

Corporate Governance Report

June 28, 2021

AICA Kogyo Co., Ltd.

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Securities Code: 4206

The corporate governance of AICA Kogyo Co., Ltd. ("AICA") is described below.

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

1. Basic Views

AICA Group seeks to ensure and improve the value of AICA and the common interests of its shareholders through the enhancement of corporate governance at each of its Group companies, including its subsidiaries in Japan and overseas. In June 2020, AICA transitioned from a Company with Board of Auditors to a Company with Audit and Supervisory Committee. The Audit and Supervisory Committee, more than half of whose members are external directors, is responsible for auditing and supervising the legality and appropriateness of the execution of duties by directors for the realization of more transparent management. In this way, AICA aims to strengthen our corporate governance further and also to build a framework that will more appropriately meet the expectations of our stakeholders in Japan and overseas. AICA has also established a Governance Committee as an advisory committee to the Board of Directors. This committee is chaired by an external director and its members are also primarily external directors. The Governance Committee deliberates on key matters concerning governance, including the appointment and remuneration of management executives, with the aims of sustainable growth, medium to long-term improvement of corporate value, and further enhancement of governance functions.

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

Supplementary Principle 4.1.3 Succession Plan for the CEO and Other Top Executives

The Board of Directors recognizes that a succession plan for the CEO and other top executives is one of the most important issues for a company to continue sustainable growth. In addition, the Governance Committee, whose members are primarily external directors, monitors the requirements for management personnel candidates and provides advice so that the Board of Directors can conduct appropriate supervision.

AICA is making greater efforts to nurture personnel who will become successors, such as by regularly holding seminars taught by external lecturers for all directors and executive officers, as well as presidents of subsidiaries. The Board of Directors appropriately supervises the development of successor candidates.

Supplementary Principle 4.3.3 Dismissal of a CEO

Although AICA has not established a specific process for dismissal of a CEO at this moment, should the CEO be deemed unable to fulfill his or her responsibilities, AICA will appropriately address the issue in a timely manner.

Principle 5.2 Establishing and Disclosing Business Strategies and Business Plans

AICA has established and disclosed a medium-term management plan and has set various management indicators as targets, which include ROE in consideration of the cost of capital. AICA will strive to explain to

shareholders how to utilize the cost of capital in our business strategies and business plans, as well as the specific details of them from now on.

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

Principle 1.4 Cross-Shareholdings

- AICA will acquire and hold shares of companies such as business partners if AICA determines that it will contribute to the improvement of AICA's corporate value from the perspectives of building and enhancing relationships with business partners as well as forming business alliances. The Board of Directors considers the medium- to long-term economic rationale twice annually, and shares with little value will be sold. For each stock, AICA evaluates factors such as the details of transactions, the value of transactions, and the plan for continuation of future relationships to verify whether the purpose of holding such shares is appropriate.
- AICA exercises its voting rights for shares held as cross-shareholdings by comprehensively considering factors such as whether it contributes to the improvement of corporate value of both the issuing company and AICA, as well as whether there is a risk of impairing shareholder value. In addition, in the case of an event that requires attention, such as a long-term slump in business results or a serious violation of compliance, AICA will sufficiently investigate and collect information before carefully determining whether to vote for or against a proposal.

Principle 1.7 Related Party Transactions

- AICA has designated transactions between AICA and its Directors or major shareholders with conflicts of interest as matters requiring resolution and reporting by the Board of Directors based on the importance of the transactions, in accordance with laws and regulations as well as the Rules of the Board of Directors.
- In addition, AICA has designated transactions between AICA and its Group companies as well as other important matters as matters requiring approval of the Board of Directors of AICA in accordance with the Regulations on Management of Affiliated Companies and the Regulations on Approvals (*Ringi*).

Principle 2.6 Roles of Corporate Pension Funds as Asset Owners

AICA has adopted both a defined benefit pension plan and a defined contribution pension plan. The Human Resources Department, which is the division in charge of managing the defined benefit pension fund, appropriately manages it such as by obtaining information on the status of management from asset managers including life insurance companies and trust banks.

Principle 3.1 Full Disclosure

(1) AICA objectives (e.g., corporate philosophy), management strategies, and business plans
AICA objectives (corporate philosophy), business plans, and management strategies are disclosed on AICA's website.

<Corporate Principle>

Challenge and Creation

<Corporate Philosophy>

- Through a philosophy of symbiosis, AICA Group will create new value and contribute to society through endless innovation.

<Medium-Term Business Plan>

- AICA has formulated and announced a new Medium-Term Business Plan "Change & Grow 2400" for the period of three years ending in FY2024 (April 2021 through March 2024).

[Financial targets]	Consolidated net sales:	240.0 billion yen
	Consolidated ordinary profit:	24.0 billion yen
	ROE:	Approximately 10%

Please refer to AICA's website for details.

(URL: <http://www.aica.co.jp/news/ir/210430ChangeAndGrow2400.pdf>)

(2) Basic views and guidelines on corporate governance

- Basic views on corporate governance are disclosed on AICA's website and in this report.

(3) Board policies and procedures in determining the remuneration of the senior management and directors

- The details of decision-making policies regarding the contents of individual remuneration for directors are as follows.

