

## Audit Report Templates

Japan Audit & Supervisory Board  
Members Association (the “Association”)  
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1. These templates (these “Templates”) set out the formats, terms, and the like of the audit reports provided for in the Companies Act for the purpose of serving as a reference when audit and supervisory board members (“ASBMs”) and audit and supervisory boards (“ASBs”) prepare those audit reports.

Audit reports are to be prepared based on the actual conditions of the audits of the relevant company. ASBMs and ASBs are strongly expected to prepare audit reports that accurately reflect the actual conditions of audits in accordance with the Companies Act, the Ordinance for Enforcement of the Companies Act, the Ordinance on Accounting of Companies, and the like. In regard to statements to be included in audit reports in cases such as when performing audits that actively incorporate the views set out in the “Code of Audit and Supervisory Board Member Auditing Standards” established by the Association and reflecting those views in the audit reports, there are many example statements provided in the notes, so please actively use those examples as a reference.

2. In regard to audit reports prepared by ASBMs or ASBs, there are separate provisions under laws and regulations regarding the preparation of audit reports concerning business reports and supplementary schedules thereto (“Business Reports, Etc.”) and audit reports concerning accounting-related documents. However, audits performed by ASBMs or ASBs concerning Business Reports, Etc. and those concerning accounting-related documents are closely related and have many similarities. Therefore, the basic preparation method used in these Templates is to prepare the audit report concerning the Business Report, Etc., the audit report concerning accounting documents and supplementary schedules thereto (“Accounting Documents, Etc.”) for each business year, and the audit report concerning consolidated accounting documents together as a single document. Under laws and regulations, the period for audits by ASBMs (or ASBs) concerning Business Reports, Etc. is four weeks, while the period for audits by accounting auditors concerning accounting-related documents is four weeks followed by an additional week for audits by ASBs. Therefore, if preparing the three audit reports stated above together as a single document in the same way as these Templates, please note that it may be necessary to extend the period for the audit of the Business Report, Etc. by agreement with the specified directors.

In addition to the above method of preparing audit reports by ASBMs (or ASBs), it is also possible to prepare the audit report concerning the Business Report, Etc. and the audit report concerning Accounting Documents, Etc. together as a single document while preparing the

audit report concerning consolidated accounting documents separately; to prepare the audit report concerning the Business Report, Etc. separately while preparing the audit report concerning Accounting Documents, Etc. and the audit report concerning consolidated accounting documents together as a single document; or to prepare each of these three audit reports separately.

Therefore, while the basic preparation method used in these Templates is to prepare the three audit reports together as a single document, in order to address companies such as those that choose to separately prepare audit reports concerning consolidated accounting documents or those that are not required to prepare consolidated accounting documents, explanations regarding how to handle such cases are provided in the notes.

3. In the case of a company with an ASB, after each ASBM prepares his or her audit report, the ASB prepares its audit report by compiling the contents the ASBM audit reports, and the ASB audit report is provided to the shareholders (the audit reports prepared by each ASBM are also to be retained and made available for inspection). In light of the intent of the law that each ASBM and the ASB prepares its own audit report, these Templates assume that each ASBM prepares his or her own audit report as a separate document, and templates for both full-time ASBMs and part-time ASBMs are provided.

It is interpreted that it is acceptable to prepare a single audit report that includes the audit report of the ASB and the audit reports of each ASBM. If doing so, it is preferable for the scope, method, contents, and other such matters of the audits by each ASBM to be clearly stated.

In the case of a company without an ASB, there is no change in the fact that each ASBM prepares his or her audit report, but in regard to the audit reports to be provided to the shareholders, instead of providing the audit reports prepared by each ASBM, it is also possible to prepare and provide a single audit report that compiles the audit reports of each ASBM. These Templates provide templates for the single audit report.

