

July 3, 2024

Company Name MegaChips Corporation
Representative Tetsuo Hikawa, President and CEO
(Code number: 6875, Tokyo Stock Exchange)

Implementation Status of Corporate Governance

The status of the Company's efforts regarding each principle of the Corporate Governance Code is as follows.
This is based on the revised code as of June 2021 (including content for the Prime Market).

Section 1 Securing the Rights and Equal Treatment of Shareholders

【General Principle 1】

Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively.

In addition, companies should secure effective equal treatment of shareholders. Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.

- The Company recognizes that building, maintaining, and developing good relationships with stakeholders, including shareholders, through dialogue is one of its important tasks. The Company respects the rights of its shareholders and strive to ensure its transparency and fairness as a public entity in information disclosure. The Company also works to create an environment where all shareholders can properly exercise their rights. Details are described in the supplementary principles below.

【Principle 1.1 Securing the Rights of Shareholders】

Companies should take appropriate measures to fully secure shareholder rights, including voting rights at the general shareholder meeting.

- The Company strives to create an environment where all shareholders' rights can be substantially secured. Details are described in the supplementary principles below.

【Supplementary Principles 1.1.1】

When the board recognizes that a considerable number of votes have been cast against a proposal by the company and the proposal was approved, it should analyze the reasons behind opposing votes and why many shareholders opposed, and should consider the need for shareholder dialogue and other measures.

- If a company proposal is approved at the general shareholder meeting but receives a significant proportion of opposing votes, the finance department analyzes the causes of the large number of opposing votes based on the exercise results and reports to the board of directors as necessary. Based on the analysis results, the Company considers the necessity of responses and other measures.

【Supplementary Principles 1.1.2】

When proposing to shareholders that certain powers of the general shareholder meeting be delegated to the board, companies should consider whether the board is adequately constituted to fulfill its corporate governance roles and responsibilities. If a company determines that the board is indeed adequately constituted, then it should recognize that such delegation may be desirable from the perspectives of agile decision-making and expertise in business judgment.

- The term of office for directors is stipulated in the articles of incorporation and shortened from two years to one year as per the Companies Act to strengthen the governance system. Additionally, by constituting more than one-third of the board of directors with independent outside directors, the Company recognizes that it can fulfill our roles regarding corporate governance and delegate part of the matters to be resolved at general shareholder meetings to the board of directors.
- The stipulate in the articles of incorporation that the distribution of surplus and other matters specified in each item of Article 459, Paragraph 1 of the Companies Act shall be determined by a resolution of the board of directors, except as otherwise provided by laws and regulations. This aims to provide flexible returns to shareholders through appropriate decisions by granting the board of directors' authority over the distribution of surplus and the acquisition of treasury stock.

【Supplementary Principles 1.1.3】

Given the importance of shareholder rights, companies should ensure that the exercise of shareholder rights is not impeded. In particular, adequate consideration should be given to the special rights that are recognized for minority shareholders with respect to companies and their officers, including the right to seek an injunction against illegal activities or the right to file a shareholder lawsuit, since the exercise of these rights tend to be prone to issues and concerns.

- The Company ensures the exercise of minority shareholders' rights recognized under the Companies Act by stipulating the procedures for exercising rights and methods of shareholder verification in the stock handling regulations.

【Principle 1.2 Exercise of Shareholder Rights at General Shareholder Meetings】

Companies should recognize that general shareholder meetings are an opportunity for constructive dialogue with shareholders, and should therefore take appropriate measures to ensure the exercise of shareholder rights at such meetings.

- The Company sets the date and location of the General Shareholder Meeting, considering the concentration of meeting dates, the size of the venue, and transportation convenience, to enable as many shareholders as possible to attend. The Company also strives to create an environment in which shareholders can easily exercise their voting rights through proactive disclosing information, early disclosure of convocation notices, and electronic voting rights. Additionally, the Company responds to questions and answers at the General Shareholder Meeting to the extent that it does not interfere with the operation of the meeting.

【Supplementary Principles 1.2.1】

Companies should provide accurate information to shareholders as necessary in order to facilitate appropriate decision-making at general shareholder meetings.