1. Composition of remuneration

Remuneration of directors (excluding directors who are members of the Audit and Supervisory Committee and external directors) consists of fixed monthly basic remuneration, variable performance-based remuneration, and stock remuneration. The stock remuneration was approved and passed at the 121st Ordinary General Meeting of Shareholders held on June 24, 2021, under Proposal 4: Determination of Remuneration for Granting Restricted Shares to Directors (Excluding Directors Who Are Members of the Audit and Supervisory Committee and External Directors). Meanwhile, remuneration of directors who are members of the Audit and Supervisory Committee and external directors consists solely of monthly basic remuneration from the perspectives of their roles and independence.

(i) Basic remuneration

Basic remuneration of directors is fixed remuneration, paid monthly. Its amount is determined by considering factors such as levels at other companies that have been publicly disclosed and AICA's business results, based on a standard amount set for each position.

(ii) Performance-based remuneration

Performance-based remuneration to directors (excluding directors who are members of the Audit and Supervisory Committee and external directors) is provided once a year. When the business results for each fiscal year have been finalized, each director is individually evaluated on a five-tier scale of S, A, B, C and D to determine the amount of individual remuneration based on a standard amount set for each position. Individual evaluation is determined by considering factors such as the growth rates of consolidated and non-consolidated net sales and profits (e.g., operating profit), the attainment of budgets formulated at the beginning of the fiscal year, evaluation on duties each director is in charge of, and the progress of the Medium-Term Business Plan.

The ratio of performance-based remuneration to the total amount of remuneration is determined according to each director's role, targeting a range from 15% to 20%. Upon comprehensively taking into account the attainment of the above indicators, the ratio of performance-based remuneration to total amount of remuneration was 15.9%.

(iii) Stock remuneration

Stock remuneration to directors (excluding directors who are members of the Audit and Supervisory Committee and external directors) is planned to be granted once a year for the purpose of providing an incentive to aim for sustainable improvement of AICA's corporate value and facilitating further sharing of value with shareholders. Stock remuneration is granted in the form of restricted stock, and the amount is determined by considering factors such as AICA's business results based on a standard amount set for each position.

2. Evaluation of directors

(i) Individual evaluation of directors (excluding directors who are members of the Audit and Supervisory Committee and external directors) is conducted by the Representative Director and President, and the Governance Committee reviews the appropriateness of the level of remuneration amounts, including individual evaluation.

(ii) Evaluation of the Representative Director and President is reported to the Governance Committee, which reviews the evaluation process and the views on evaluation to ensure objectivity and fairness.

3. Method of determining directors' remuneration

Remuneration of directors is determined in accordance with the above calculation method by Representative Director and President Yuji Ono, who has been authorized by the Board of Directors, within the maximum amount of total remuneration determined by a resolution of the General Meeting of Shareholders.

4. Activities conducted during the process of determining the amount of directors' remuneration

During the process of determining directors' remuneration, members of the Governance Committee, mainly comprised of external directors, exchange their opinions on matters such as the ratio between AICA's business results and the business results of the duties each director is in charge of, as well as the relationship between

the evaluation grade and the rate of change, in order to enhance results and responsibilities, objectivity, and transparency.

(4) Policies and procedures for the appointment/dismissal and the nomination of candidates

- From the perspectives of medium- to long-term improvement of AICA's corporate value and sustainable growth, the Board of Directors nominates persons who are suited to become AICA's directors upon comprehensively considering their experience, capabilities and achievements, regardless of their nationality or gender, and candidates are elected by a resolution of the General Meeting of Shareholders. During the process of nominating candidates for director, the Governance Committee, mainly comprised of external directors, conducts deliberation.

Although AICA has not established a specific process for the dismissal of senior management at this moment, AICA will consider a specific process including criteria for dismissal in the future.

(5) Explanations with respect to individual appointments/dismissals and nominations

- With respect to all candidates for director, AICA provides individual reasons for their nominations in its Shareholders Meeting Convocation Notice. AICA has had no record of dismissing a member of senior management so far.

Supplementary Principle 4.1.1 Scope and Content of the Matters Delegated to the Management

- The Board of Directors makes decisions on important managerial matters and supervises business execution in accordance with laws and regulations, the Articles of Incorporation, and the Rules of the Board of Directors. Other decisions on business execution are made at meetings such as the Management Meeting and the Group Representatives Meeting. Furthermore, since the transition to a Company with Audit and Supervisory Committee, it has become possible to delegate the decision-making authority of the Board of Directors on business execution to directors. Under the appropriate supervision of the Board of Directors, AICA is striving to further expedite managerial decision-making and execution.

Principle 4.9 Independence Standards and Qualification for Independent Directors

- The Board of Directors has established its own independence standards in order to select candidates for independent external director who can contribute to the Board of Directors, and the details of the standards are disclosed in the Reference Materials for the General Meeting of Shareholders.

Supplementary Principle 4.11.1 Balance, Diversity, and Number of the Members of the Board of Directors

- From the perspectives of medium- to long-term improvement of AICA's corporate value and sustainable growth, AICA believes that its Board of Directors should be comprised of members, including external directors, who as a whole can attain an appropriate balance between knowledge, experience and skills, and who can think from a managerial perspective, regardless of their nationality or gender. AICA has also set the size of the Board of Directors so that it can manage and supervise executive duties in light of AICA's organizational makeup.

