

Last Update: October 30, 2017

**ESPEC CORP.**

President: Masaaki Ishida

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Securities Code: 6859

<http://www.espec.co.jp/>

The corporate governance of ESPEC CORP. (the “Company”) is described below.

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

#### **1. Basic Views**

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.

The Company’s basic views, policy for engagement in each principle, and status of implementation of the Corporate Governance Code have been formulated in a separate Basic Policy on Corporate Governance, publically disclosed on the Company’s website.

[https://www.espec.co.jp/english/ir/management/pdf/governance\\_policy.pdf](https://www.espec.co.jp/english/ir/management/pdf/governance_policy.pdf)

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

The Company has implemented each principle of the Corporate Governance Code in accordance with the above basic policy.

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

Please refer to the following articles of the Basic Policy on Corporate Governance for details on matters that ought to be disclosed under the Corporate Governance Code.

##### **[Principle 1.4 Cross-Shareholdings]**

Article 5. Cross-Shareholdings

##### **[Principle 1.7 Related Party Transactions]**

Article 6. Related Party Transactions

##### **[Principle 3.1 Full Disclosure]**

Article 1. Basic Stance on Corporate Governance

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

Article 14. Method and Procedures for Nominating a Candidate for Director

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

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

The Company shall disclose its reasons behind the nomination of candidates for director and audit & supervisory board member in the reference materials to its Notice for Convening a Shareholders Meeting.  
<http://www.espec.co.jp/english/news/2017/0525.pdf>

**[Supplementary Principle 4.1.1 Scope of Delegation to Management]**

Article 12. Roles of the Board of Directors

**[Principle 4.8 Effective Use of Independent Outside Directors]**

Article 13. Composition of the Board of Directors

**[Principle 4.9 Criteria for the Independence of Independent Outside Directors]**

Article 14. Method and Procedures for Nominating a Candidate for Director

**[Supplementary Principle 4.11.1 Size, Diversity and Overall Balance of the Board of Directors]**

Article 13. Composition of the Board of Directors

Article 14. Method and Procedures for Nominating a Candidate for Director

**[Supplementary Principle 4.11.2 Directors and Audit & Supervisory Board Members Concurrently Holding Positions at Other Listed Companies]**

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

The Company discloses the status of its directors and audit & supervisory board members holding important concurrent positions in other companies in the reference materials, business report and other content attached to its Notice for Convening a Shareholders Meeting.

**[Supplementary Principle 4.11.3 Evaluating the Effectiveness of the Board of Directors]**

Article 21. Evaluating the Effectiveness of the Board of Directors

To evaluate the effectiveness of the Board of Directors during the year ended March 31, 2017, Board members filled out a self-evaluation of the organization, functions, and conduct of the Board of Directors, as well as the support it had received. In addition, the Company conducted a follow-up interview of the Board members to ascertain their responses to the self-evaluation. Based on the outcome, the Board of Directors met in April 2017 to analyze and evaluate their effectiveness as a whole.

As a result, it was confirmed that the Board had put an organization in place for fulfilling its function of supervising management, and that conditions within the Board contributed to discussions and exchanges of opinions in a free, uninhibited and constructive manner.

Moreover, two independent outside directors were appointed (representing an increase of one) at the 63rd Ordinary General Meeting of Shareholders held in June 2016, and the Company has judged that the establishment of this new organization has led to more active discussions by the Board of Directors.

In the future, the Company will continue to analyze and evaluate the effectiveness of the Board of Directors every fiscal year, and endeavor to further improve its effectiveness.

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

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

**[Principle 5.1 Policy for Constructive Dialogue with Shareholders]**

Article 25. Dialogue with Shareholders

The Company has formulated and disclosed a separate investor relations IR policy outlining its basic stance for realizing a constructive dialogue with shareholders.