- The Company strives to provide easy-to-understand explanations in the convocation notice of the General Shareholder Meeting so that shareholders can make appropriate judgments at the meeting. The Company also discloses an English version of the convocation notice on the Tokyo Stock Exchange and on our website. In addition, the Company discloses information on its website in a timely manner to ensure that the latest information can always be viewed.

【Supplementary Principles 1.2.2】

While ensuring the accuracy of content, companies should strive to send convening notices for general shareholder meetings early enough to give shareholders sufficient time to consider the agenda. During the period between the board approval of convening the general shareholder meeting and sending the convening notice, information included in the convening notice should be disclosed by electronic means such as through TDnet or on the company's website.

- The Company sends the convocation notice three weeks before the date of the General Shareholder Meeting, considering the need to secure sufficient time for shareholders to contemplate the agenda items. The Company also posts the information on its website and the Tokyo Stock Exchange website five business days before the mailing date whenever possible.

【Supplementary Principles 1.2.3】

The determination of the date of the general shareholder meeting and any associated dates should be made in consideration of facilitating sufficient constructive dialogue with shareholders and ensuring the accuracy of information necessary for such dialogue.

- The Company sets the schedule for the General Shareholder Meeting, considering that the General Shareholder Meeting is a place for dialogue with shareholders. The Company also comprehensively considers the time required for sufficient audits by accounting auditors and corporate auditors as well as the time required for convening procedures.

【Supplementary Principles 1.2.4】

Bearing in mind the number of institutional and foreign shareholders, companies should take steps for the creation of an infrastructure allowing electronic voting, including the use of the Electronic Voting Platform, and the provision of English translations of the convening notices of general shareholder meeting. In particular, companies listed on the Prime Market should make the Electronic Voting Platform available, at least to institutional investors.

- The Company has introduced electronic voting via the internet and the electronic voting platform for institutional investors to improve the convenience of shareholders' voting rights. The Company also prepared an English version of the convocation notice and post it on its website and the Tokyo Stock Exchange website to promote understanding of the agenda items among overseas investors.

【Supplementary Principles 1.2.5】

In order to prepare for cases where institutional investors who hold shares in street name express an interest in advance of the general shareholder meeting in attending the general shareholder meeting or exercising voting rights, companies should work with the trust bank (shintaku ginko) and/or custodial institutions to consider such possibility.

- The Company stipulates in the articles of incorporation that voting rights at the General Shareholder Meeting can be exercised by shareholders or registered pledgees listed or recorded in the shareholder registry. Those who hold shares in the name of trust banks or standing proxies are now allowed to attend the General Shareholder Meeting. In the future, the Company will consider responding to requests according to the laws and regulations and the articles of incorporation.

【Principle 1.3 Basic Strategy for Capital Policy】

Because capital policy may have a significant effect on shareholder returns, companies should explain their basic strategy with respect to their capital policy.

- The Company maintains a level of shareholders' equity that allows for investment and risk tolerance, emphasizing growth and profitability, to make proactive investments at necessary times to sustainably enhance corporate value over the medium to long term.

- The Company values shareholder returns and maintains a strong balance sheet to flexibly and quickly adapt to changes in the business environment and implement proactive and stable profit returns based on consolidated performance, considering free cash flow and future investment plans, while improving capital efficiency.

- The amount of dividends is determined based on the profit distribution policy. The basic profit distribution policy is disclosed in the securities report, business report, and on our website.

Dividends and Shareholder Benefits: (<https://www.megachips.co.jp/irinfo/stockinfo/dividends/index.html>)

【Principle 1.4 Cross-Shareholdings】

When companies hold shares of other listed companies as cross-shareholdings², they should disclose their policy with respect to doing so, including their policies regarding the reduction of cross-shareholdings. In addition, the board should annually assess whether or not to hold each individual cross-shareholding, specifically examining whether the purpose is appropriate and whether the benefits and risks from each holding cover the company's cost of capital. The results of this assessment should be disclosed. Companies should establish and disclose specific standards with respect to the voting rights as to their cross-shareholdings, and vote in accordance with the standards.