4. In regard to the “Method and Contents of Audits” section in audit reports, it is necessary to clearly and concisely state the methods of the audits actually performed by the ASBMs while giving consideration so that it is possible to accurately judge the reliability of the audit. These Templates state the methods and contents of audits that the Association considers to be common. However, it is expected that the methods and contents of audits in each company will have their own characteristics due to factors such as differences in the company’s scale, business format, organization, establishment and operation status of internal control systems, etc., and division of duties of ASBMs, and in order for the users of the audit reports to understand those characteristics, it is also possible to state the “Method and Contents of Audits” section in audit reports more specifically. In these Templates, notes and explanations as appropriate have been added to places where a variety of possible statements are anticipated, so please refer to those notes, etc. when preparing the audit reports.

Naturally, audit reports are to be prepared on the basis of the ASBMs performing their duty of care. In order to demonstrate that ASBMs have fulfilled that duty, it is necessary for the ASBMs to clearly set out auditing standards and maintain audit records, minutes of ASB meetings, and the like.

5. If the ASB prepares an audit report, it must deliberate on the content of the ASB audit report at least once by holding a physical meeting or by another method that allows the simultaneous exchange of opinions by transmitting and receiving information.

6. These Templates are intended for companies with a board of directors. In cases such as companies with organizational structures that do not include a board of directors, please prepare audit reports using these Templates as a reference.

7. If a company prepares temporary accounting documents, the ASBMs or ASB must prepare an audit report concerning those documents. Temporary accounting documents can be prepared if a company has ASBMs (including in cases where the scope of audits by ASBMs is limited to matters related to accounting) even if it does not have a board of directors, ASB, or accounting auditor; however, these Templates only provide templates for the audit reports to be provided to shareholders by companies that have a board of directors, ASB, and accounting auditor. Accordingly, for companies that have different organizational structures, and for the audit reports to be prepared by each ASBM, please prepare the audit reports using these Templates as a reference.

**I. Audit Reports To Be Provided to Shareholders**

**1. For Companies With a Board of Directors, ASB, and Accounting Auditor (Note 1)**

[Date]

[TBD] Co., Ltd.  
Representative Director and President, [TBD] (Note 2)

Audit and Supervisory Board (Note 3)

**Submission of Audit Report**

The audit and supervisory board has prepared an audit report pursuant to Article 390, paragraph (2), item (i) of the Companies Act and hereby submits it as enclosed (Note 4).

End

**Audit Report**

In regard to the directors’ performance of their duties for the [TBD] business year from [TBD] to [TBD], the audit and supervisory board has prepared this Audit Report after deliberations (Note 5) based on the audit reports prepared by each audit and supervisory board member and reports as follows.

1. Method and Contents of Audits by the Audit and Supervisory Board Members and the Audit and Supervisory Board (Note 6)

- (1) The audit and supervisory board determined the audit policies (Note 7) and division of duties (Note 8), etc. and received reports from each audit and supervisory board member regarding the implementation status and results of their audits, in addition to which it received reports from the directors, etc. and the accounting auditor regarding the status of the performance of their duties and requested explanations as necessary.
- (2) In compliance with the audit and supervisory board member audit standards established by the audit and supervisory board (Note 9) and in accordance with the audit policies and division of duties (Note 10), etc., each audit and supervisory board member communicated with the directors, the internal audit department (Note 11), and other employees, etc., endeavored to gather information and develop the audit environment (Note 12), and conducted audits using the following methods.
  - (i) The audit and supervisory board members attended meetings of the board of directors and other important meetings, received reports from directors and employees, etc. regarding the status of the performance of their duties (Note 13), requested explanations as necessary, viewed important decision-making documents, etc., and inspected the status of operations and assets at the head office and main business locations. Additionally, in regard to subsidiaries, the audit and supervisory board members communicated and exchanged information with the directors and audit and supervisory board members, etc. of subsidiaries and received reports on business from subsidiaries as necessary. (Note 14)
  - (ii) In regard to the content of resolutions of the board of directors regarding the development of systems to ensure that the directors’ performance of their duties complies with laws, regulations, and the articles of incorporation and other systems provided for in Article 100, paragraph (1) and paragraph (3) of the Ordinance for Enforcement of the Companies Act as systems necessary to ensure the appropriateness of operations of the corporate group composed of a stock company and its subsidiaries, as well as the systems developed pursuant to those resolutions (i.e.,

internal control systems) (Note 15, Note 16) stated in the business report, the audit and supervisory board members periodically received reports from directors and employees, etc. regarding the status of the establishment and operation of those systems and as necessary requested explanations and expressed opinions in regard thereto. (Note 17, Note 18)

