

[Translation]

Code of *Kansayaku*¹ Auditing Standards

Japan Corporate Auditors Association

This translation is prepared only for reference purposes and in the case of any matters falling within the ambits of the Code reference should be made to the original Japanese text of the Code. The Code is intended solely as best practice benchmarks by which *kansayaku* may perform their audit duties. It does not replace or supplement in any way whatsoever the current legal regime applicable to auditors and do not give rise to duties upon auditors over and above those imposed by prevailing legal norms. Non-conformity with the Code would therefore not per se give rise to a legal liability nor cause of action against the *kansayaku* concerned. *Kansayaku* are expected to prepare their own auditing standards applicable to the company, to the best possible level, by reference to the Code.

Revision of Code of *Kansayaku* Auditing Standards

I Background

The Code of *Kansayaku* Auditing Standards (the “Code”) was adopted by our association in March 1975 and then revised several times to incorporate the revisions to the Japanese Commercial Code (together with the Law for Special Provisions for the Commercial Code concerning Audits, etc., of *Kabushiki Kaisha*², and collectively herein referred to as the “Japanese Corporations Law”). The Code has functioned as a set of standards of conduct for *kansayaku* in performing their duties. The main contents of the Code are the presentation of a philosophy of auditing for *kansayaku* and provisions regarding certain basic matters required by law. However, given the dramatic changes in recent years in the environment surrounding *kansayaku* audits, it has become necessary for the Code to be revised so that it provides the requisite standards for *kansayaku* to fulfill their expected duties.

In the legal sphere, the *kansayaku*’s functions were reinforced by the 2001 revision of the Japanese Corporations Law in respect of corporate governance. Soon thereafter, the 2002 revision of the Japanese Corporations Law and related legislation introduced a new system of “a company with committees”, which provides an alternative governance system for large-scale companies. A new era has thus been opened, where companies compete in quality of corporate governance systems, including their audit systems. In addition, rapid progress is being made in the revision of relevant laws, regulations and accounting standards

¹ Translation note: “*kansayaku*”, which denotes a type of internal corporate auditor required by the Japanese Commercial Code, is sometimes translated as “statutory auditor” or “corporate auditor”. To avoid confusion with external accounting auditors, we retain the original Japanese word.

² Translation note: “*kabushiki kaisha*” means joint stock corporation, the most typical type of limited liability corporation under the Japanese Corporations Law.

to keep up with the globalization of financial and capital markets, in the move to consolidated management, and with the accumulation of judicial decisions concerning director liability in response to repeated corporate scandals.

In order to respond to these changes in domestic and international environments, to clarify the roles and duties currently expected of *kansayaku*, and to present specific standards for their conduct, we, Japan Corporate Auditors Association, have reviewed and revised the Code in its entirety, including its structure, by incorporating several studies and the opinions of our internal committees and study groups.

II Essence of Revision

In this revision of the Code, we have aimed not only to address the audit philosophy and legal requirements as with previous revisions of the Code, but also to provide specific and systematic guidelines for audit practice and thereby clarify the audit practices that are highly evaluated and are considered to be accountable. Recognizing that the *kansayaku*'s fundamental duties are to audit the directors' performance of their duties from an independent position and thus prevent corporate scandals and ensure and safeguard sound and continuous growth of their company, we have clarified that *kansayaku* shall fulfill their duties with a view to the establishment and operation of a good corporate governance system.

The essence of the revision is as follows.

1. With respect to decision-making by the board of directors and other organizations, the so-called business judgment rule is being established through judicial decisions for determining directors' fulfillment of the duty of care. In light of this, we have included in the revised Code the audit of whether management decisions are reasonably made on the basis of sufficient information and in accordance with an appropriate decision-making process.
2. With respect to individual directors' performance of their duties, it is being recognized, particularly for large-scale publicly-held companies, that directors are required to establish so-called internal control systems as fulfillment of their duty of care. In light of this, we have decided to include in the revised Code provisions concerning the audit as to whether internal control systems have been developed in a manner appropriate for the company's size, nature of business, and other relevant aspects of the company.
3. While the previous Code already included items like preventive audits to avoid corporate scandals, internal controls, the relationship with accounting auditors (*Kaikei-Kansanin*), etc., we have now identified more specific audit standards that recognize the importance of development of the audit environment for *kansayaku*, taking into consideration the points mentioned in paragraph 2 above, such as systems to assist *kansayaku* in performing their duties and establishing a system of cooperation with the company's internal audit division and other relevant departments.

4. While the *kansayaku* system is based on individual independence (*dokunin-sei*) among *kansayaku*, we have provided for strengthening the functions of the *kansayaku-kai*, its chairperson, external *kansayaku*, etc., in order to improve their organizational efficiency.
5. In order to ensure the appropriateness, transparency and reliability of corporate disclosure, provisions have been included with respect to, among other things, the *kansayaku*'s monitoring of the independence of accounting auditors, and monitoring and verifying whether the company has established and is operating such financial reporting systems as are necessary and adequate for the directors to prepare accurate financial statements, accounting documents and related disclosures.
6. Provisions have been added to reflect the 2001 revision of the Japanese Corporations Law and related legislation, under which *kansayaku* are expected to fulfill specific roles in situations involving conflict of interest between directors and the company, such as that consent of the *kansayaku* is required for exemption or reduction of a director's liability or for the company's participation in a derivative lawsuit to assist the defendant directors.
7. In order to improve the transparency and ensure the reliability of *kansayaku*'s audit activities and audit reports, provisions have also been added concerning *kansayaku*'s conduct of audit reporting and disclosure as well as *kansayaku*'s duty to provide explanations to the shareholders.