- The Company, in principle, does not hold policy shareholdings except for investments aimed at enhancing our corporate value through business collaboration with investees or information gathering for future business development.

- The acquisition and sale of investment shares are matters to be resolved by the board of directors as stipulated in the board of directors rules and regulations. The board of directors comprehensively considers the progress of business with investees, the status of business collaboration and information gathering, etc., to determine the appropriateness of holding. As of the end of March 2024, the Company holds shares in five unlisted companies and one overseas listed company.

- Regarding the exercise of voting rights for policy shareholdings, the Company makes judgments based on whether it contributes to enhancing our corporate value. For proposals that the Company judges to deteriorate its corporate value, the Company engages in dialogue with the investee and oppose those that still lack reasonable grounds.

【Supplementary Principles 1.4.1】

When cross-shareholders (i.e., shareholders who hold a company's shares for the purpose of cross-shareholding) indicate their intention to sell their shares, companies should not hinder the sale of the cross-held shares by, for instance, implying a possible reduction of business transactions.

- The Company does not oppose the intention to sell our shares indicated by companies holding our shares for policy shareholding purposes. The Company will appropriately implement the sale of our shares in consultation with the policy shareholding company.

【Supplementary Principles 1.4.2】

Companies should not engage in transactions with cross-shareholders which may harm the interests of the companies or the common interests of their shareholders by, for instance, continuing the transactions without carefully examining the underlying economic rationale.

- Currently, the Company does not recognize any transactions with policy shareholding companies. However, if such transactions are recognized, the Company will confirm the rationality of the transaction conditions and consider appropriate responses.

【Principle 1.5 Anti-Takeover Measures】

Anti-takeover measures must not have any objective associated with entrenchment of the management or the board. With respect to the adoption or implementation of anti-takeover measures, the board and kansayaku3 should carefully examine their necessity and rationale in light of their fiduciary responsibility to shareholders, ensure appropriate procedures, and provide sufficient explanation to shareholders.

- The Company does not intend to introduce so-called anti-takeover measures.
- Although The Company does not have a basic policy regarding the control of the company, the Company recognizes that protecting shareholders' interests from abusive acquirers and anti-takeover measures is an important management issue. The Company constantly gathers information on recent trends in corporate acquisitions.

【Supplementary Principles 1.5.1】

In case of a tender offer, companies should clearly explain the position of the board, including any counter offers, and should not take measures that would frustrate shareholder rights to sell their shares in response to the tender offer.

- The Company has established procedures and responses in the external response manual for when our shares are subject to a tender offer. For proposals that result in changes in control, the board of directors and corporate auditors will thoroughly examine the necessity and rationality from the perspective of fulfilling their fiduciary responsibilities to shareholders. The Company will comply with laws and regulations to ensure that shareholders and investors do not suffer disadvantages or damages and will provide explanations through press releases and individual briefings to gain an understanding of our views. Ultimately, the Company believes it is up to the shareholders to decide.

【Principle 1.6 Capital Policy that May Harm Shareholder Interests】

With respect to a company's capital policy that results in the change of control or in significant dilution, including share offerings and management buyouts, the board and kansayaku should, in order not to unfairly harm the existing shareholders' interests, carefully examine the necessity and rationale from the perspective of their fiduciary responsibility to shareholders, should ensure appropriate procedures, and provide sufficient explanation to shareholders.

- The Company stipulates in the board of directors rules and regulations that all capital policies, including the issuance of shares, are matters to be resolved by the board of directors. When implementing capital policies that result in significant dilution, the board of directors and corporate auditors will thoroughly examine the necessity and rationality during the deliberation process. The examination will consider the impact of dilution on stock prices, changes in control, and other perspectives, and the implementation will be carefully deliberated. Matters decided by the board of directors will be promptly disclosed in accordance with laws and regulations, and the Company will make every effort to provide clear explanations to shareholders and investors to gain their understanding.

【Principle 1.7 Related Party Transactions】

When a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the interests of the company or the common interests of its shareholders and prevent any concerns with respect to such harm, the board should establish appropriate procedures beforehand in proportion to the importance and characteristics of the transaction. In addition to their use by the board in approving and monitoring such transactions, these procedures should be disclosed.