- (iii) In regard to the basic policies provided for in Article 118, item (iii)(a) of the Ordinance for Enforcement of the Companies Act, the efforts provided for in item (iii)(b) of that article (Note 19), the matters given due consideration provided for in item (v)(a) of that article, and the judgment and reasons provided for in item (v)(b) of that article (Note 20), each as stated in the business report, the audit and supervisory board members considered the contents thereof taking into account matters such as the status of deliberations at meetings of the board of directors and other deliberations.
- (iv) The audit and supervisory board members oversaw and verified whether the accounting auditor maintained an independent position and conducted an appropriate audit, received reports from the accounting auditor on the status of the performance of its duties, and requested explanations as necessary. Additionally, the audit and supervisory board members received notification from the accounting auditor that, in accordance with the “Quality Control Standards for Audits” (Business Accounting Council, October 28, 2005), etc., it had developed systems in order to ensure that its duties are appropriately performed (i.e., notification of the matters stated in the items of Article 131 of the Ordinance on Accounting of Companies) and requested explanations as necessary. (Note 21)

Using the methods above, the audit and supervisory board examined the business report, the supplementary schedules thereto, the accounting documents (i.e., the balance sheet, statement of income, statement of changes in net assets, and explanatory notes to accounting documents (Note 22)), the supplementary schedules to the accounting documents, **and the consolidated accounting documents (i.e., the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and explanatory notes to consolidated accounting documents)** for the business year.

## 2. Audit Results (Note 23)

- (1) Results of audit of business report, etc.
  - (i) We find that the business report and the supplementary schedules thereto accurately present the status of the company in accordance with laws, regulations, and the articles of incorporation.
  - (ii) We do not find any misconduct nor any material fact constituting a violation of any law, regulation, or the articles of incorporation in relation to the directors’ performance of their duties (Note 24). (Note 25)
  - (iii) We find the content of the resolutions of the board of directors regarding internal control systems to be reasonable. (Note 26) Additionally, we do not find any matters that should be commented upon in regard to the statements in the business report or the directors’ performance of their duties relating to the internal control systems. (Note 27)
  - (iv) We do not find any matters that should be commented upon in regard to the basic policy regarding persons who control the determination of financial and business policies of the company stated in the business report. We find that the efforts provided for in Article 118, item (iii)(b) of the Ordinance for Enforcement of the Companies Act stated in the business report are in compliance with that basic policy and do not harm the common interests of the shareholders of the company, and that their purpose is not to maintain the positions of the directors of the company. (Note 28)
  - (v) In regard to transactions with parent companies, etc. stated in the business report, we do not find any matters that should be commented upon in regard to the matters given

due consideration so that the interests of the company are not harmed when engaging in such transactions (Note 29), the judgment of the board of directors regarding whether or not such transactions harm the interests of the company, and the reasons for that judgment (Note 30).

- (2) Results of audit of accounting documents and supplementary schedules thereto  
We find the methods and results of the audit by the accounting auditor, [TBD] (Note 31), to be reasonable. (Note 32)

**(3) Results of audit of consolidated accounting documents**

**We find the methods and results of the audit by the accounting auditor, [TBD] (Note 33), to be reasonable. (Note 34)**

3. Opinion of Audit and Supervisory Board Member [Name] (If there are differing audit opinions) (Note 35)
4. Subsequent Events (If material subsequent events have occurred) (Note 36)

[Date] (Note 37)