<http://www.espec.co.jp/english/ir/policy.html>

## 2. Capital Structure

Foreign Shareholding Ratio	From 10% to less than 20%
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### [Status of Major Shareholders] (Updated)

Name / Company Name	Number of Shares Owned	Percentage (%)
ESPEC Business Partners' Stockholding Association	2,024,960	8.51
Japan Trustee Services Bank, Ltd. (Trust account)	1,430,400	6.01
The Master Trust Bank of Japan, Ltd. (Trust account)	864,800	3.63
ESPEC Employee Stockholding Association	845,736	3.55
Yoshiki Sasaki	830,000	3.49
Nippon Life Insurance Company	790,900	3.32
Mizuho Bank, Ltd.	513,500	2.15
MSCO CUSTOMER SECURITIES	469,150	1.97
TACHIBANA ELETECH CO., LTD.	419,083	1.76
DFA INTL SMALL CAP VALUE PORTFOLIO	383,800	1.61

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

### Supplementary Explanation (Updated)

The Company owns 922,935 shares of treasury stock in addition to the shares mentioned above.

## 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Electric Appliances
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥10 billion to less than ¥100 billion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

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

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

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## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	8
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	5
Appointment of outside directors	Appointed
Number of Outside Directors	2
Number of Independent Directors	2

#### Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Hiroyuki Nagano	From another company												
Toshiya Kosugi	From another company								○				

\* Categories for "Relationship with the Company"

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

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

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

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

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director / audit & supervisory board member

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which and the Company outside directors/ outside audit & supervisory board member (said individual only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

Outside Directors' Relationship with the Company (2)

Name	Designation as an independent director	Supplementary Explanation of the Relationship	Reasons of Appointment
Hiroyuki Nagano	○	The Company has no particular relationship with the University of Hyogo, where Outside Director Hiroyuki Nagano is currently a professor.	Outside Director Hiroyuki Nagano has acquired plenty of knowledge and experience from a career including the management of Panasonic Plasma Display Co., Ltd. and as a professor at the University of Hyogo studying collaboration between industry and academia in research and other areas. At the same time, he is deemed as posing no conflict of interest with the general shareholders while possessing a high degree of independence from the executive management of the Company. We therefore adjudge that he is sufficiently capable of carrying out his role as outside director. Mr. Nagano has been designated as an independent director of the Company, having satisfied the Tokyo Stock Exchange's criteria for independence of independent directors.
Toshiya Kosugi	○	The joint venture company Truth, Human Science & Management Organization Laboratory LLC, where Outside Director Toshiya Kosugi is currently registered as a representative, is a business counterparty of ESPEC. However, the details were omitted from this report as the scale and characteristics of the business and academic ties were deemed as posing no risk of affecting the independence of this director.	Outside Director Toshiya Kosugi has acquired plenty of knowledge and experience from a career that includes the management of the joint venture company Truth, Human Science & Management Organization Laboratory LLC, and research into the development of human resources at the Graduate School of Technology Management, Ritsumeikan University, and the Graduate School of Science and Technology, Keio University. At the same time, he is deemed as posing no conflict of interest with the general shareholders while possessing a high degree of independence from the executive management of the Company. We therefore adjudges that he is sufficiently capable of carrying out his role as outside director. Mr. Kosugi has been designated as an independent director of the Company, having satisfied the Tokyo Stock Exchange's criteria for independence of independent directors.

Voluntary establishment of committee(s) corresponding to Nomination Committee or Compensation Committee

Established

Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Compensation Committee
Committee's Name	Personnel Advisory Committee	Personnel Advisory Committee
All Committee Members	4	4
Full-time Members	-	-
Internal Directors	1	1
Outside Directors	1	1
Outside Experts	-	-
Other	2	2
Chairperson	Internal directors	Internal directors

Supplementary Explanation

The Personnel Advisory Committee reviews the appointment and dismissal of the Company's directors and audit & supervisory board members and the policy and content of compensation and other financial benefits for the directors and audit & supervisory board members. The Personnel Advisory Committee includes outside directors and audit & supervisory board members as members from the standpoint of ensuring management transparency and objectivity. The Company's Board of Directors decides who to appoint as the chair person and members of the committee.