III Ensuring the Effectiveness of Audits by *Kansayaku*

In order for *kansayaku* to effectively fulfill their duties under the Code, it is extremely critical for directors, particularly representative directors, to be fully aware of the importance and usefulness of *kansayaku* audits, and to be aware that directors are strongly required, and it is their own obligation to develop a conducive environment for *kansayaku* audits. *Kansayaku* are strongly required, not only by the company but also by society, to make efforts, as an independent organization playing a key role in corporate governance, for the promotion and sharing of such awareness.

IV Companies to which the Code Applies

The Code has been prepared for large companies (including those deemed large companies) as defined under the Japanese Corporations Law, and chiefly with publicly-held companies in mind. For small or medium companies, it is desirable to conduct audits in reference to the Code with being mindful of the company's audit environment and other relevant differences.

Code of *Kansayaku* Auditing Standards

Chapter I Purpose of this Code

Article 1 (Purpose)

1. This code (the “Code”) clarifies the responsibilities of *kansayaku* and the attitudes they should have towards discharging such responsibilities, and defines an audit system for discharging such responsibilities, as well as standards and behavioral guidelines for conducting audits.
2. *Kansayaku* shall act in accordance with this Code, taking into consideration the company’s size, nature of business, various risks surrounding the company, and other aspects of the company’s particular audit environment, and shall endeavor to ensure the effectiveness of their audits.

Chapter II Responsibilities and Attitudes of *Kansayaku*

Article 2 (*Kansayaku*’s Roles and Responsibilities)

1. *Kansayaku* are responsible for establishing a good corporate governance system that will ensure the sound and continuous growth of the company and accommodate society’s trust, by auditing the directors’ performance of their duties as an independent organization appointed by the shareholders.
2. In order to discharge the responsibilities described in the preceding paragraph, *kansayaku* shall attend meetings of the board of directors and other important meetings, verify the contents of reports received from directors, employees and others, conduct investigations with respect to the status of the corporate affairs and assets of the company, and shall take any necessary measures in a timely manner, including without limitation expressing suggestions, recommendations or opinions to directors and employees and seeking injunctions against directors’ acts.

Article 3 (*Kansayaku*’s Attitudes)

1. *Kansayaku* shall endeavor to preserve their own independence, maintain a fair and impartial posture and act based on their own convictions.
2. *Kansayaku* shall endeavor to cultivate their knowledge with a view to improving the quality of their audits.
3. In order to obtain the proper perspective for auditing, *kansayaku* shall endeavor to deepen their understanding of management issues from an overall managerial perspective, and to grasp transitions in management conditions and changes in the corporate environment.
4. *Kansayaku* shall continually endeavor to facilitate mutual understanding with directors and employees and to collect sufficient information and develop the audit environment.
5. In formulating audit opinions, *kansayaku* shall endeavor to come to appropriate opinions by diligently confirming the relevant facts, seeking outside professionals’ opinions when necessary, and having rational grounds for their opinions.
6. *Kansayaku* shall be careful to maintain the confidentiality of any information they obtain in the course of performing their duties.

7. *Kansayaku* shall endeavor to make the directors, particularly the representative directors, fully understand and recognize that it is important and indispensable for the directors to develop an environment for *kansayaku* audits in order to establish and maintain a good corporate governance system that enables the sound and continuous growth of the company.

Chapter III **Kansayaku and Kansayaku-kai**

Article 4 (Full-time *Kansayaku*)

1. *Kansayaku* shall elect one or more full-time *kansayaku* (*joukin-kansayaku*) by voting among themselves.
2. The full-time *kansayaku* shall be mindful of their particular role as full-time personnel and shall endeavor actively to develop the audit environment and to collect information within the company, and shall monitor and verify, on a daily basis, the status of development and operation of internal control systems.
3. The full-time *kansayaku* shall endeavor to share with other *kansayaku* any information obtained in the course of performing their duties.

Article 5 (Outside *Kansayaku*)

1. Outside *kansayaku* (*shagai-kansayaku*) shall maintain awareness that their appointment is required by law in order to heighten the level of neutrality and independence of the audit system.
2. Based on their independence, personal influence and other aspects, outside *kansayaku* shall maintain awareness that they are particularly expected to express audit opinions objectively and from an independent position, and shall actively pose questions and state their opinions to the representative directors and the board of directors.
3. Outside *kansayaku* shall actively try to obtain information necessary for their audit, and shall endeavor to share the information with other *kansayaku* and develop the audit environment in cooperation with other *kansayaku*.