Supplementary Principle 4.11.2 Concurrent Positions of Directors

- Concurrent positions of directors, including external directors, as officer of other listed companies are disclosed annually in the Shareholders Meeting Convocation Notice and the Annual Securities Report.

Supplementary Principle 4.11.3 Analysis and Evaluation on the Effectiveness of the Board of Directors

- In order to verify the effectiveness of the Board of Directors, AICA conducts an annual survey of all directors and members of the Audit and Supervisory Committee regarding the structure, operation, and agenda of the Board of Directors and the Board of Directors's support structure. The effectiveness of the Board of Directors is evaluated on the basis of the results of this survey. In the survey conducted in January and February 2021, responses of "appropriate or reasonably appropriate" were obtained for all except two of the matters surveyed. Based on this positive feedback, AICA confirmed that our Board of Directors is generally functioning appropriately and that its effectiveness is being ensured.

On the other hand, matters raised as issues were 1) insufficient explanations on terms used in materials for meetings of the Board of Directors, insufficient explanations on prior background and past agenda items discussed, and insufficient advance explanations on important items; and 2) insufficient discussions at meetings of the Board of Directors on the appointment and dismissal of senior management. To address

these issues, with respect to 1), AICA provided explanations on terms, explanations on prior background and past agenda items, and advance explanations on important items starting with the meeting of the Board of Directors and the Management Meeting in May 2021. With respect to 2), AICA plans to conduct discussions at meetings of the Board of Directors upon explaining the reasons for the appointment and dismissal of senior management, including details discussed at the Governance Committee.

- Concerning issues from the previous fiscal year, 1) Diversity of the Board of Directors was addressed by appointing a female external director at the Ordinary General Meeting of Shareholders held on June 23, 2020. With respect to 2) insufficient discussions on the establishment and operation of risk management frameworks, various issues have been discussed by the Overseas Governance Committee, the details of activities have been reported to the Board of Directors, and the status of internal controls on financial reporting and audit results have been reported to the Audit and Supervisory Committee. With respect to 3) significant risks that impact AICA's business, reports were made at the meeting of the Board of Directors held in June 2021.

Supplementary Principle 4.14.2 Training Policy for Directors and Auditors

- For newly appointed external directors, AICA provides explanations on its Corporate Policy and arranges site visits to branches and plants at the time of their appointment, enabling them to deepen their understanding of AICA and its business. Additional opportunities to deepen the understanding of the business are provided after appointment as necessary.
- For newly appointed directors, AICA provides opportunities for them to fully understand the roles and responsibilities required of a director. In addition, after their appointment, AICA strives to update their required knowledge such as by regularly holding seminars with external lecturers.
- The details of training that have been conducted are reported to the Governance Committee, which verifies whether these measures have been appropriately taken by referring to advice from its members.

Principle 5.1 Policy for Constructive Dialogue with Shareholders

- AICA takes proactive steps, within a reasonable extent, to achieve constructive dialogue with our shareholders. Any opinions and information obtained through such dialogue are shared within AICA, and AICA strives to reflect them in future management and IR activities.
- In addition, AICA has designated an officer in charge of IR. Along with the Public Relations and IR Group, which functions as the secretariat, the officer in charge works to coordinate with related departments within AICA to hold constructive dialogue with shareholders.
- The Public Relations and IR Group responds to requests for individual interviews and telephone press inquiries. Any information to be disclosed in such cases is approved by a Representative Director and the officer responsible for the matter at hand.
- Meanwhile, AICA holds Financial Results Briefings for analysts and institutional investors twice a year, at which a Representative Director provides explanations. Moreover, AICA strives to provide information through media such as newspapers.

2. Capital Structure

Foreign Shareholding Ratio	From 20% to less than 30%
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[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (trust account)	6,741,600	10.33
Custody Bank of Japan, Ltd. (trust account)	4,151,700	6.36
AICA Kogyo Business Partners' Shareholding Association	2,279,833	3.49
The Bank of New York Mellon (International) Limited 131800	1,791,500	2.74
AICA Kogyo Employees Shareholding Association	1,565,923	2.40
Custody Bank of Japan, Ltd. (trust account 9)	1,545,900	2.37
Custody Bank of Japan, Ltd. (trust account 4)	1,342,300	2.06
SUMITOMO LIFE INSURANCE COMPANY	1,318,000	2.02

MUFG Bank, Ltd.	1,300,016	1.99
Dai Nippon Printing Co., Ltd.	1,293,743	1.98

Controlling Shareholder (except for Parent Company)	—
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Parent Company	None
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Supplementary Explanation

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3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange, First Section Nagoya Stock Exchange, First Section
Fiscal Year-End	March
Type of Business	Chemistry
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	1000 or more
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100.0 billion to less than ¥1 trillion
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

[Status of Major Shareholders] AICA holds 2,297,405 shares of treasury stock.