**[Audit & Supervisory Board]**

Establishment of Audit & Supervisory Board	Established
Maximum number of audit & supervisory board members stipulated in the Company's Articles of Incorporations	4
Actual number of audit & supervisory board members	4

Cooperation among audit & supervisory board members, accounting auditors and the Internal Audit Division

The Company's audit & supervisory board members and Audit & Supervisory Board receive an overview of the audit plan from the accounting auditors and receive explanations and exchange opinions on such matters as the priority auditing items. The Company's audit & supervisory board members and Audit & Supervisory Board also accompany the accounting auditors on audits and audit reviews and request timely progress reports on audit execution from the accounting auditors. Audit & supervisory board members interview the accounting auditors for opinions on how accounting methods and treatments affect the Company's asset position and financial reports, and whether those methods and treatments are appropriate in light of the applicable accounting standards and generally accepted accounting principles. The Audit & Supervisory Board receives audit reports and related materials from the accounting auditors. At the same time, it inspects the audit reports from the accounting auditors and requests explanations of the important matters. The Audit & Supervisory Board holds meetings in accordance with the accounting settlement and audit schedule, and as the need arises. Members of the committee also exchange opinions and maintain contact including by e-mail. The internal audit division conducts internal audits of each of the Company's divisions and Group companies. These internal audits are conducted both efficiently and effectively with an emphasis on coordination with the audit & supervisory board members. In principle, the head of the internal audit division strives to enhance the audit & supervisory board members' audits and internal audits even further by attending the meetings of the Audit & Supervisory Board to deliver reports and exchange opinions and so forth.

Appointment of outside audit & supervisory board members	Appointed
Number of outside audit & supervisory board members	2
Number of independent outside audit & supervisory board members	2

Outside audit & supervisory board members Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Tetsuo Yamamoto	Lawyer													
Masahiko Tsutsumi	CPA													

\* Categories for "Relationship with the Company"

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

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

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

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

- a. Executive of the Company or its subsidiary
- b. Non-executive director or accounting advisor of the Company or its subsidiaries
- c. Non-executive director or executive of a parent company of the Company
- d. Audit & supervisory board member of a parent company of the Company
- e. Executive of a fellow subsidiary company of the Company
- f. A party whose major client or supplier is the Company or an executive thereof
- g. Major client or supplier of the Company or an executive thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an audit & supervisory board member
- i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- j. Executive of a client or supplier company of the Company (which does not correspond to any off, g, or h) (the audit & supervisory board member himself/herself only)
- k. Executive of a company with which the Company has exchanged personnel for appointment as an outside director or outside audit & supervisory board member (said individuals only)
- l. Executive of a company or organization that receives a donation from the Company (the audit & supervisory board member himself/herself only)
- m. Others

Outside audit & supervisory board members Relationship with the Company (2)

Name	Designation as Independent outside audit & supervisory board member	Supplementary Explanation of the Relationship	Reasons of Appointment

Tetsuo Yamamoto	○	The Company has no particular relationship with Yamamoto Law Offices, where Tetsuo Yamamoto, the Company's outside audit & supervisory board member, is the representative.	Tetsuo Yamamoto has ample experience and knowledge as a lawyer. At the same time, he is deemed as posing no conflict of interest with the general shareholders while possessing a high degree of independence from the Company. We therefore adjudge that he is sufficiently capable of carrying out his role as outside audit & supervisory board member. Mr. Yamamoto has been designated as an independent director of the Company, having satisfied the Tokyo Stock Exchange's criteria for independence of independent directors.
Masahiko Tsutsumi	○	The Company has no particular relationship with Tsutsumi certified public accountant office, where Masahiko Tsutsumi, the Company's outside audit & supervisory board member, is the representative.	Masahiko Tsutsumi has ample experience and knowledge as a CPA. At the same time, he is deemed as posing no conflict of interest with the general shareholders while possessing a high degree of independence from the Company. We therefore adjudge that he is sufficiently capable of carrying out his role as outside audit & supervisory board member. Mr. Tsutsumi has been designated as an independent director of the Company, having satisfied the Tokyo Stock Exchange's criteria for independence of independent directors.

**[Independent Directors and Audit & Supervisory Board Members]**

Number of independent directors and audit & supervisory board members	4
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Matters relating to independent directors and audit & supervisory board members

All outside directors and audit & supervisory board members fulfilling the criteria of an independent director or audit & supervisory board members have been designated by the Company as an independent director or audit & supervisory board members.

**[Incentives]**

Incentive policies for directors	Performance-linked Compensation
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Supplementary Explanation

A performance-linked compensation system based on annually derived compensation has been introduced to remunerate directors.

Recipients of Stock Options	-
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Supplementary Explanation

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**[Director Compensation]**

Individual disclosure of a director's compensation	No individual disclosure
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**Supplementary Explanation**

- The Company discloses a total amount of director compensation that is also subtotaled as compensation to directors and compensation to the outside director. That total amount for the year ended March 31, 2016 was 123 million yen (of which 9 million yen was compensation to the outside director). Basic compensation comprises the compensation amount and the Company does not pay a bonus and other forms of compensation to directors.
- Amounts less than one million yen are rounded off in the disclosure.