Article 6 (Functions of *Kansayaku-kai*)

1. The *kansayaku-kai* shall be comprised of all *kansayaku*.
2. Given that the *kansayaku-kai* is the only deliberative or decision-making organization for the purpose of formulating opinions regarding audits, each *kansayaku* shall report the status of performance of his/her duties to the *kansayaku-kai* and endeavor to ensure the effectiveness of audits through the utilization of the *kansayaku-kai*; provided, however, that a resolution of the *kansayaku-kai* may not prevent any *kansayaku* from exercising his/her own powers.
3. The *kansayaku-kai* shall express its opinions to the directors and the board of directors when necessary.
4. In addition to the matters that the directors are statutorily required to report to the *kansayaku-kai*, the *kansayaku-kai* shall determine through discussion with the directors the scope of the matters which the directors shall report to the *kansayaku-kai*, and shall receive timely reports on such matters from them.

Article 7 (Operation of *Kansayaku-kai*)

1. It is desirable that meetings of the *kansayaku-kai* be held on a regular basis and that the dates and times for the meetings for the year be fixed in advance, taking into consideration the scheduled dates and times of the meetings of the board of directors, each *kansayaku*'s availability to attend, and other relevant factors; provided, however, that a meeting of the *kansayaku-kai* shall be held whenever necessary.
2. The chairperson of the *kansayaku-kai* shall be elected by voting among the *kansayaku*. The chairperson shall convene and preside over meetings of the *kansayaku-kai* and perform any other duties entrusted to the chairperson by the *kansayaku-kai*, subject to each *kansayaku*'s exercise of his/her own powers.
3. The *kansayaku-kai* shall determine policies and other relevant matters regarding audits, deliberate on each *kansayaku*'s report, and formulate an audit opinion.
4. Any matter for which a resolution of the *kansayaku-kai* is required shall be determined through deliberations based on adequate information.
5. *Kansayaku* shall confirm that the outline and results of the proceedings are appropriately described in the minutes of *kansayaku-kai* meetings. All *kansayaku* present at a meeting shall affix to the minutes their respective signatures, or their respective names and seal impressions.

Article 8 (Involvement in Procedure to Appoint *Kansayaku*)

1. With respect to any proposal for the appointment of *kansayaku* to be submitted by the directors to a shareholders' meeting, the *kansayaku-kai* shall deliberate on whether to give its consent to the proposal.
2. It is desirable that the *kansayaku-kai* have a prior opportunity to consult with the directors in respect of candidates for *kansayaku*, the procedures for deciding on a proposal for the appointment of a *kansayaku*, the necessity of the appointment of a supplemental *kansayaku*, and other relevant matters.
3. When necessary, the *kansayaku-kai* shall either demand that the directors include the appointment of *kansayaku* in the agenda of a shareholders' meeting or shall itself propose candidates for *kansayaku* to be submitted by the directors to the shareholders' meeting.
4. *Kansayaku* shall be mindful of their independence, and if they come to have an opinion regarding the appointment, removal, resignation, or disapproval of reappointment of any *kansayaku*, such opinion shall be expressed at a shareholders' meeting.

Article 9 (Criteria of Selection of Candidates for *Kansayaku*)

1. The *kansayaku-kai* shall establish a specific policy for the selection of candidates for *kansayaku*, taking into consideration, among other relevant factors, (i) the distinctions between full-time and part-time *kansayaku* and between inside and outside *kansayaku* together with respective numbers thereof, (ii) the term of office of incumbent *kansayaku*, (iii) specialized expertise, and (iv) possible vacancies in office.
2. When selecting a candidate for *kansayaku*, the *kansayaku-kai* shall carefully examine his/her suitability to serve as *kansayaku* in light of whether the candidate can complete the term of office, whether the candidate is sufficiently independent from the managing directors, and other relevant factors. It is also desirable that at least one *kansayaku* has adequate knowledge of accounting or financial matters.
3. When selecting candidates for outside *kansayaku*, the *kansayaku-kai* shall confirm that there will be no difficulties as to their independence, taking into consideration their relationship with the

company, representative directors, any other directors, and key employees, and other relevant factors; and shall also examine each candidate's availability to attend meetings of the board of directors, the *kansayaku-kai* and other relevant meetings, and other relevant factors.

Article 10 (Support System for Audit Duties)

1. In order to improve audit effectiveness and to facilitate the performance of audit duties, *kansayaku* shall endeavor to ensure the existence of a system supporting *kansayaku's* performance of the duties.
2. When they find it to be necessary, *kansayaku* shall have an opportunity to discuss with the directors how to develop the system supporting *kansayaku's* audits mentioned in the preceding paragraph.
3. It is desirable that the secretarial functions for *kansayaku* and the *kansayaku-kai* be performed by staff members who are to be devoted exclusively to *kansayaku*.
4. *Kansayaku* shall be mindful of ensuring their staff members' independence from the managing directors.

Article 11 (Remuneration of *Kansayaku*)

1. When there is neither a provision in the articles of incorporation nor any resolution of a shareholders' meeting concerning the amount of remuneration to be received by each *kansayaku*, *kansayaku* shall determine the amount of remuneration to be received by each *kansayaku* through mutual consultation, taking into consideration the distinction between full-time and part-time positions, the sharing of audit affairs among *kansayaku*, the content and level of the remuneration of directors, and other relevant factors.
2. If *kansayaku* come to have an opinion on the remuneration of *kansayaku*, they shall express such opinion as necessary at a meeting of the board of directors or shareholders.