- When directors conduct transactions with the Company, the Company monitors the transactions based on laws and our directors rules and regulations, requiring prior explanation and approval resolution by the board of directors regarding the rationality and transaction conditions. If such transactions are conducted, the facts are reported to the board of directors.
- The Company conducts written surveys of major shareholders and officers annually to determine the presence of transactions with related parties. In the audit by corporate auditors, the Company monitors and verify whether there are any facts that violate the duty of care and loyalty of directors regarding conflict-of-interest transactions and competitive transactions.

Section 2: Appropriate Cooperation with Stakeholders Other Than Shareholders

【General Principle 2】

Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought about as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders. The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.

- The Company has established a corporate ethics code as a universal rule to be practiced by the company in its compliance regulations. The Company recognizes fair and sound corporate activities, respect for the personality and individuality of employees, maintaining healthy and good relationships with customers, business partners, and shareholders, contributing to local communities, and contributing to environmental conservation as our important roles. The Company strives for appropriate collaboration with stakeholders. To ensure these principles are ingrained as part of its corporate culture, the President and CEO engages in dialogue with employees to promote their understanding.

【Principle 2.1 Business Principles as the Foundation of Corporate Value Creation Over the Mid- to Long-Term】

Guided by their position concerning social responsibility, companies should undertake their businesses in order to create value for all stakeholders while increasing corporate value over the mid- to long-term. To this end, companies should draft and maintain business principles that will become the basis for such activities.

- The Company has grown by providing unique and broad solutions as Japan's first fabless LSI manufacturer under the management philosophy of fueling our growth through "innovation" having a trustworthy relationship with customers through "trust" and creating products that benefit society through "creation" that was set forth in 1990 when the Company was founded. Moving forward, the Company will continue to challenge new value creation and provide unique and broad solutions to our customers under our management philosophy, with the mission of "Prosper together with customers by utilizing our system solutions" contributing to the realization of a richer and safer society. The Company aims to address various issues such as the global environment, resources, society, human rights, and diversity through business activities, working with stakeholders to solve these issues from a long-term perspective, and achieving both the growth of our group and a sustainable society.

Management Philosophy (<https://www.megachips.co.jp/company/philosophy/>)

【Principle 2.2 Code of Conduct】

Companies should draft and implement a code of conduct for employees in order to express their values with respect to appropriate cooperation with and serving the interests of stakeholders and carrying out sound and ethical business activities. The board should be responsible for drafting and revising the code of conduct, and should ensure its compliance broadly across the organization, including the front line of domestic and global operations.

- The Company has formulated a code of conduct that serves as the basis for the actions of all employees and strives to implement it. Our compliance regulations include a corporate ethics code as a universal rule to be practiced by the company and corporate behavior standards as guidelines for concretizing corporate actions, with directors taking the lead in promoting their understanding.

【Supplementary Principles 2.2.1】

The board should review regularly (or where appropriate) whether or not the code of conduct is being widely implemented. The review should focus on the substantive assessment of whether the company's corporate culture truly embraces the intent and spirit of the code of conduct, and not solely on the form of implementation and compliance.

- The Company conducts an "internal control questionnaire" primarily for employees as part of the company-wide control environment survey by the internal audit department every year. Based on this, the Company identifies risks and extract improvement points to address them. The results of the internal control evaluation are reported to the board of directors.

【Principle 2.3 Sustainability Issues, Including Social and Environmental Matters】

Companies should take appropriate measures to address sustainability issues, including social and environmental matters.

- Under our management philosophy of fueling our growth through "innovation" having a trustworthy relationship with customers through "trust" and creating products that benefit society through "creation", the Company aims to contribute to the realization of a richer and safer sustainable society by addressing social issues through corporate activities and business, and being a "company friendly to society, the environment, and people." The Company will continue to actively address sustainability issues, such as providing solutions with its unique technological capabilities, contributing to the preservation of the global environment, promoting diversity in the electronics field, and supporting the development of engineers, aiming to further enhance corporate value.