Policy and calculation method for determining compensation amounts	Established
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**Disclosure of Policy and Calculation Method for Determining Compensation Amounts**

- As a basic policy, the Company ensures that its decisions regarding the compensation of directors are fair and rational. At the same time, the compensation structure provides 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.
- Compensation of internal directors and audit & supervisory board 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. Outside directors and audit & supervisory board members 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 Personnel Advisory Committee. The Audit & Supervisory Board decides the amount of compensation for each audit & supervisory board member following a review by the Personnel Advisory Committee.

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

- The Company provides an appropriate budget and establishes 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. The Corporate Control Headquarters carries out the secretarial duties.
- The Company has a system in place to promptly communicate important matters such as minutes of the Executive Officers' Meeting through e-mail and other means, in conjunction with providing supplemental explanations as needed.
- The Company strives to efficiently implement meetings of the Board of Directors and the Audit & Supervisory Board by having the director in charge of Administration explain in advance the important proposals on the agendas of these meetings to the outside director. Moreover, the director in charge of Administration and the standing audit & supervisory board members explain the same in advance to the outside audit & supervisory board members.
- The Company determines the compensation level of the outside director and outside audit & supervisory board members based on an amount deemed to be fair and appropriate taking into account factors such as the nature of their duties, the Company's consolidated business performance, and generally accepted compensation practices.

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

- For details on the current corporate governance system, please see Reference Materials: Schematic Diagram.
- As of October 30, 2017, the Company's Board of Directors consists of five members, two of whom is an outside director. The Board of Directors deliberates and decides 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. The tenure of a director is set at one year to clarify responsibility for management.
- The Company believes the roles of the outside directors are to advise management, as well as to strengthen the Board of Directors' supervision of management by monitoring the directors' appropriate execution of business duties. These roles are directed at realizing the Company's sustainable growth and improving its corporate value over the medium to long term.
- Candidates for directors are approved by the Board of Directors following a fair and rigorous review by the Personnel Advisory Committee.
- Compensation for directors shall be approved by the Board of Directors following a review by the Personnel Advisory Committee, within the scope approved by the Shareholders Meeting.
- In addition to the Board of Directors, the Company has established an Executive Officers' Meeting, comprised of the executive officers responsible for executing each of the Company's business duties, to speed management decision-making and business execution. The Executive Officers' Meeting passes resolutions on matters delegated from the Board of Directors, and discusses and examines ways to implement matters approved by the Board of Directors. In addition, the Company has established a Headquarters Chief Officers' Meeting, comprised of the directors (other than the outside directors) and Headquarters Chief Officers. The Headquarters Chief Officers' Meeting communicates, discusses and facilitates inter-departmental coordination of the resolutions and instructions of the Board of Directors and the Executive Officers' Meeting.
- As of October 30, 2017, the Company's Audit & Supervisory Board consists of four members, two of whom are outside audit & supervisory board members. The Audit & Supervisory Board performs audits of the execution of business duties by directors, the internal control system and the financial statements. All of the audit & supervisory board members attend monthly meetings of the Board of Directors. The standing audit & supervisory board members endeavor to strengthen auditing functions by attending important meetings such as the Executive Officers' Meeting.
- Deloitte Touche Tohmatsu LLC is the Company's accounting auditor. The engagement partners are Keishi Morimura and Tokuo Minakata. Mr. Morimura has performed the Company's accounting audits for zero consecutive years, and Mr. Minakata has performed the Company's accounting audits for two consecutive years. Four certified public accountants and one other individual assisted with the auditing duties.
- The Company has established an Internal Control Committee chaired by the director in charge of administration. The Internal Control Committee discusses the evaluation of the effectiveness of internal control and basic policies and important matters concerning internal control, along with putting forward and reporting matters to the Board of Directors as necessary.

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

The Company has adopted its current corporate governance system after adjudging that its corporate governance system is functioning effectively. This effectiveness is premised on the supervision of business execution by the Board of Directors, which includes a highly independent outside director, and audits by the audit & supervisory board members, which include highly independent outside audit & supervisory board members.