Article 12 (Audit Expenses)

1. It is desirable for the *kansayaku-kai* to formulate in advance a budget for the expenses it determines necessary for the performance of its functions; provided, however, that the *kansayaku-kai* has the right to demand reimbursement from the company for any expenses disbursed in an emergency or on an extraordinary basis.
2. In disbursing audit expenses, *kansayaku* shall be mindful of the efficiency and legitimacy of each expenditure.

Chapter IV Audit of Director's Performance (Gyoumu Kansa)

Article 13 (Audit of Directors' Performance of Duties)

1. *Kansayaku* shall audit the directors' performance of their duties.
2. In order to discharge the responsibility mentioned in the preceding paragraph, *kansayaku* shall, among other things, perform the following duties:
 - (i) *Kansayaku* shall monitor and verify the decision-making of the directors in passing resolutions of the board of directors and in other situations, and the performance of the board of directors of its duty of supervision.

- (ii) *Kansayaku* shall monitor and verify whether the directors have established and are operating internal control systems appropriately.
 - (iii) *Kansayaku* shall take necessary measures, such as making suggestions or recommendations to the directors, in the event that *kansayaku* becomes aware (i) that any director has committed or is likely to commit an act outside of the purposes of the company or otherwise in violation of any law or regulation or the articles of incorporation; (ii) of any circumstance that is likely to cause the company significant damage, a serious incident, or the equivalent; or (iii) of any circumstance that is markedly unreasonable for the corporate affairs of the company.
 - (iv) Upon receipt of a report from a director to the effect that the company is likely to suffer significant damage, *kansayaku* or the *kansayaku-kai* shall make necessary investigations and take measures appropriate to the situation, such as making suggestions or recommendations to the directors.
3. Where necessary with respect to the matters set forth in the preceding paragraph, *kansayaku* shall demand the convocation of a meeting of the board of directors or seek an injunction against the act of the directors in question.

Article 14 (Audit of Decision-making of Board of Directors, etc.)

1. With respect to decision-making of the directors by way of either resolution of a meeting of the board of directors or otherwise, *kansayaku* shall monitor and verify the directors' performance of their duties, including without limitation their duty of care and their duty of loyalty, from the following perspectives:
- (i) No material or reckless error shall be made in the understanding of the relevant facts that constituted the basis of the decision.
 - (ii) The decision-making process shall be reasonable.
 - (iii) The substance of the decision shall not violate any law or regulation or the articles of incorporation.
 - (iv) The substance of the decision shall not be obviously unreasonable as a decision of ordinary corporate management.
 - (v) The decision shall have been made primarily in the best interests of the company.
2. When necessary in relation to the matters mentioned in the preceding paragraph, *kansayaku* shall make suggestions or recommendations to the directors or demand the cessation of the directors' act.

Article 15 (Audit of Status of Internal Control Systems)

1. *Kansayaku* shall monitor and verify whether the directors have developed and are operating internal control systems appropriately in light of the company's size, nature of business and other aspects of the company. Internal control systems shall include:
- (i) compliance system to prevent the conduct of directors or employees from violating any law or regulation or the articles of incorporation, etc.;
 - (ii) risk management system to prevent the occurrence of any material damage to the company; and
 - (iii) disclosure system to ensure appropriate and timely disclosure of the company's financial and other corporate information.

2. *Kansayaku* shall request the directors to report on a regular basis on the status of development and operation of the internal control systems.
3. *Kansayaku* shall monitor and verify the status of the internal control systems through cooperation with the company's internal audit division and other relevant departments, and through reports and other information provided by the accounting auditor, as well as through the reports mentioned in the preceding paragraph.
4. *Kansayaku* shall from time to time report the results of their audit of the internal control systems to the board of directors, and when necessary, *kansayaku* shall provide suggestions or recommendations to the directors concerning the improvement of the internal control systems.

Article 16 (Audit of Directors' Competitive Transactions)

1. With respect to the following transactions or matters, *kansayaku* shall monitor and verify whether there exists any circumstance constituting a breach of the director's duties:
 - (i) any competitive transaction of the company or a transaction involving a conflict of interest;
 - (ii) the company's giving, without compensation, of any property interest (including the giving of any property interest in exchange for significantly low consideration);
 - (iii) an irregular transaction with a subsidiary or shareholder; and
 - (iv) the company's acquisition or disposal of its own shares as well as the procedure for invalidating shares.
2. With respect to any transaction or matter mentioned in the items of the preceding paragraph, *kansayaku* shall take all necessary measures when *kansayaku* find, as a result of reports from the company's internal departments etc., or as a result of the audit by *kansayaku*, any circumstance that constitutes or is likely to constitute a breach of any duty of a director.
3. With respect to any important or abnormal transactions other than those mentioned in the items of paragraph 1 of this article, *kansayaku* shall be mindful of whether there exists any circumstance constituting a violation of any law or regulation or the articles of incorporation, and shall make suggestions or recommendations to the directors in order to prevent the occurrence of any material damage.