Sustainability (<https://www.megachips.co.jp/sustainability/>)

【Supplementary Principles 2.3.1】

The board should recognize that dealing with sustainability issues, such as taking care of climate change and other global environmental issues, respect of human rights, fair and appropriate treatment of the workforce including caring for their health and working environment, fair and reasonable transactions with suppliers, and crisis management for natural disasters, are important management issues that can lead to earning opportunities as well as risk mitigation, and should further consider addressing these matters positively and proactively in terms of increasing corporate value over the mid-to long-term.

- The Company positions addressing sustainability issues as an important issue in our management strategy from the perspective of further enhancing corporate value. The Company is actively addressing these issues under the supervision of the board of directors, with a team of representatives from relevant departments working together. The Company also discloses information on our sustainability efforts on its website. Sustainability (<https://www.megachips.co.jp/sustainability/>)

【Principle 2.4 Ensuring Diversity, Including Active Participation of Women】

Companies should recognize that the existence of diverse perspectives and values reflecting a variety of experiences, skills and characteristics is a strength that supports their sustainable growth. As such, companies should promote diversity of personnel, including the active participation of women.

- The Company assigns roles and responsibilities based on ability, regardless of nationality, age, or gender. The Company actively promotes women to leadership and management positions and will continue to utilize personnel with various experiences, abilities, and values to ensure diversity within the company.
- The Company will enhance its talent development and diversity initiatives through expanded training programs, year-round recruitment, and enriched internship opportunities. To support a diverse workforce, the Company will implement flexible work arrangements with systems such as full-flexitime, remote work, and family leave. Additionally, the Company will focus on employee well-being through stress management programs and promoting work-life balance.

【Supplementary Principles 2.4.1】

Companies should present their policies and voluntary and measurable goals for ensuring diversity in the promotion to core human resources, such as the promotion of women, foreign nationals and midcareer hires to middle managerial positions, as well as disclosing their status. In addition, in light of the importance of human resource strategies for increasing corporate value over the mid-to long-term, companies should present its policies for human resource development and internal environment development to ensure diversity, as well as the status of their implementation.

- As part of the Company's commitment to diversity and inclusion, the Company have expanded its talent pool through open recruitment. In FY2023, the Company welcomed 18 new graduates and 9 mid-career employees from a variety of backgrounds.

●As of the end of FY2023, women accounted for 17.9% of our total employees and 7.1% of our management positions. The Company has set a goal of increasing these numbers to 20% and 10%, respectively, by FY2025. The Company currently has 6 foreign employees, 2 of whom are in management positions. The Company will continue to promote diversity and actively recruit top talent.

●The Company's human resource development policy is as follows:

- We develop a workforce that can think and act in line with our corporate identity (management philosophy and management principles).
- We develop a workforce that can take pride in their work, find fulfillment in their roles, and reach their full potential.
- We develop personnel who continuously learn, think, and challenge themselves with creativity.

●The Company's internal environment improvement policy is as follows:

- We establish a system where each employee can work with motivation and fully demonstrate their abilities, regardless of nationality, gender, age, etc.
 - We promote the career development and leadership of women and establish a working environment where all employees can balance work and life.
- We establish a comfortable workplace environment where employees can maintain their physical and mental health and where employees with children can work with peace of mind and demonstrate their abilities.

●The company discloses specific details of our efforts in human resource development and internal environment improvement on our website.

Internal Activities (https://www.megachips.co.jp/sustainability/social/work_environment/)

Securities Report (<https://www.megachips.co.jp/irinfo/resource/report/>)

【Principle 2.5 Whistleblowing】

Companies should establish an appropriate framework for whistleblowing such that employees can report illegal or inappropriate behavior, disclosures, or any other serious concerns without fear of suffering from disadvantageous treatment. Also, the framework should allow for an objective assessment and appropriate response to the reported issues, and the board should be responsible for both establishing this framework, and ensuring and monitoring its enforcement.

- The Company has established and operates an internal reporting system to promptly recognize facts about illegal or unethical acts by organizations or individuals (hereinafter referred to as "illegal acts, etc."), avoid crises caused by illegal acts, etc., and promote the company's ethics and legal compliance.