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 and Supervisory Committee
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[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	Directors who are not members of the Audit and Supervisory Committee: 12 Directors who are members of the Audit and Supervisory Committee: 5
Term of Office Stipulated in Articles of Incorporation	Directors who are not members of the Audit and Supervisory Committee: 1 year Directors who are members of the Audit and Supervisory Committee: 2 years
Chairperson of the Board	President
Number of Directors	Directors who are not members of the Audit and Supervisory Committee: 6 Directors who are members of the Audit and Supervisory Committee: 3
Appointment of External Directors	Appointed
Number of External Directors	Directors who are not members of the Audit and Supervisory Committee: 2 Directors who are members of the Audit and Supervisory Committee: 2
Number of Independent Directors	Directors who are not members of the Audit and Supervisory Committee: 2 Directors who are members of the Audit and Supervisory Committee: 2

External Directors' Relationship with AICA (1)

Name	Attribute	Relationship with AICA*										
		a	b	c	d	e	f	g	h	i	j	k
Kenji Ogura	From another company											
Ayako Shimizu	Lawyer											
Kiyoshi Katagiri	From another company											
Masashi Miyamoto	CPA											

* Categories for "Relationship with AICA"

- Executive of the company or its subsidiaries
- Non-executive director or executive of a parent company of AICA
- Executive of a fellow subsidiary company of AICA
- A party whose major client or supplier is AICA or an executive thereof
- Major client or supplier of AICA or an executive thereof
- Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from AICA besides compensation as a director
- Major shareholder of AICA (or an executive of the said major shareholder if the shareholder is a legal entity)
- Executive of a client or supplier company of AICA (which does not correspond to any of d, e, or f) (the director himself/herself only)

- i. Executive of a company, between which and AICA external directors are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from AICA (the director himself/herself only)
- k. Others

External Directors' Relationship with AICA (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reason for Appointment
Kenji Ogura	○	Designated as Independent Director.	[Reason for appointment as external director] Mr. Kenji Ogura has extensive experience and knowledge as a corporate executive, which AICA believes he will be able to leverage in enhancing AICA's management structures. [Reason for designation as Independent Director] Because he has no background at any of AICA's subsidiaries, major shareholders, or major trading partners, he has no particular stake in AICA, and AICA believes that no conflict of interest with general shareholders would arise. For these reasons, he has been designated as an Independent Director.
Ayako Shimizu	○	Designated as Independent Director.	[Reason for appointment as external director] Ms. Ayako Shimizu will be able to leverage her extensive expert knowledge and experience as an attorney in the supervision of AICA's management. AICA also believes that, as an external director, she will be able to offer advice based on diversity perspectives. [Reason for designation as Independent Director] Because she has no background at any of AICA's subsidiaries, major shareholders, or major trading partners, she has no particular stake in AICA, and AICA believes that no conflict of interest with general shareholders would arise. For these reasons, she has been designated as an Independent Director.
Kiyoshi Katagiri	○	Designated as Independent Director.	[Reason for appointment as external director who is a member of the Audit and Supervisory Committee] Mr. Kiyoshi Katagiri has been involved in corporate management and has extensive experience and knowledge as a business owner. AICA believes that he will be able to offer advice and oversight to AICA's management overall as an external director and member of the Audit and Supervisory Committee. [Reason for designation as Independent Director] Because he has no background at any of AICA's subsidiaries, major

			shareholders, or major trading partners, he has no particular stake in AICA, and AICA believes that no conflict of interest with general shareholders would arise. For these reasons, he has been designated as an Independent Director.
Masashi Miyamoto	○	Designated as Independent Director.	[Reason for appointment as external director who is a member of the Audit and Supervisory Committee] Mr. Masashi Miyamoto has extensive expert knowledge and experience as a certified public accountant. AICA believes that he will be able to offer advice and oversight as an external director and member of the Audit and Supervisory Committee. [Reason for designation as Independent Director] Because he has no background at any of AICA's subsidiaries, major shareholders, or major trading partners, he has no particular stake in AICA, and AICA believes that no conflict of interest with general shareholders would arise. For these reasons, he has been designated as an Independent Director.

[Audit and Supervisory Committee]

Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Internal Directors	External Directors	Chairperson
Audit and Supervisory Committee	3	1	1	2	Internal Director

Appointment of Directors and/or Staff to Support the Audit and Supervisory Committee	Appointed
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Matters Related to the Independence of Such Directors and/or Staff from Executive Directors

AICA has assigned dedicated staff to the Audit and Supervisory Committee Secretariat for supporting the Audit and Supervisory Committee and assisting the execution of its duties. In selecting, transferring, or changing the treatment of such dedicated staff, prior consent of the Audit and Supervisory Committee is required and the Audit and Supervisory Committee has the authority to give instructions.

Cooperation among Audit and Supervisory Committee, Accounting Auditor, and Internal Audit Unit

The Accounting Auditor regularly reports on its audits, and meetings to exchange opinions are held regularly. The Internal Audit Unit, an organization dedicated to internal audits, audits business execution divisions. The four staff members in the Internal Audit Unit report on the details of audits and the status of their execution on an ongoing basis, working closely with each Audit and Supervisory Committee.

[Voluntary Establishment of Committee(s)]

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Governance Committee	Governance Committee
All Committee Members	6	6
Full-time Members	0	0
Internal Directors	2	2
External Directors	4	4
Internal Experts	0	0
Other	0	0
Chairperson	External director	External director

Supplementary Explanation

The Governance Committee, chaired by an external director and whose members are external directors and Representative Directors, was established in April 2016 as an advisory committee to the Board of Directors.