Chapter V Audit of Accounting Matters (Kaikai Kansa)

Article 17 (Monitoring of Independence of the Accounting Auditor, etc.)

1. In order to ensure the appropriateness and reliability of accounting audits, *kansayaku* shall monitor and verify whether the accounting auditor maintains independence and conducts appropriate audits as a professional.
2. *Kansayaku* shall examine for each accounting period the appropriateness of reappointing the accounting auditor, taking into consideration the status of the accounting auditor's performance of its duties, and other relevant factors.
3. The *kansayaku-kai* may make a demand on the directors to include in the agenda for a shareholders' meeting the appointment, dismissal or disapproval of reappointment of an accounting auditor, or to submit to a shareholders' meeting a proposal concerning the appointment of an accounting auditor.

4. In each case where the company enters into an audit agreement with the accounting auditor, *kansayaku* shall verify whether the substance of such audit agreement is appropriate, including without limitation the appropriateness of the amounts of remuneration for audit services and for non-audit services and the individual(s) to conduct the audits.

Article 18 (Audit of Financial Reporting System)

1. *Kansayaku* shall monitor and verify whether the directors have developed and are operating such financial reporting systems as are necessary and adequate to appropriately prepare and report financial statements, accounting documents, and related disclosures.
2. When the company discloses its financial information, *kansayaku* shall request the explanations of the important matters from the accounting auditor and the directors or employees in charge of the disclosure, and shall verify whether the disclosed information contains any material errors or misleading descriptions.

Article 19 (Audit of Accounting Policies, Accounting Treatment, etc.)

1. *Kansayaku* shall, by seeking the opinion of the accounting auditor, verify whether the accounting policies, methods of accounting treatment and other details are appropriate in light of the state of the company's assets, possible impact upon accounting documents and other documents, applicable accounting standards, fair accounting practices, and other relevant factors. When necessary, *kansayaku* shall provide suggestions or recommendations to the directors.
2. If the company intends to modify any of its accounting policies, methods of accounting treatment or methods of description in accounting documents and other documents, *kansayaku* and the *kansayaku-kai* shall, prior to such modification, request the directors to report the reason for and impact of such modification, seek the opinion of the accounting auditor with respect to the appropriateness of such modification, and decide on the reasonableness of such modification.

Article 20 (Audit of Accounting Documents, etc.)

1. The *kansayaku-kai* shall receive from the directors the balance sheet, profit/loss statement, business report, proposal of appropriation of profits or proposal of disposal of losses, and annexed specifications. *Kansayaku* shall audit these documents and report the method and results of their audit to the *kansayaku-kai*.
2. After receiving the report of the audit results under the preceding paragraph, the *kansayaku-kai* shall conduct deliberations and formulate its own audit opinion.
3. The full-time *kansayaku* may be designated as the recipient of the documents and materials mentioned in paragraph 1 of this article.

Article 21 (Audit of the Accounting Auditor's Report)

1. The *kansayaku-kai* shall receive an audit report and audit-related materials from the accounting auditor. *Kansayaku* shall seek explanations from the accounting auditor of the important matters with respect to the accounting audit and examine the audit report of the accounting auditor.
2. If, under the preceding paragraph, *kansayaku* determine that the methods or results of the audit by the accounting auditor are not reasonable, *kansayaku* shall conduct an audit on their own and report to the *kansayaku-kai* such determination and the reasons therefor, and an outline of the methods of their audit or the results thereof.

3. Upon receipt of the results of the *kansayaku*'s audit mentioned in paragraph 1 or 2 of this article, the *kansayaku-kai* shall deliberate on the reasonableness of the methods of the accounting auditor's audit or the results thereof.
4. The full-time *kansayaku* may be designated as the recipient of the documents and materials mentioned in paragraph 1 of this article.

Chapter VI Manner of Audit, etc.

Article 22 (Audit Plan and Sharing of Audit Affairs among *Kansayaku*)

1. The *kansayaku-kai* shall formulate its audit policies while being mindful of the status of development of internal control systems and taking into consideration the importance, timeliness, and other essential factors, and shall prepare an audit plan by appropriately determining the objects, method, and timing of the audit. In addressing important audit matters, the *kansayaku-kai* shall designate priority audit items in the plan.
2. In preparing an audit plan, the *kansayaku-kai* shall from time to time consult and exchange opinions with the accounting auditor, the company's internal audit division and other relevant departments, in order to ensure the efficient conduct of the *kansayaku* audit.
3. The *kansayaku-kai* shall determine the sharing of audit affairs among *kansayaku* in order to conduct an audit systematically and efficiently.
4. The *kansayaku-kai* shall explain its audit policies and audit plan to the representative directors and the board of directors.
5. The audit policies and the audit plan shall be modified from time to time as necessary.

Article 23 (Attendance and Statement of Opinions at Meetings of the Board of Directors)

1. *Kansayaku* shall attend each meeting of the board of directors and, when necessary, state their opinion at the meeting.
2. Should *kansayaku* determine that any director has performed or is likely to perform an act that is outside the purposes of the company or is otherwise in violation of any law or regulation or the articles of incorporation, *kansayaku* shall report this determination to the board of directors.
3. When necessary in order to make a report to the board of directors under the preceding paragraph, *kansayaku* shall demand the convocation of a meeting of the board of directors. If a convocation notice fails to be dispatched without delay from such demand, *kansayaku* may convene a meeting of the board of directors.
4. *Kansayaku* shall confirm the content of the minutes of a meeting of the board of directors, and all *kansayaku* present at such meeting shall affix to the minutes their respective signatures, or their respective names and seal impressions.