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

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

	Supplementary Explanations
Early Notification of General Shareholders Meeting	To assure convenience for shareholders, the Company strives to send convocation notices to shareholders as early as possible before the statutory deadline. The notice for convening the 64th General Shareholders Meeting held on June 23, 2017 was mailed to shareholders on June 1, seven days before the statutory deadline. The convocation notice was disclosed early at the Tokyo Stock Exchange and on the Company's website before it was mailed on May 25, 2017.
Scheduling AGMs Avoiding the Peak Day	Since the 50th General Shareholders Meeting on June 25, 2003, the Company has scheduled its Shareholders Meeting on days other than Japan's peak days for holding Shareholders Meeting. The Company scheduled the 64th General Shareholders Meeting on June 23, 2017, four business days before Japan's first peak day for Shareholders Meeting.
Electronic voting	The Company adopted the exercise of voting rights by electric means starting with the 63rd Ordinary General Meeting of Shareholders on June 24, 2016.
Provision of convocation notice summaries written in English	The Company translated a summary of the convocation notice to the 63rd Ordinary General Meeting of Shareholders on June 24, 2016 in English for disclosure at the Tokyo Stock Exchange and on its website.
Other	Since the 52nd General Shareholders Meeting, the Company has made its convocation notices available on its corporate website to assure convenience for individual investors and other shareholders.

#### 2. IR Activities

	Supplementary Explanations	Explanation by representative
Preparation and Publication of Disclosure Policy	The Company publishes its IR policy on the IR site within its corporate website.	
Regular Investor Briefings for Individual Investors	The Company conducts briefings for individual investors approximately once a year. As main speaker, ESPEC's president briefly describes the Company, presents its recent business performance, and discusses shareholder initiatives. Every briefing is attended by large numbers of individual investors.	Yes
Regular Investor Briefings for Analysts and Institutional Investors	The Company conducts briefings for analysts and institutional investors in Tokyo after announcing earnings for the first six months of the fiscal year and for the full fiscal year. As main speaker, ESPEC's president briefly describes the Company, presents its recent business performance, and discusses the future outlook, along with providing an update on progress with the medium-term management plan.	Yes
Posting of IR Materials on Website	The Company publishes information beneficial to investors on the IR site within its corporate website, including preliminary results, preliminary results presentation materials, and documents concerning the Shareholders Meeting. Moreover, ESPEC's activities have earned strong independent reviews. Notably, ESPEC's IR website was selected as a "GRADE AAA Corporate Websites 2016 Nikko Investor Relations Co., Ltd. Ranking in all listed companies in Japan".	

Establishment of Department and/or Manager in Charge of IR	The Corporate Communication Department under the Corporate Control Headquarters is responsible for IR activities.	
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### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	In December 1999, the Company formulated THE ESPEC MIND to guide all manner of decision-making and activities. This document systematically codifies the Company's values as a business enterprise based on two key themes: having a high relevance to society and universal appeal. Based on the belief that "A company is a public entity of society," THE ESPEC MIND aims to further enhance the Company's value exchangeability with all stakeholders. Guided by this basic philosophy, the Company is pushing ahead with business activities that respect the position of various stakeholders.
Implementation of Environmental Activities, CSR Activities etc.	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 applicable to all corporate officers and employees based on the philosophies contained in THE ESPEC MIND. By complying with and proactively practicing these aforementioned philosophies, code, guidelines, principles, and standards, the Company is working to enhance its CSR activities. The Company positions environmental activities as one of its highest corporate management priorities. The Company has formulated a Company-wide Environmental Policy and Environmental Declaration, and is making proactive efforts to protect, preserve and enhance the global environment. The Company announces these activities via its CSR reports and its website, in order to clearly convey its activities to all stakeholders.
Development of Policies on Information Provision to Stakeholders	ESPEC aims to deepen understanding of ESPEC among all of its stakeholders and build closer relationships of trust, thereby ensuring that its corporate value is fairly assessed. In its IR Policy and information disclosure rules, ESPEC recognizes that it is an important responsibility of management to disclose information properly and promptly. Accordingly the Company has made a commitment to provide accurate corporate data consistently, in good faith, fairly and in a timely manner, irrespective of whether business performance is favorable or not.