【Supplementary Principles 2.5.1】

As a part of establishing a framework for whistleblowing, companies should establish a point of contact that is independent of the management (for example, a panel consisting of outside directors and outside kansayaku). In addition, rules should be established to secure the confidentiality of the information provider and prohibit any disadvantageous treatment.

- The Company has set up an internal reporting contact point in the Intellectual Property and Legal Department, which is not independent of the management. However, the internal reporting system's operational regulations stipulate the protection of whistleblowers, and the confidentiality of information related to whistleblowers, prohibiting disadvantageous treatment of whistleblowers. The Company believes that the current operation sufficiently ensures the confidentiality of whistleblowers and the prohibition of disadvantageous treatment.

【Principle 2.6 Roles of Corporate Pension Funds as Asset Owners】

Because the management of corporate pension funds impacts stable asset formation for employees and companies' own financial standing, companies should take and disclose measures to improve human resources and operational practices, such as the recruitment or assignment of qualified persons, in order to increase the investment management expertise of corporate pension funds (including stewardship activities such as monitoring the asset managers of corporate pension funds), thus making sure that corporate pension funds perform their roles as asset owners. Companies should ensure that conflicts of interest which could arise between pension fund beneficiaries and companies are appropriately managed.

- The Company has adopted a defined contribution pension plan and implements it in combination with an advance retirement allowance system to support employees' voluntary efforts to secure income in their later years. Therefore, it does not apply to the management of corporate pension funds as an asset owner.

Section 3: Ensuring Appropriate Information Disclosure and Transparency

【General Principle 3】

Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk and governance. The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.

- The Company recognizes that information disclosure is one of the important management responsibilities that must be fulfilled. To gain understanding from all stakeholders, including shareholders, it is essential to conduct appropriate information disclosure. To be a trusted company, the Company complies with laws and regulations and disclose information in accordance with our IR policy. Even for matters not subject to disclosure obligations under laws and regulations, the Company strives to actively and continuously discloses information that may affect investment decisions.

【Principle 3.1 Full Disclosure】

In addition to making information disclosure in compliance with relevant laws and regulations, companies should disclose and proactively provide the information listed below (along with the disclosures specified by the principles of the Code) in order to enhance transparency and fairness in decision-making and ensure effective corporate governance:

- (i) Company objectives (e.g., business principles), business strategies and business plans;
- (ii) Basic views and guidelines on corporate governance based on each of the principles of the Code;
- (iii) Board policies and procedures in determining the remuneration of the senior management and directors;
- (iv) Board policies and procedures in the appointment/dismissal of the senior management and the nomination of directors and kansayaku candidates; and
- (v) Explanations with respect to the individual appointments/dismissals and nominations based on iv).

- To enhance management transparency, the Company actively engages in IR activities based on IR policy and strives to report the company's management status to stakeholders in a timely and appropriate manner.

- (i) The Company discloses management policies and medium-term management plans in an easy-to-understand manner on the website and other platforms.

Management Policy (<https://www.megachips.co.jp/irinfo/management/>)

Medium-term Management Plan (https://www.megachips.co.jp/irinfo/management/middle_plan/)

Securities Report (<https://www.megachips.co.jp/irinfo/resource/report/>)

- (ii) The Company's basic views on corporate governance are described on the website and other platforms.

Corporate Governance (<https://www.megachips.co.jp/irinfo/management/governance/>)

(iii) The procedures for determining the remuneration of senior management and directors by the board of directors are as follows:

- The Company, as a company with an audit and supervisory board, has established a remuneration committee under the board of directors as an optional advisory body. The remuneration committee, with the human resources department as its secretariat, consists of external directors and internal directors, with external directors making up more than half of the committee. The remuneration committee deliberates on policies related to the remuneration of directors and executive officers, the content of individual remuneration for directors and executive officers, and the establishment, amendment, and abolition of necessary rules and procedures for these matters and makes recommendations and proposals to the board of directors.
- The final decision-making authority on the amount or calculation method of remuneration for directors and executive officers lies with the board of directors, which makes the final decision based on the recommendations and proposals from the remuneration committee.
- The Company sets remuneration appropriately as an incentive for executing and achieving management strategies, aiming to attract diverse and talented personnel to ensure our competitive advantage and contribute to the sustainable enhancement of corporate value. The Company also ensures transparency and objectivity in the remuneration decision process. Additionally, the Company has introduced a restricted stock remuneration system to provide incentives for our directors and executive officers to enhance the company's sustainable corporate value and to further share value with shareholders.
- The policy for determining the amount or calculation method of remuneration is described in the "1. Matters Related to the Organizational Structure and Operation, etc. [Director Remuneration]" section of the Corporate Governance Report and the "Corporate Governance Status" section of the Securities Report.