Article 24 (Attendance and Statement of Opinions at Meetings of the Important Asset Committee)

1. In the case of a company with an important asset committee, *kansayaku* shall attend each meeting of the important asset committee and, when necessary, state their opinion at the meeting.

2. *Kansayaku* shall confirm the content of the minutes of a meeting of the important asset committee, and all *kansayaku* present at the meeting shall affix to the minutes their respective signatures, or their respective names and seal impressions.

Article 25 (Attendance at Important Meetings, etc.)

1. In order to understand the important decision-making processes and the status of management of corporate affairs, *kansayaku* shall attend meetings of the management committee, executive committee, and other important meetings or committees' sittings and, when necessary, state their opinion at such meetings.
2. *Kansayaku* who do not attend a meeting as set forth in the preceding paragraph shall receive an explanation of the agenda items of the meeting and inspect the relevant materials.

Article 26 (Regular Meetings with the Representative Directors)

Kansayaku and the *kansayaku-kai* shall hold meetings with the representative directors on a regular basis to keep up-to-date with the management policies of the representative directors and to exchange opinions with the representative directors on any issues to be addressed by the company, the risks surrounding the company, the status of development of the environment for *kansayaku* audits, priority audit items, and any other relevant matters, and shall endeavor to deepen their mutual understanding and trust with the representative directors.

Article 27 (Development of Environment for *Kansayaku* Audits)

Kansayaku and the *kansayaku-kai* shall make request to the representative directors and other relevant officers, and shall seek confirmation from them as necessary, concerning the following matters for the purpose of the development of the environment for *kansayaku* audits:

- (i) awareness and understanding by the representative directors and other directors of the importance and usefulness of audits by *kansayaku*;
- (ii) matters concerning the development of systems supporting *kansayaku*'s performance of duties;
- (iii) matters to be reported by directors or employees to *kansayaku*;
- (iv) matters concerning cooperation with the company's internal audit division and other relevant departments;
- (v) matters concerning the development of internal control systems; and
- (vi) other matters to ensure that *kansayaku* can conduct their auditing activities smoothly.

Article 28 (Receipt of Reports from Directors and Employees)

1. *Kansayaku* shall request each director to be thoroughly aware that if such director discovers any fact that is likely to cause significant damage to the company, he/she will be obligated to immediately report such fact to the *kansayaku-kai*.
2. In addition to the requirement set forth in the preceding paragraph, *kansayaku* shall request the representative director to establish internal company rules and to otherwise develop internal systems that enable the matters determined on prior consultation with the directors to be reported to the *kansayaku-kai* on an effective and timely basis.

3. When a company has an internal reporting system for whistleblowers, *kansayaku* shall monitor and verify whether such system effectively functions by, for instance, having *kansayaku* designated as recipients of information in such system; and shall endeavor to utilize such information in performing their audit duties.

Article 29 (Cooperation with Internal Audit Division and Other Relevant Departments)

1. In performing investigations into the state of the corporate affairs and assets of the company or other audit duties, *kansayaku* shall endeavor to conduct efficient audits by maintaining close cooperation with the company's internal audit division and other relevant departments.
2. *Kansayaku* shall request the company's internal audit division and other relevant departments to provide reports concerning the status of the internal control systems and the results of audits thereof.
3. *Kansayaku* may request the company's internal audit division and other relevant departments to conduct investigations as necessary.

Article 30 (Audit of Document/Information Management)

1. *Kansayaku* shall inspect material internal documents circulated for approval and other important documents relating to the management of corporate affairs and, when necessary, shall request explanations from directors or employees or state their opinions to them.
2. *Kansayaku* shall examine whether documents, company rules, important records, and other information are appropriately maintained, kept in custody and managed and, when necessary, shall request explanations from directors or employees or state their opinions to them.

Article 31 (Audit of Corporate Disclosure System)

1. In order to ensure the transparency and reliability of corporate information to be disclosed, *kansayaku* shall monitor and verify whether the directors have developed a system for appropriate formulation and disclosure of information and have promulgated and are operating in accordance with clear disclosure standards.
2. *Kansayaku* shall monitor and verify whether the directors adequately disclose information in a timely and appropriate manner with respect to occurrences or circumstances affecting the prerequisite conditions for the company's going-concern value, material accidents or disasters, material litigation, and any other matters that may materially affect the soundness of the company.

Article 32 (Investigation of Directors and Employees)

1. *Kansayaku* shall request reports on the corporate business from directors and employees and shall investigate the status of the corporate affairs and assets of the company.
2. *Kansayaku* shall, as necessary, conduct investigations by way of hearings, on-site audits, or in any other manner, fully confirm the facts, and pursue reasonable grounds for formulating each audit opinion.

Article 33 (Investigation of Company Assets)

1. *Kansayaku* shall investigate the circumstances of the acquisition, holding and disposal of important company assets.