## IV. Matters Related to the Internal Control System

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

#### (1) Basic views

The Company's basic philosophy on internal control seeks to retain the trust and confidence of stakeholders and society as a whole by developing the necessary systems and frameworks to ensure decision-making and business execution are undertaken appropriately in compliance with laws and regulations as well as the Company's Articles of Incorporation and internal rules. In addition, the Company develops and maintains internal systems that allow for checks and self-correcting mechanisms to function effectively with respect to the operation of the aforementioned systems and frameworks.

Moreover, the Company seeks to develop appropriate internal control systems according to the size and circumstances of each of its Group companies.

(2) Progress with establishment

1. In regard to the compliance system, the Company formulated THE ESPEC MIND as its corporate philosophy in December 1999 and is promoting activities for complying with laws and regulations as well as the Articles of Incorporation and internal rules of ESPEC and its Group companies. In April 2006, ESPEC established an Internal Control Committee with an eye to developing an internal control system for ESPEC and each Group company, as well as internal rules, an internal desk (audit & supervisory board members and the internal audit division) and external desk (corporate attorney) for internal whistleblowing, in conjunction with the enactment of Japan's Whistleblower Protection Act. Initiatives for strengthening the compliance system further include the formulation of an ESPEC Code of Conduct and Behavior Guidelines in May 2006. Furthermore, a desk for receiving whistleblowing reports from external stakeholders was established in December 2006.
2. As a part of its risk management system initiatives, the Company established a Risk Management Committee to strengthen risk management in August 2006, after having formulated its internal rules for crisis management in February 2002. In April 2007, the Risk Management Committee was merged for consolidated operation with the Internal Control Committee. To manage information, the Company formulated its administrative rules for information security in April 2005 with the goal of ensuring information security and making effective use of information. The content of those rules was revised in April 2017 to promote appropriate management including for the acquisition, recording, safekeeping, use, and disposal of various information.
3. As for the system for disclosing corporate information, the Company formulated its rules for information disclosure in March 2005 and established an Information Disclosure Committee from the fiscal year ending March 31, 2006 with an eye to enhancing timely and appropriate disclosure. Since then, this committee has met as needed to appropriately manage the use of information, including for discretionary disclosure.

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

(1) Basic views

As a basic policy on the exclusion of anti-social forces, the Company will resolutely stand up against and refuse any involvement with and all illegitimate requests from anti-social forces and groups that pose a threat to social order and safety and obstruct sound economic activities.

(2) Progress with exclusion

1. Establishment of a supervisory department and officer responsible for refusing illegitimate requests  
The Company has designated the Administration Headquarters and the director in charge thereof as the supervisory department and the officer responsible for refusing illegitimate requests, respectively. Furthermore, the Company has deputized several management personnel within the Administration Headquarters as officers in charge of refusing illegitimate requests from anti-social forces and groups. This system is in place to ensure consistent responses under a unified policy in case the supervisory officer is not on hand.
2. Coordination with external specialists  
As a member of the Osaka Prefecture Corporate Defense Council, which aims to defend corporations in coordination with the police, ESPEC is working in unison with other members of the council for the abatement of brute force directed against companies.
3. Collection and management of information  
ESPEC is also striving to collect and exchange relevant information with the Osaka Prefecture Corporate Defense Council and its other member companies. The Company has built a database for managing the information on anti-social forces it obtains from the council and other sources or collects by its own means.
4. Formulation of a response manual  
Furthermore, in accordance with the basic policy on the exclusion of anti-social forces, ESPEC has formulated a Response Manual for Countering Anti-Social Forces that it has disseminated throughout the Company. The manual sets forth specific response measures against anti-social forces.
5. Implementation of training activities  
Moreover, ESPEC provides training as called for to personnel at domestic business operations and Group companies placed in charge of severing ties with anti-social forces, utilizing printed and video teaching materials produced by the Osaka Prefecture Center for Promoting the Banishment of Brute Force.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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#### Supplementary Explanation

ESPEC received the approval of its shareholders at the 55th Ordinary General Meeting of Shareholders held on June 24, 2008 for the introduction of countermeasures against the large-scale purchase of its shares ("anti-takeover measures"). Subsequently, the 61st Ordinary General Meeting of Shareholders held on June 25, 2014 resolved to extend the anti-takeover measures ("the extension"). The period of validity of the extension was up to the time of the conclusion of the 64th Ordinary General Meeting of Shareholders to be held in June 2017. At a meeting held on May 12, 2017, the Board of Directors resolved not to seek another extension after the expiration date, but to abolish it.