[Independent Directors]

Number of Independent Directors	4
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Matters relating to Independent Directors

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[Incentives]

Incentive Policies for Directors	Performance-linked Remuneration and Other
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Supplementary Explanation

Although AICA had granted stock options until May 2013, AICA has not granted them since 2014. Beginning in the current fiscal year, AICA has introduced a restricted stock remuneration system for the purpose of sustainable enhancement of AICA's corporate value and facilitating further sharing of value with shareholders.

Policies on the remuneration of directors are as stated in I-1. "Basic Views," "Disclosure Based on the Principles of the Corporate Governance Code," "Principle 3.1 Full Disclosure," (3) "Board policies and procedures in determining the remuneration of the senior management and directors" of this report.

Recipients of Stock Options	Internal Directors
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Supplementary Explanation

Recipients are those who have unexpired rights to exercise the stock options granted by May 2013.

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	No Individual Disclosure
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Supplementary Explanation

The total annual amount of remuneration paid to directors (excluding directors who are members of the Audit and Supervisory Committee) was 277 million yen. The maximum amount of remuneration is 370 million yen per year, which does not include the employee salary portion of remuneration for directors who concurrently serve as employees.

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

AICA determines directors' remuneration amounts by taking into account factors such as their position, responsibilities, and tenure upon considering AICA Group's business results, within the scope approved by the General Meeting of Shareholders.

[Supporting System for External Directors]

For external directors, the secretariat provides agenda items for meetings of the Board of Directors and sends materials in advance prior to the date of a meeting. In addition, upon request from an external director, advance explanations on agenda items for a meeting of the Board of Directors are provided.

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

[Directors and the Board of Directors]

The Board of Directors strives to enhance corporate governance by determining management policies, matters prescribed by laws and regulations, and other important managerial matters and supervising the status of business execution in accordance with the Rules of the Board of Directors. The Board of Directors is comprised of nine directors, including four external directors appointed to enhance the oversight function of the Board of Directors. In addition to holding one ordinary meeting of the Board of Directors every month in principle, extraordinary meetings of the Board of Directors are held as needed.

[Governance Committee]

In April 2016, AICA established a Governance Committee, whose members are primarily external directors (including two directors who are members of the Audit and Supervisory Committee), as a voluntary advisory committee to the Board of Directors. The Governance Committee deliberates on important matters regarding governance, including the nomination and remuneration of senior management, in an effort to achieve sustainable growth of AICA and further enhance its governance functions. During the 121st fiscal year (April 2020 to March 2021), the Governance Committee held six meetings. Following the transition to a Company with Audit and Supervisory Committee, roles are divided between the Audit and Supervisory Committee and the Governance Committee by sharing the details of deliberations at the Governance Committee with the Audit and Supervisory Committee in order for the Audit and Supervisory Committee to exercise its right to state its opinions and ensuring that the activities of the Audit and Supervisory Committee and the Governance Committee do not overlap.

[Members of the Audit and Supervisory Committee and the Audit and Supervisory Committee]

AICA is a Company with Audit and Supervisory Committee, and its Audit and Supervisory Committee is comprised of three directors who are members of the Audit and Supervisory Committee, including two external directors. AICA has appointed one full-time director who is a member of the Audit and Supervisory Committee. The Audit and Supervisory Committee meeting is held once a month in principle. The full-time directors who are members of the Audit and Supervisory Committee attended Management Meetings, Management Promotion Meetings, and other important meetings, and reviewed approval documents and other important documents. In addition, AICA has established a framework to maintain close coordination with the Internal Audit Unit and other departments in charge of the monitoring functions on the internal control system. In order to prepare for an event that the number of directors who are members of the Audit and Supervisory Committee falls below the number stipulated in laws and regulations, AICA has appointed one substitute director who is a member of the Audit and Supervisory Committee.

[Executive officer system]

While AICA introduced an executive officer system in April 2002 in an effort to separate the oversight functions and executive functions of directors, AICA has had internal directors serve concurrently as executive officers since June 2018, in light of the actual conditions in which internal directors are responsible for important executive functions. Through this structure, AICA is working to further expedite business execution by clarifying the division of duties within executive functions.

[Management Meeting]

AICA has established a Management Meeting, whose participants are comprised of directors and managers in charge of business execution. Management Meetings are held once a month. It has a decision-making function based on agenda items submitted to the Board of Directors and AICA's regulations, and swiftly facilitates matters decided by the Board of Directors and deliberates and reports on business execution.

[Management Promotion Meeting]

Participants at Management Promotion Meetings are directors, executive officers, and heads of business execution divisions. With participants reporting on business execution and considering issues at Management Promotion Meetings held every six months in principle, AICA has established a framework that enables oversight of business activities and execution status.

3. Reasons for Adoption of Current Corporate Governance System

Based on a resolution at the Ordinary General Meeting of Shareholders held on June 23, 2020 on amendments to the Articles of Incorporation for a transition to a Company with Audit and Supervisory Committee, AICA transitioned from a Company with Board of Auditors to a Company with Audit and Supervisory Committee effective on the same date. Since this transition, the Audit and Supervisory Committee, more than half of whose members are external directors, has been responsible for auditing and supervising the legality and appropriateness of the execution of duties by directors for the realization of more transparent management. In this way, AICA aims to strengthen our corporate governance further and also to build a framework that will more appropriately meet the expectations of our stakeholders in Japan and overseas. Furthermore, it has become possible to delegate the decision-making authority of the Board of Directors on business execution to directors. Under the appropriate supervision of the Board of Directors, AICA has been striving to further expedite managerial decision-making and execution.