[TBD] Co., Ltd.; Audit and Supervisory Board

Full-time Audit and Supervisory Board Member (Note 38)  
[Name] [Seal]

Full-time Audit and Supervisory Board Member (Outside Audit and Supervisory Board Member) (Note 39) [Name] [Seal]

Outside Audit and Supervisory Board Member (Note 40)[Name] [Seal]

Audit and Supervisory Board Member [Name] [Seal]  
(Signatures) (Note 41)

(Note 1) These Templates are to be used when preparing the audit report concerning the Business Report, Etc., the audit report concerning the Accounting Documents, Etc., and the audit report concerning the consolidated accounting documents together as a single document. If separately preparing the audit report concerning the consolidated accounting documents, please delete the underlined portions of these Templates.

(Note 2) Under the Companies Act, audit reports are to be submitted to the “specified directors” (Article 132, paragraph (1) of the Ordinance for Enforcement of the Companies Act and Article 132, paragraph (1) of the Ordinance on Accounting of Companies; for the definition of “specified directors,” please refer to Article 132, paragraph (4) of the Ordinance for Enforcement of the Companies Act and Article 130, paragraph (4) of the Ordinance on Accounting of Companies). Accordingly, it is possible to state the titles and names of the specified directors as the addressees of the cover sheet. However, due to reasons such as that (i) the obligation to provide the audit report to the shareholders is borne by the representative director and (ii) the obligation to retain the audit report is borne by the company, specifically the representative director, the addressee in these Templates is the representative director and president (depending on the situation, it is also possible to address the cover sheet to both the representative director and president and the specified directors). Please consider the addressee of the cover sheet based on the actual circumstances of the company.

(Note 3) The handling of the seal of the ASB on the cover sheet follows the internal regulations of the company.

(Note 4) The cover sheet provided assumes that the audit report is submitted in writing. In cases such as if sending the audit report to the specified directors by electronic or magnetic methods,

certain revisions will be necessary, such as changing “as enclosed” to “as attached.”

- (Note 5) “After deliberations” can be changed to other appropriate expressions, such as “as the unanimous opinion of the audit and supervisory board members resulting from deliberations.”
- (Note 6) In regard to “1. Method and Contents of Audits by the Audit and Supervisory Board Members and the Audit and Supervisory Board,” please note that while a summary of the audit methods was required under the former Commercial Code, the Companies Act requires not a summary, but rather a more specific description of the methods and contents of the audits actually conducted (Article 129, paragraph (1), item (i) of the Ordinance for Enforcement of the Companies Act; Article 128, paragraph (2), item (i) of the Ordinance on Accounting of Companies; and others). It is expected that stating the specific methods and contents will lead to greater understanding by the users of the audit report. In particular, in cases where there are special audit items for the period under review, such as if there is an audit item set as an important audit matter and given particular focus when conducting the audit (a priority audit item), it is preferable to make specific statements, such as “the audit and supervisory board determined the audit policies and division of duties, etc., set [TBD] as a priority audit item, and received reports from each audit and supervisory board member...”
- (Note 7) “Audit policies” can be changed to “audit policies for the period under review” if you wish to clearly state that the audits were performed in accordance with the audit policies for the period being audited. Additionally, it is also possible to specifically state the audit policies for the period under review.
- (Note 8) If an audit plan including the division of duties of each ASBM has been established, then considering the importance of the audit plan to the audits, “division of duties” can be replaced by “audit plan.”
- (Note 9) If the ASB has not established ASBM audit standards, “in compliance with the audit and supervisory board member audit standards established by the audit and supervisory board and” should be removed.
- (Note 10) Please refer to Note 7 regarding “audit policies” and Note 8 regarding “division of duties.”
- (Note 11) For the wording of “internal audit department,” please use whatever is appropriate for the circumstances of the company, such as the department name.
- (Note 12) Please refer to Article 105, paragraph (2) and paragraph (4) of the Ordinance for Enforcement of the Companies Act. If the company has a parent company, it is possible to state “... communicated with the directors, the internal audit department, and other employees as well as with the audit and supervisory board members and other personnel of the parent company ...”
- (Note 13) This refers to matters reported to the ASBMs under systems for reports to the ASBMs by directors and employees, etc. of the company and its subsidiaries and other systems relating to reports to the ASBMs resolved on by the board of directors pursuant to Article 100, paragraph (3), item (iv) of the Ordinance for Enforcement of the Companies Act. Depending on the actual conditions of the audit, it is possible to specify “employees” in “received reports from directors and employees, etc. regarding the status of the performance of their duties” as “the internal audit department” or the like.
- (Note 14) Please refer to Article 105, paragraph (2) and paragraph (4) of the Ordinance for Enforcement of the Companies Act in regard to communicating and exchanging information with the directors and ASBMs, etc. of subsidiaries. If there were any matters from among the communications and information exchanges with the directors and ASBMs, etc. of subsidiaries that affected the audit, it is possible to specifically state those and to state the subsequent measures taken in “2. Audit Results.”
- If the ASBMs exercised their rights to investigate the status of operations or financial status of a subsidiary provided for in Article 381, paragraph (3) of the Companies Act, it is possible to include a statement such as “... requested reports on business from subsidiaries as necessary, and investigated the status of the operations and finances of subsidiaries.”
- (Note 15) In these Templates, “internal control systems” refers to the systems actually established under resolutions of the board of directors pursuant to Article 362, paragraph (4), item (vi) of the Companies Act. It is also possible to refer to the specific headings and page numbers, etc. in the business report.