2. *Kansayaku* shall investigate whether the directors appropriately manage the assets and liabilities of the company.
3. *Kansayaku* shall try to ascertain the actual value of the company assets.

Article 34 (Investigation of Subsidiaries)

1. *Kansayaku* of a company having any subsidiary, consolidated subsidiary or important affiliated company (each referred to below in this article as a “subsidiary”) shall perform their audit duties being mindful of the perspective of consolidated group management.
2. *Kansayaku* falling under the preceding paragraph shall, as necessary for the purpose of auditing the directors’ execution of their duties or for the purpose of carrying out *kansayaku*’s duties with respect to consolidated financial statements, request reports on business from the subsidiaries or investigate the status of their corporate affairs and assets.
3. In cases where *kansayaku* falling under paragraph 1 of this article have requested a report on business from any subsidiary or investigated any subsidiary, the *kansayaku* shall describe the methods and results of such investigation in the audit report.
4. *Kansayaku* falling under paragraph 1 of this article shall perform their audit duties being mindful of whether internal control systems have been appropriately developed within the corporate group, and shall endeavor to develop the audit environment of the entire corporate group.
5. *Kansayaku* falling under paragraph 1 of this article shall maintain close cooperation with *kansayaku* and other relevant departments of the subsidiaries and endeavor to conduct efficient audits.

Article 35 (Cooperation with the Accounting Auditor)

1. *Kansayaku* and the *kansayaku-kai* shall endeavor to conduct efficient audits by maintaining close cooperation with the accounting auditor and actively exchanging opinions and information by, among other means, holding meetings on a regular basis.
2. *Kansayaku* and the *kansayaku-kai* shall receive from the accounting auditor an outline of its audit plan as well as its explanation of the status of internal control systems as grasped by the accounting auditor, its risk assessment, the priority audit items, and other relevant matters, and shall exchange opinions on such matters with the accounting auditor.
3. *Kansayaku* may attend the accounting auditor’s on-site audits and its audit presentations as necessary, and may from time to time request of the accounting auditor a report on the progress of its audit.
4. If the *kansayaku-kai* receives an accounting auditor’s report to the effect that there exists, in connection with the directors’ performance of their duties, any misconduct or any material fact constituting a violation of any law or regulation or the articles of incorporation, *kansayaku* upon deliberation at the *kansayaku-kai* shall conduct any necessary investigation and take any necessary measure, including without limitation providing suggestions or recommendations to the directors.

Chapter VII
Actions at Derivative Lawsuits, etc.

Article 36 (Representation in Lawsuits between Directors and the Company)

If a lawsuit is filed by the company against any director(s) or by any director(s) against the company, *kansayaku* shall represent the company.

Article 37 (Consent to Exemption of Directors from Liability)

1. The following required consents shall be given by the *kansayaku-kai* only with the unanimous agreement of all *kansayaku*:
 - (i) consent to a proposal that the board of directors intends to submit to a shareholders' meeting for the exemption of a director from liability;
 - (ii) consent to a proposal that the board of directors intends to submit to a shareholders' meeting for modification of the articles of incorporation to provide that directors may be exempted from liability by resolution of the board of directors;
 - (iii) consent to a proposal that a director intends to submit to a board of directors' meeting based on the provisions of the articles of incorporation, for the exemption of a director from liability; and
 - (iv) consent to a proposal that the board of directors intends to submit to a shareholders' meeting for modification of the articles of incorporation to provide that the company may enter into an agreement with an outside director for his/her exemption from liability.
2. *Kansayaku* shall decide whether to give consent under any item of the preceding paragraph by thoroughly examining, and by seeking outside professionals' opinions when necessary, (a) with respect to a proposal for modification of the articles of incorporation, the appropriateness of such modification, the appropriateness of the reason therefor, and other relevant factors and (b) with respect to a proposal for the exemption of liability, the reason for the exemption, the results of the *kansayaku's* investigation, the substance of any court judgment given on the present case, and other relevant factors.
3. *Kansayaku* shall prepare and keep records concerning the progress and results of the investigations and deliberations made by *kansayaku* to determine whether to give consent under any item of paragraph 1 of this article.

Article 38 (Receipt of Demand to File a Derivative Lawsuit)

1. If any *kansayaku* receives from shareholders a demand to file a lawsuit to pursue the liability of director(s), such *kansayaku* shall promptly provide the other *kansayaku* with notice of such demand, and a meeting of the *kansayaku-kai* shall be convened to deliberate thoroughly on the response to such demand and to determine whether to file a lawsuit.
2. In determining whether to file a lawsuit under the preceding paragraph, *kansayaku* shall in a timely manner make any necessary investigation, including without limitation seeking status reports or opinions of the director(s) to be sued and of any relevant departments of the company, collecting relevant information, and seeking opinions of outside professionals.
3. *Kansayaku* shall provide notice of the results of any determination made under paragraph 1 of this article to the board of directors and to the director(s) to be sued. Whether to provide notice of the results of such determination to the shareholders who demanded the filing of a lawsuit and the

substance of such notice shall be determined by *kansayaku* through deliberations of the *kansayaku-kai* after seeking opinions of outside professionals.