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 Shareholder Meeting	The Convocation Notice was sent on June 3 for the fiscal year under review.
Scheduling AGMs Avoiding the Peak Day	The Meeting was held on June 24 for the fiscal year under review.
Allowing Electronic Exercise of Voting Rights	Voting rights may be exercised via the Internet by accessing the website for exercise of voting rights designated by AICA using a computer, a smartphone, or a mobile phone.
Participation in Electronic Voting Platform	AICA participates in an electronic voting platform.

2. IR Activities

	Supplementary Explanations	Explanations by Representatives
Preparation and Publication of Disclosure Policy	In accordance with its basic policy on information disclosure, AICA has stipulated a Disclosure Policy on standards for information disclosure, establishment of internal systems, methods of information disclosure, a quiet period and notes regarding business results forecasts and the future outlook. Details are provided on AICA's website.	
Regular Investor Briefings for Individual Investors	AICA holds investor briefings irregularly. AICA publishes questions and answers from investor briefings for analysts and institutional investors on its website so that individual investors can review the proceedings of the investor briefings as well.	Not available
Regular Investor Briefings for Analysts and Institutional Investors	AICA holds Financial Results Briefings at the fiscal year ended and the end of second quarter.	Available
Posting of IR Materials on Website	AICA has an IR section on its website, where materials such as Summary of Consolidated Financial Results, IR briefing materials, Securities Reports and business reports are provided.	
Establishment of Department and/or Manager in Charge of IR	Corporate Planning Department, Public Relations and IR Group	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Implementation of Environmental Activities, CSR Activities etc.	AICA has established in its Environmental Policy that "AICA will develop environmentally friendly products by conserving the global environment and harmonizing with the local community." AICA promotes activities incorporating quality (ISO 9001), environment (ISO 14001), and occupational health and safety (ISO 45001) across AICA, and actively works on environmental management. The details of these activities are reported in our CSR Report that is published annually.

Development of Policies on Information Provision to Stakeholders	AICA has established in its Sustainability Policy that “AICA will identify key issues from both stakeholders’ perspectives and corporate management perspectives, work on solving the issues as an integral part of its business activities, and disclose the progress of such activities.”
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IV. Matters Related to the Internal Control System

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

- (1) Systems to ensure that the execution of duties by directors and employees is in compliance with the laws and regulations as well as the Articles of Incorporation
 - 1) AICA is a Company with Audit and Supervisory Committee. Through appointment of multiple external directors, AICA enhances the oversight function of the Board of Directors on management, ensuring the transparency and fairness of management judgements.
 - 2) AICA has developed regulations regarding its compliance system, formulated the AICA Group Code of Conduct, which is a code of conduct for directors and employees to comply with laws and regulations, the Articles of Incorporation, and AICA’s Corporate Philosophy, and established the Action Guidelines for AICA Group Employees to set out specific standards for conduct based on the Code of Conduct. AICA disseminates them to directors and employees of AICA and across AICA Group in an aim to ensure they are thoroughly understood.
 - 3) The Corporate Ethics Committee plans and develops legal compliance in corporate activities as well as necessary measures, and works to ensure they are thoroughly understood by directors and employees.
 - 4) AICA operates a management system that incorporates quality (ISO 9001), environment (ISO 14001), and occupational health and safety (ISO 45001) across AICA as integrated activities, and complies with requirements for each management system such as laws and regulations as well as statutory regulations.
 - 5) AICA Group facilitates the self-purifying function of an internal whistleblowing system in an aim to identify and solve issues at an early stage.
 - 6) The Internal Audit Unit, an organization dedicated to internal audits, and the Legal Division, an organization that promotes compliance activities, investigate and consider whether there are any issues with the internal control activities, compliance system, and compliance of AICA Group.
 - 7) AICA takes a resolute stance against antisocial forces and organizations that pose a threat to the order and safety of a civil society, and terminates and eliminates any relationship with them. Furthermore, AICA systematically addresses any concerns in coordination with external expert organizations such as attorneys and the police.
- (2) Systems regarding the safekeeping and management of information on execution of duties by directors
 - 1) For information and documents on execution of duties by directors, AICA maintains an appropriate system for safekeeping and management of documents in accordance with internal regulations and related document management manuals.
 - 2) The Corporate Planning Department stores and manages minutes of the General Meetings of Shareholders, meetings of the Board of Directors, Management Meetings, Management Promotion Meetings, and Group Representatives Meetings, and approval documents (*Ringi-sho*) as well as related materials. The Legal Division stores and manages important documents such as contracts and related materials.
 - 3) Directors and executive officers may review or copy these documents at any time.
- (3) Regulations on the management of risk of loss and other systems
 - 1) Respective departments in charge assess various risks surrounding the business environment, including legal compliance, disasters, products, quality, logistics, health and safety, the environment, information security, foreign exchange, and prices of raw materials, and establish regulations and guidelines. Furthermore, risk assessments are periodically reported to the Board of Directors and the Audit and Supervisory Committee.
 - 2) The Board of Directors and the Audit and Supervisory Committee deliberate on each risk as necessary, and if a legal judgement is required, take measures such as by soliciting opinions of corporate lawyers or other experts.
 - 3) AICA Group has formulated rules on reporting in case of a crisis. AICA Group responds to a crisis swiftly and appropriately such as by establishing a crisis management headquarters in an aim to

minimize damages, while communicating information to outside AICA in a timely and appropriate manner.