- (Note 16) Article 100, paragraph (1), item (v) of the Ordinance for Enforcement of the Companies Act states “a corporate group consisting of a stock company and any Parent Company and Subsidiary Companies thereof,” thereby including parent companies in the corporate group; however, in Article 362, paragraph (4), item (vi) of the Companies Act, the internal control systems of the corporate group listed as matters of business execution to be determined by the board of directors are limited to those of the relevant company and its subsidiaries, and accordingly, these Templates also limit the corporate group to the company and its subsidiaries. Please note that internal control systems of the corporate group cover parent companies due to consideration being given to prevent and address inappropriate pressure from parent companies, such as being forced to engage in transactions (please refer to Article 13, paragraph 1, item (iii) of the Audit Practice Standards for Internal Control Systems), and if there are circumstances due to which such risks must particularly be taken into account during audits, it is possible to define the corporate group as including the parent companies and to state the specific audit methods and audit results.
- (Note 17) If you wish to state that ASBM audit practice standards for internal control systems have been established and that audits have been performed in accordance therewith, it is possible to include statements such as “... stated in the business report, in compliance with the audit and supervisory board member audit practice standards for internal control systems established by the audit and supervisory board, the audit and supervisory board members periodically received reports from directors and employees, etc. regarding the status of the establishment and operation of those systems and as necessary requested explanations and expressed opinions in regard thereto.” Additionally, in consideration of the understanding of the users of the audit report, if there are any important matters among those regarding which explanations were requested or opinions were expressed, it is also possible to specifically state those here and to include the response of the executive personnel in “2. Audit Results.”
- A resolution of the board of directors regarding internal control systems is required for large companies (as defined in Article 2, item (vi) of the Companies Act), but it is optional for other companies. Please also refer to Note 26 and Note 27.
- (Note 18) “Directors and employees, etc.” in this section refers to the directors and employees, etc. of the company. In regard to the company’s subsidiaries, the audit is to mainly check how the company, as the parent company, is handling the establishment and operation of the internal control systems of the corporate group, but in cases such as if reports are received from subsidiaries regarding the status of the establishment and operation of those systems, it is also possible to include statements such as “the audit and supervisory board members also as necessary received reports and requested explanations regarding the status of the establishment and operation of those systems from directors and employees, etc. of subsidiaries.”
- (Note 19) This statement applies to cases in which the company has established takeover defense measures. It is not necessary to include this statement if the matters listed in Article 118, item (iii) of the Ordinance for Enforcement of the Companies Act are not stated in the business report. Please also refer to Note 28.
- (Note 20) If the matters provided for in Article 118, item (v) of the Ordinance for Enforcement of the Companies Act are not stated in the business report, this does not need to be stated in the audit report (Article 130, paragraph (2), item (ii) and Article 129, paragraph (1), item (vi) of the Ordinance for Enforcement of the Companies Act).
- (Note 21) The ASBMs and the ASB must state “matters related to systems for ensuring that the performance of the duties of Accounting Auditor(s) is being carried out appropriately” (Article 128, paragraph (2), item (ii) and Article 127, item (iv) of the Ordinance on Accounting of Companies; “Systems to Ensure Appropriate Performance of Accounting Auditor Duties”) in the audit report. After receiving notification from the accounting auditor of matters relating to those systems (Article 131 of the Ordinance on Accounting of Companies; the wording of the relevant provision is “matters related to systems for ensuring that the performance of the duties of Accounting Auditor(s) is being carried out appropriately”) (the notification is to be received by the specified ASBMs), the ASBMs and the ASB confirm whether those systems are developed in accordance with certain appropriate standards. In these Templates, the notification matters regarding the Systems to Ensure Appropriate Performance of Accounting Auditor Duties and the confirmation method thereof are referred to in the sentence,