Corporate Governance (<https://www.megachips.co.jp/irinfo/management/governance/>)

Securities Report (<https://www.megachips.co.jp/irinfo/resource/report/>)

(iv) The policies and procedures for the appointment and dismissal of senior management and the nomination of director and auditor candidates by the board of directors are as follows:

The Company, as a company with an audit and supervisory board, has established a nomination committee under the board of directors as an optional advisory body. The nomination committee, with the human resources department as its secretariat, consists of external directors and internal directors, with external directors making up more than half of the committee. The nomination committee deliberates on proposals for the appointment and dismissal of directors and auditors, nomination policies, and the establishment, amendment, and abolition of necessary rules and procedures for these matters, and makes recommendations and proposals to the board of directors.

For the selection of director candidates, the nomination committee, in response to the board of directors' consultation, selects candidates with extensive business experience, suitable character, and insight for directors, and who have excellent management sense, leadership, and understanding of the company's management policies, in accordance with the standards set forth in the director regulations. The board of directors deliberates and decides on the candidates to be proposed to the General Shareholder Meeting.

For the appointment and dismissal of the representative director and senior management, the nomination committee makes recommendations in response to the board of directors' consultation, and the board of directors makes the final decision. To respond quickly to changes in the business environment, the term of office for directors is set at one year in the articles of incorporation, and the board of directors deliberates and decides on the appointment and dismissal of the representative director and senior management for each business year, clarifying their management responsibilities.

For the dismissal of directors, the board of directors can recommend resignation to directors deemed unqualified. If a director engages in acts that violate laws or the articles of incorporation, or is likely to do so, the board of directors will consider recommending resignation or submitting a dismissal proposal to the General Shareholder Meeting. The dismissal of directors is conducted by a special resolution of the General Shareholder Meeting, as stipulated in the articles of incorporation.

For the nomination of auditor candidates, the president and representative director selects candidates with specialized knowledge and experience, who can maintain independence from executive officers, and who can act based on their own beliefs, after deliberation by the nomination committee. The candidates are then approved by the audit and supervisory board and decided by the board of directors as candidates to be proposed to the General Shareholder Meeting.

- (v) Explanations of individual nominations for the appointment of directors and auditors at the General Shareholder Meeting are provided in the reference documents of the notice of convocation of the General Shareholder Meeting.

General Meeting of Shareholders (<https://www.megachips.co.jp/irinfo/stockinfo/meeting/>)

【Supplementary Principles 3.1.1】

These disclosures, including disclosures in compliance with relevant laws and regulations, should add value for investors, and the board should ensure that information is not boiler-plate or lacking in detail.

- The Company recognizes that information disclosure is one of the important management responsibilities that must be fulfilled. The Company will continue to strive to provide clear and specific descriptions in our information disclosures to ensure accurate information is conveyed to shareholders and other stakeholders.

【Supplementary Principles 3.1.2】

Bearing in mind the number of foreign shareholders, companies should, to the extent reasonable, take steps for providing English language disclosures. In particular, companies listed on the Prime Market should disclose and provide necessary information in their disclosure documents in English.

- The proportion of overseas investors in the Company is currently around 30%. The Company discloses financial information, including financial results summaries, financial results presentation materials, notices of convocation of general meetings of shareholders, and news releases, in English on our website and other platforms to provide information to overseas shareholders and investors.

