whose share of voting rights at the end of the fiscal year nearest to the time of intended designation as Independent Directors & Auditors is 10% or more (a total of direct and indirect holdings) or an executor of business at the shareholder entity.
- (6) Of the companies in which the Company holds shares, an entity in which the Company's share of voting rights at the end of the fiscal year nearest to the time of intended designation as Independent Directors & Auditors is 10% or more (a total of direct and indirect holdings) or an executor of business at the entity.
- (7) A person who works for an auditing firm that conducts statutory audits of the Company.
- (8) A person to whom (1) above was applicable in the past or to whom any of (2) to (7) above was applicable in the past one year or equivalent period.

(9) A spouse or a close relative (second-degree relative or closer) of a person to whom any of the following applies.

(a) A person listed in (1) to (7) above.

(b) A person who, in the past year or equivalent period, was an executor of business of the Company or a company of the Company's Group. If an outside Corporate Auditor is to be designated as Independent Directors & Auditors, a Director not executing business or an accounting advisor (including its employees who are to perform relevant specific duties if the accounting advisor is a body corporate).

(c) In (a) and (b) above, "an executor of business" shall mean a person executing an important business at a company or a business partner, i.e. a Director having business execution functions, an Executive Officer or an employee having a position of department manager, its equivalent or above, and shall not include persons below the position of department manager or its equivalent.

(d) The above (a) notwithstanding, a person who "works for an organization" in (4) above shall not include a person who is neither an executor of important business in the organization nor, if the organization is an auditing firm, law office or other organization specializing in accounting or law, etc., a person who has specialized qualifications, such as a certified public accountant and attorney.

(e) The above (a) notwithstanding, a person who "works for an auditing firm" in (7) above shall include neither a person who is not an executor of important business in the firm nor a person who does not have specialized qualifications, such as a certified public accountant.

3. Even where the conditions set forth in 2. above do not apply, if there are circumstances that, in the judgment of the Company, sufficiently indicates any of Outside Directors & Auditors being incapable of performing his or her duties as Independent Directors & Auditors, that particular Outside Directors & Auditors shall not be designated as Independent Directors & Auditors.

4. With respect to an Outside Directors & Auditors whom the Company intends to designate as Independent Directors & Auditors in accordance with the foregoing, the Company shall, upon his or her written consent, designate that Outside Directors & Auditors as Independent Directors & Auditors, and shall make notification thereof to the stock exchanges on which the Company is listed. Prior to making the notification, the matter shall be reported to the Board of Directors and the Board of Corporate Auditors.