“Additionally, the audit and supervisory board members received notification from the accounting auditor ... and requested explanations as necessary.” In these Templates, the “Quality Control Standards for Audits” (Business Accounting Council, October 28, 2005) are used as “certain appropriate standards,” but other standards are also important, such as the practical guidelines of the Japanese Institute of Certified Public Accountants (Quality Control Standards Committee Statement No. 1, “Quality Control for Audit Firms,” and Auditing Standards Committee Statement No. 220, “Quality Control for an Audit of Financial Statements”).

In these Templates, the results of the confirmation by the ASBMs and the ASB regarding the Systems to Ensure Appropriate Performance of Accounting Auditor Duties are not stated as a separate matter but are included in the statements to the effect that the methods and results of the audit by the accounting auditor are found to be reasonable in “(2) Results of audit of accounting documents and supplementary schedules thereto” and “(3) Results of audit of consolidated accounting documents” in “2. Audit Results.” If there are any matters that should be particularly emphasized or any matters that are considered appropriate to be clearly stated in regard to the Systems to Ensure Appropriate Performance of Accounting Auditor Duties, please specifically state those matters in “1. Method and Contents of Audits by the Audit and Supervisory Board Members and the Audit and Supervisory Board” or in “(2) Results of audit of accounting documents and supplementary schedules thereto” or “(3) Results of audit of consolidated accounting documents” in “2. Audit Results.”

(Note 22) If the explanatory notes to accounting documents are not prepared as separate materials, please state “... the accounting documents (i.e., the balance sheet, statement of income, and statement of changes in net assets), the supplementary schedules to the accounting documents ...” The same applies to the explanatory notes to consolidated accounting documents (please refer to Article 57, paragraph (3) of the Ordinance on Accounting of Companies).

(Note 23) If there are any matters to be commented upon in regard to the “Audit Results” section, state that and the relevant facts clearly and concisely. If investigations necessary for audits could not be performed, state that and the reasons therefor in the relevant section. Additionally, if priority audit items are mentioned in “1. Method and Contents of Audits by the Audit and Supervisory Board Members and the Audit and Supervisory Board,” it is also possible to state matters such as the audit results for those priority audit items in “Audit Results.” The same applies in cases where statements were made in “1. Method and Contents of Audits by the Audit and Supervisory Board Members and the Audit and Supervisory Board” about matters regarding which explanations were requested or opinions were expressed in relation to internal control systems or about matters learned through communication or information exchanges with directors and ASBMs, etc. of subsidiaries that affected the audit.

When preparing the “Audit Results” section, if there are material facts relating to the status of the company, such as events or circumstances pertaining to the assumption of the company being a going concern, material accidents or damage, or material litigation, confirm the statements in the business report or other documents, consider whether statements should be made in the audit report, and include such statements if you find it necessary to do so.