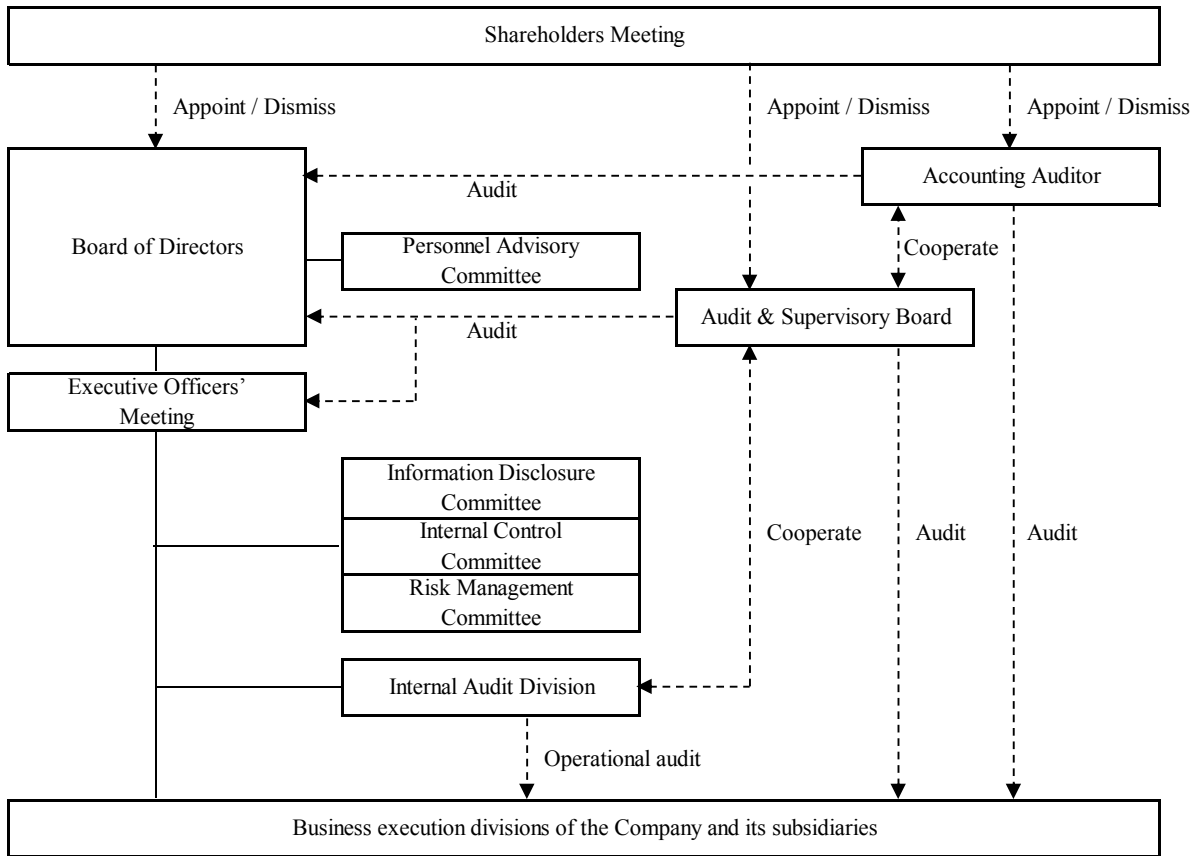
Even after the abolition of the extension, ESPEC will continue to advance and implement its initiative for maintaining and enhancing both corporate value and shareholder returns. In addition, regarding people who intend to make a large-scale purchase of the Company's shares, shareholders are requested to provide necessary and sufficient information to enable the Company to properly determine the acceptability of such people. In parallel, the Company is enacting appropriate measures based on Japan's Financial Instruments and Exchange Act, the Companies Act of Japan, and other relevant laws, including the disclosure of the opinions of the Board of Directors and the securing of sufficient time for shareholders to fully review the situation.

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

No items to report.

**【Reference Materials: Schematic Diagram】**

The following is a schematic diagram of the Company’s internal control system including the corporate governance structure.



The following is a schematic diagram of the Company’s timely disclosure structure.