- (4) Systems to ensure that the execution of duties by directors will be conducted efficiently
 - 1) The Board of Directors strives to enhance corporate governance by determining management policies, matters prescribed by laws and regulations, and other important managerial matters and supervising the status of business execution in accordance with the Rules of the Board of Directors.
 - 2) AICA has adopted an executive officer system, under which internal directors (excluding directors who are members of the Audit and Supervisory Committee) concurrently serve as executive officers. AICA works to expedite business execution by clarifying the division of duties of executive officers within executive functions.
 - 3) AICA formulates annual targets based on a Mid-Term Business Plan. Each division formulates targets and budgets for achieving the companywide targets, and develops and executes specific measures.
- (5) Systems to ensure proper business conduct in the corporate group comprised of AICA and its subsidiaries
 - 1) AICA establishes corporate action guidelines for its corporate group and comprehensively manages its business upon designating those responsible for each subsidiary from among AICA's senior management such as directors and executive officers in an aim to unify compliance and philosophy across AICA Group.
 - 2) In order to understand the management conditions of its subsidiaries and to ensure proper business conduct, AICA requires subsidiaries to obtain approval of AICA (the Board of Directors or a Representative Director) or provide reports to AICA with respect to important matters in accordance with the Regulations on Management of Affiliated Companies.
 - 3) AICA holds Group Representatives Meetings, at which reports on the status of business execution in AICA Group and reports on important matters are made, and engages in swift decision-making and proper business execution across AICA Group.
- (6) Matters regarding employees who assist the duties of the Audit and Supervisory Committee, matters regarding the independence of such employees from directors other than members of the Audit and Supervisory Committee, and matters regarding the effectiveness of instructions to such employees
 - 1) In order to assist the duties of the Audit and Supervisory Committee and support the execution of its duties, AICA assigns dedicated staff in the Audit and Supervisory Committee Secretariat.
When selecting, transferring, or changing the treatment of employees who assist the duties of the Audit and Supervisory Committee and support the execution of its duties, AICA obtains prior consent of the Audit and Supervisory Committee.
 - 2) The Audit and Supervisory Committee has the authority to give instructions to employees who assist the duties of the Audit and Supervisory Committee and support the execution of its duties.
- (7) Systems for directors (excluding directors who are members of the Audit and Supervisory Committee) and employees to provide reports to the Audit and Supervisory Committee and other systems on reporting to the Audit and Supervisory Committee
 - 1) AICA's directors (excluding directors who are members of the Audit and Supervisory Committee), directors and corporate auditors of subsidiaries of AICA, and employees of AICA and its subsidiaries provide necessary reports and information upon request by the Audit and Supervisory Committee.
 - 2) When they discover facts that may cause significant damages to AICA, AICA's directors (excluding directors who are members of the Audit and Supervisory Committee), directors and corporate auditors of subsidiaries of AICA, and employees of AICA and its subsidiaries shall immediately report such facts to the Audit and Supervisory Committee within a scope that does not violate laws and regulations. In addition, matters stipulated by laws and regulations as well as the following matters determined by discussions with directors are reported.
* Matters concerning the development and operation of the internal control system, the status of audits by corporate auditors of subsidiaries, important accounting policies, accounting standards and changes thereto, the contents of announcements on business results and business results forecasts, the contents of important disclosure documents, approval documents (*Ringi-sho*), minutes of meetings requested by a member of the Audit and Supervisory Committee, etc.
 - 3) AICA ensures that those who make reports to the Audit and Supervisory Committee will not suffer disadvantages.

- (8) Matters regarding the policy on processing of expenses incurred for the execution of duties of the Audit and Supervisory Committee
Expenses necessary for the execution of duties of the Audit and Supervisory Committee are borne by AICA upon request.
- (9) Other systems to ensure that audits by the Audit and Supervisory Committee are conducted effectively
- 1) The Audit and Supervisory Committee secures the exchange of opinions with the Accounting Auditor and a framework to obtain cooperation and assistance from the internal audit divisions and other divisions.
 - 2) Representative Directors hold meetings to exchange opinions with the Audit and Supervisory Committee and the Accounting Auditor as needed.
 - 3) The Audit and Supervisory Committee, when it deems it necessary for conducting audits, utilizes corporate lawyers, certified public accountants, and other experts.
- (10) Systems to ensure the reliability of financial reporting
AICA has established an Internal Control Committee for AICA and AICA Group to appropriately address the internal control evaluation reporting system for financial reporting under the Financial Instruments and Exchange Act, and develops a system to ensure the reliability of financial reporting by evaluating that the mechanism is properly functioning on an ongoing basis.