(Note 24) “Performance of their duties” can also be written as “execution of their duties” in accordance with the wording used in laws and regulations (please refer to Article 130, paragraph (2), item (ii) and Article 129, paragraph (1), item (iii) of the Ordinance for Enforcement of the Companies Act). In these Templates, “performance of their duties” is used throughout.

(Note 25) If any misconduct or any material fact constituting a violation of laws, regulations, or the articles of incorporation in relation to the directors’ performance of their duties is found, specifically state that fact.

If the ASBMs have publicly announced an opinion in the course of their duties, such as in cases where a third-party allotment is performed during the period under review and the opinion of the ASBMs regarding whether it constitutes an issuance under favorable conditions is announced, it is possible to state a summary of that opinion if necessary.

(Note 26) If the contents of resolutions by the board of directors relating to internal control systems are “found inappropriate” (Article 129, paragraph (1), item (v) and Article 130, paragraph (2), item (ii) of the Ordinance for Enforcement of the Companies Act), it is required to specifically state

that fact and the reasons therefor.

In particular, the contents of resolutions by the board of directors regarding systems to ensure the effectiveness of ASBM audits (i.e., the matters listed in the items of Article 100, paragraph (3) of the Ordinance for Enforcement of the Companies Act) such as matters related to employees appointed to support the duties of the ASBMs, systems for directors and employees to report to ASBMs and other systems relating to reports to ASBMs, systems to ensure that any person who makes a report to the ASBMs does not receive disadvantageous treatment due to having done so, and procedures for the advance payment or reimbursement of expenses arising in connection to the performance of ASBM duties and other matters relating to policies on the handling of expenses or debts arising in connection to the performance of ASBM duties are important in order to achieve effective audits by ASBMs, and if any problem, etc. is found, such as no resolution being made for the assignment of supporting employees, etc. requested by the ASBMs, that fact must be proactively stated.

(Note 27) If the summary of the operation status of internal control systems stated in the business report is “found inappropriate” (Article 129, paragraph (1), item (v) and Article 130, paragraph (2), item (ii) of the Ordinance for Enforcement of the Companies Act), it is required to specifically state that fact and the reasons therefor.

If significant corporate wrongdoing occurred in the period under review or the previous period, in most cases, it is likely that that fact and the status of measures to identify causes and prevent reoccurrence are material matters that should also be stated in the business report. The responsibility of the ASBMs is to express opinions regarding matters such as (i) whether the contents of statements in the business report are appropriate and (ii) whether any problem, etc. can be found in regard to the status of business execution in order to prevent reoccurrence taking into consideration the directors’ duty of care.

(Note 28) This is a statement of an opinion regarding takeover defense measures, etc. and the judgment of the board of directors in regard thereto (Article 130, paragraph (2), item (ii) and Article 129, paragraph (1), item (vi) of the Ordinance for Enforcement of the Companies Act; if those matters are not stated in the business report, it is not necessary to state this item). Considering that the judgment and role of ASBMs in regard to the appropriateness of takeover defense measures is receiving greater attention, if there are any matters that should be commented upon, it is preferable to specifically state those matters. “The basic policy regarding persons who control the determination of financial and business policies of the company stated in the business report” and “the efforts provided for in Article 118, item (iii)(b) of the Ordinance for Enforcement of the Companies Act stated in the business report” can also be changed to refer to the specific headings and page numbers, etc. in the business report.

(Note 29) For transactions with parent companies, etc. that require a note regarding transactions with related parties in the explanatory notes to the accounting documents, it is necessary to state the measures given due consideration so that the interests of the company are not harmed when engaging in such transactions, the judgment of the board of directors, and the reasons for that judgment in the business report (Article 118, item (v) of the Ordinance for Enforcement of the Companies Act). Additionally, if those matters are stated in the business report, the opinion of the ASB in regard to those matters must be stated in the audit report (Article 130, paragraph (2), item (ii) and Article 129, paragraph (1), item (vi) of the Ordinance for Enforcement of the Companies Act). Even if it is stated in the business report that there were no matters given due consideration so that the interests of the company are not harmed, the ASBMs must express an opinion regarding whether or not that judgment is appropriate.