4. *Kansayaku* shall prepare and keep records concerning the progress and results of the investigations and deliberations made to determine whether to file a lawsuit.

Article 39 (Consent to Participation in a Derivative Lawsuit)

1. The *kansayaku-kai* may consent to the company's participation in a derivative lawsuit to assist the defendant director(s) only upon a resolution adopted by unanimous agreement of *kansayaku*.
2. In determining whether to consent to participation under the preceding paragraph, the *kansayaku-kai* shall seek status reports or opinions of the representative directors, of the director(s) sued, and of any relevant departments of the company, and shall seek opinions of outside professionals as necessary. *Kansayaku* shall prepare and keep records concerning the progress and results of the determination as to whether to consent to the participation.

Article 40 (In-court Settlement)

1. In cases of derivative lawsuits where the court has given notice to the effect that the plaintiff shareholders and the defendant director(s) are to settle the case in court, and has urged the company to decide whether it makes an objection to such settlement, *kansayaku* shall, at a meeting of the *kansayaku-kai*, etc., promptly and thoroughly deliberate on the response to such notice and determine whether to object to the settlement.
2. In determining the reasonableness of the in-court settlement under the preceding paragraph, *kansayaku* shall seek status reports or opinions of the representative directors, of the director(s) sued and of any relevant departments of the company, and shall seek opinions of outside professionals as necessary. *Kansayaku* shall prepare and keep records concerning the progress and results of the determination as to the reasonableness of the in-court settlement.

Chapter VIII Reports on Audits

Article 41 (Report and Explanation of Substance of Audits, etc.)

In order to ensure the transparency and reliability of audit activities and audit results, *kansayaku* shall be aware of their important responsibility to explain as necessary the status of performance of their duties and the substance of their audits.

Article 42 (Preparation of Audit Minutes)

Kansayaku shall prepare audit minutes that record the methods and results of *kansayaku* audits as well as the processes, reasons, and other relevant matters leading to the formulation of the *kansayaku*'s audit opinions.

Article 43 (Reporting to the Representative Directors and the Board of Directors)

1. *Kansayaku* and the *kansayaku-kai* shall regularly report the status of their audits and the results thereof to the representative directors and the board of directors.

2. *Kansayaku* and the *kansayaku-kai* shall report to the representative directors and the board of directors the progress and results of audits regarding the priority audit items for the current accounting period and investigations specially made for that period, and shall provide suggestions or recommendations and take appropriate measures when necessary.

Article 44 (Preparation and Submission of Audit Reports)

1. The *kansayaku-kai* shall receive from each *kansayaku* a report on his/her business audit and accounting audit, and shall, through deliberation, prepare an accurate and clear audit report.
2. Upon receiving a business report or other document from the directors, the *kansayaku-kai* shall confirm whether all matters required by law and other matters to be disclosed have been appropriately described in such document, and the *kansayaku-kai* shall request explanations from the directors or state their opinions when necessary.
3. In preparing an audit report, the *kansayaku-kai* shall confirm whether there has been any act by a director that is in violation of any law or regulation or the articles of incorporation, any subsequent events, and any other relevant matters. The *kansayaku-kai* shall, being mindful of the matters listed in paragraph 2 of Article 31, examine whether there is any matter that should be described by the *kansayaku-kai* in its audit report. Should any *kansayaku* have a different opinion, such *kansayaku*'s opinion shall also be described.
4. *Kansayaku* shall indicate the date of preparation on and affix each *kansayaku*'s signature, or name and seal impression, to each audit report of the *kansayaku-kai*; and the position of a full-time *kansayaku* shall be indicated.
5. The *kansayaku-kai* shall submit the audit report referred to in the preceding paragraph to the directors and send a certified copy of it to the accounting auditor.
6. In the case of a large-scale company that is required to submit a securities report, the *kansayaku-kai* shall prepare an audit report with respect to the consolidated financial statements.

Article 45 (Reporting and Explanation at Shareholders' Meeting, etc.)

1. With respect to the proposals and documents to be submitted to a shareholders' meeting, *kansayaku* shall investigate the existence or non-existence of any matter that violates any law or regulation or the articles of incorporation or is otherwise significantly inappropriate; should the existence of such a fact be recognized by *kansayaku*, *kansayaku* shall report their opinion to the shareholders' meeting. At the shareholders' meeting, *kansayaku* shall state their own opinion, as necessary, for the purpose of fulfilling their duty of accountability.
2. *Kansayaku* shall provide explanations on matters questioned by shareholders at a shareholders' meeting in accordance with the management of the proceedings by the chairperson of the shareholders' meeting.
3. *Kansayaku* shall review the minutes of a shareholders' meeting to confirm whether an outline of the proceedings and the results of the meeting are correctly described.

(Supplementary Provisions)

In this Code, the term "describe" shall, unless contrary to the context, include "record" in electromagnetic files. Documents of various types mentioned in this Code shall include those prepared in the form of electromagnetic files.

Enacted on March 25, 1975
Revised on July 20, 1982
Revised on September 29, 1993
Revised on October 31, 1994
Revised on January 7, 2000
Revised on June 13, 2002
Revised on February 12, 2004