2. Basic Views on Eliminating Anti-Social Forces

AICA takes a resolute stance against antisocial forces and organizations that pose a threat to the order and safety of a civil society, and terminates and eliminates any relationship with them. Furthermore, AICA systematically addresses any concerns in coordination with external expert organizations such as attorneys and the police.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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Supplementary Explanation

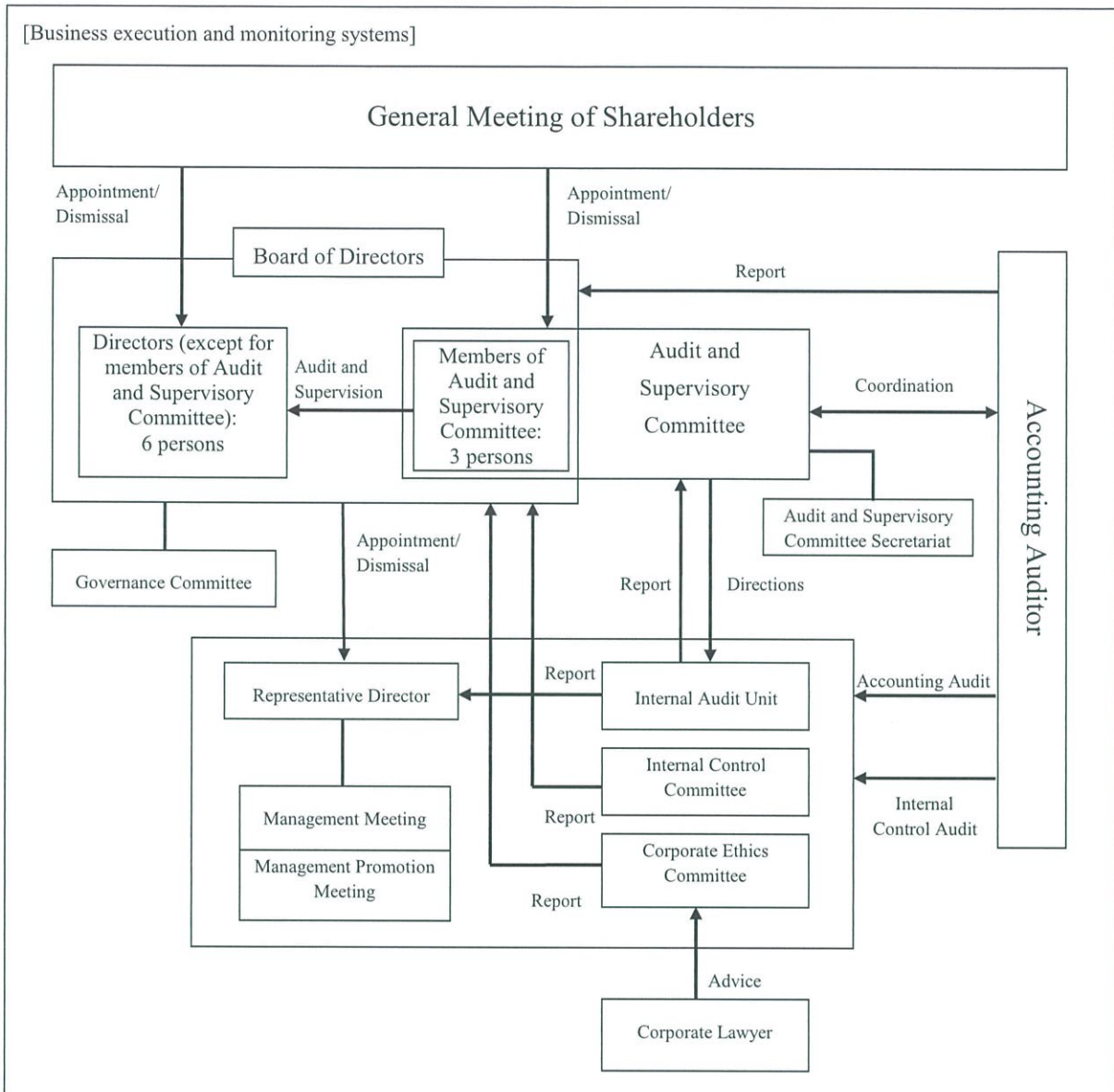
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2. Other Matters Concerning Corporate Governance System

- (1) Standards for information disclosure
As a company that is widely trusted by society, AICA has a basic policy of disclosing information about AICA to all stakeholders at the right time and in the most fair and appropriate manner. AICA conducts information disclosure in compliance with related laws and regulations such as the Companies Act and the Financial Instruments and Exchange Act, and the rules for timely disclosure prescribed by the stock exchanges on which our shares are listed. Even for information that is not subject to the Companies Act and the timely disclosure rules, if AICA believes that the information is important for shareholders and investors to make investment decisions, AICA will disclose that information, giving consideration to fairness and timeliness.
- (2) Establishment of internal systems
AICA has established an Information Disclosure Committee that promotes and manages information disclosure activities to conduct information disclosure in accordance with AICA's Disclosure Policy. The Information Disclosure Committee discusses the formulation, revisions, and operation of the Disclosure Policy, as well as the appropriateness, fairness, transparency, and timeliness of information disclosure activities. The Information Disclosure Committee is chaired by the President and comprised of members from various divisions appointed by the President. In addition, to prevent insider trading, AICA has stipulated basic

matters for compliance regarding appropriate management of internal information and purchases and sales of shares in its internal rules.

[Schematic Diagram (Reference Material)]



[Outline of Timely Disclosure System (Schematic Diagram)]