(Note 30) For companies with outside directors, if the judgment of the board of directors differs from the opinion of the outside directors, that opinion must also be stated in the business report (Article 118, item (v)(c) of the Ordinance for Enforcement of the Companies Act). If the judgment of the board of directors and the opinion of the outside directors is different, then taking into account the judgment of the board of directors and the reasons therefor and the opinion of the outside directors, it is necessary for the ASBMs and the ASB to sufficiently consider whether or not there are any matters to be commented upon by means such as exchanging opinions with the representative director or outside directors as necessary.

(Note 31) State the name of the auditing firm or the name and office name of the certified public accountant.

- (Note 32) If it is found that the methods or results of the audit by the accounting auditor are not appropriate, specifically state that fact and the reasons therefor.
- (Note 33) Same as Note 31.
- (Note 34) Same as Note 32. Taking into account the status of the progress of consolidated management as well as matters such as the way that consolidated information is stated in the business report, it is also possible to state the “Results of audit of consolidated accounting documents” before the “Results of audit of accounting documents and supplementary schedules thereto.”
- (Note 35) If there is an opinion that differs from that of the ASB, state the name of the relevant ASBM, and clearly and concisely state that differing opinion and the reasons therefor.
- (Note 36) Under laws and regulations, the subsequent events that should be stated in the audit reports of the ASBMs (or the ASB) are limited to those related to the accounting-related documents (however, any subsequent events that are included in the audit report of the accounting auditor need not be stated in the audit reports of the ASBMs or ASB; Article 127, item (iii) of the Ordinance on Accounting of Companies). If there are any matters to be stated, state them specifically.
- If any material events occur after the last day of the business year that do not affect property or profits or losses, please note that the event must be stated in the business report as a material matter relating to the current status of the stock company (please refer to Article 120, paragraph (1), item (ix) of the Ordinance for Enforcement of the Companies Act).
- (Note 37) Please note that the date of preparation of the audit report is a matter required to be stated under laws and regulations (Article 130, paragraph (2), item (iii) of the Ordinance for Enforcement of the Companies Act; Article 128, paragraph (2), item (iii) of the Ordinance on Accounting of Companies).
- (Note 38) For full-time ASBMs, it is preferable to indicate that they are full-time. It is also possible to indicate full-time ASBMs by stating “Audit and Supervisory Board Member (Full-time) [Name].”
- (Note 39) For outside ASBMs provided for in Article 2, item (xvi) and Article 335, paragraph (3) of the Companies Act, it is preferable to indicate that they are outside ASBMs. “Full-time Audit and Supervisory Board Member (Outside Audit and Supervisory Board Member) [Name]” can also be stated as “Full-time Outside Audit and Supervisory Board Member [Name].”
- Additionally, in regard to the method of indicating outside ASBMs, instead of indicating that fact in the signature section, it is also possible to add a footnote at the end of the audit report and state “(Note) Audit and Supervisory Board Member [Name] and Audit and Supervisory Board Member [Name] are outside audit and supervisory board members as provided for in Article 2, item (xvi) and Article 335, paragraph (3) of the Companies Act.”
- (Note 40) “Outside Audit and Supervisory Board Member [Name]” can also be stated as “Audit and Supervisory Board Member (Outside Audit and Supervisory Board Member) [Name].”
- (Note 41) In order to ensure the authenticity of the audit report and reliability of the audits, it is preferable for each ASBM to sign his or her name and then affix his or her seal. If the audit report is prepared as an electronic or magnetic record, each ASBM must electronically sign it.

#### Other Matters

In cases such as if there was a vacancy in an ASBM position during the period under review, specifically note that fact in the audit report.