English Website (<https://www.megachips.co.jp/english/>)

【Supplementary Principles 3.1.3】

Companies should appropriately disclose their initiatives on sustainability when disclosing their management strategies. They should also provide information on investments in human capital and intellectual properties in an understandable - 15 - and specific manner, while being conscious of the consistency with their own management strategies and issues. In particular, companies listed on the Prime Market should collect and analyze the necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits, and enhance the quality and quantity of disclosure based on the TCFD recommendations, which are an internationally well-established disclosure framework, or an equivalent framework.

- From the perspective of further enhancing corporate value, the Company recognizes that addressing sustainability issues is an important element of our management strategy and are actively engaged in these efforts. The Company discloses our views and initiatives on sustainability on our website and in our securities reports.

Sustainability (<https://www.megachips.co.jp/sustainability/>)

Securities Report (<https://www.megachips.co.jp/irinfo/resource/report/>)

- In developing the medium-term management plan, the Company reviews business structure, revenue plans, investment plans including human capital, and management strategies for each business division. The Company discloses the outline of the medium-term management policy decided by the board of directors on our website and in our securities reports. The Company will continue to strive to provide more understandable information.

Medium-term Management Policy (https://www.megachips.co.jp/irinfo/management/middle_plan/)

Securities Report (<https://www.megachips.co.jp/irinfo/resource/report/>)

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- Regarding climate change response, the Company discloses information on "governance," "strategy," and "risk management" related to climate-related risks and opportunities on our website based on the TCFD recommendations. The Company will continue to analyze the impact of climate-related risks and opportunities on our business activities and earnings, viewing them as both risks and opportunities to be incorporated into our management strategy.

Environmental Initiatives (<https://www.megachips.co.jp/sustainability/eco/>)

【Principle 3.2 External Auditors】

External auditors and companies should recognize the responsibility that external auditors owe toward shareholders and investors, and take appropriate steps to secure the proper execution of audits.

- To ensure proper audits by external auditors, the Company secures sufficient audit time to enable high-quality audits, ensure opportunities for communication with senior management such as the president and the head of the finance department, and conduct information exchange meetings with auditors and the internal audit department to ensure sufficient collaboration opportunities.
- The full-time auditor receives explanations of the audit plan and regular reports on audit results from the external auditor, and reports and shares this information with the audit and supervisory board. By sharing internal information held by the full-time auditor with the external auditor, the Company aim to conduct effective and efficient audits.

【Supplementary Principles 3.2.1】

The kansayaku board should, at minimum, ensure the following:

- (i) Establish standards for the appropriate selection of external auditor candidates and proper evaluation of external auditors; and
- (ii) Verify whether external auditors possess necessary independence and expertise to fulfill their responsibilities.

- The auditors and the audit and supervisory board continuously review the external auditor throughout the year based on the "Criteria for Evaluating and Selecting External Auditors" established by the audit and supervisory board, and make the final decision on reappointment procedures. The evaluation criteria include the external auditor's expertise and independence, quality control of audit work, the qualifications of the audit team, communication with auditors, management, and the internal audit department, and response to fraud risks.
- For the selection of external auditors, the audit and supervisory board obtains necessary materials and reports from directors, internal departments, and the external auditor, and evaluates them based on the "Criteria for Evaluating and Selecting External Auditors" established by the audit and supervisory board. The audit and supervisory board reviews the appropriateness of the external auditor's performance, audit system, independence, and expertise each term.

【Supplementary Principles 3.2.2】

The board and the kansayaku board should, at minimum, ensure the following:

- (i) Give adequate time to ensure high quality audits;
- (ii) Ensure that external auditors have access, such as via interviews, to the senior management including the CEO and the CFO;
- (iii) Ensure adequate coordination between external auditors and each of the kansayaku (including attendance at the kansayaku board meetings), the internal audit department and outside directors; and
- (iv) Ensure that the company is constituted in the way that it can adequately respond to any misconduct, inadequacies or concerns identified by the external auditors

(i) To ensure high-quality audits by the external auditor, the Company provides accurate evidence and materials and secure sufficient audit time to respond to audits.

(ii) The Company ensures opportunities for meetings between the external auditor and the president and the head of the finance department upon the external auditor's request.

(iii) At the beginning of each term, auditors discuss the audit plan and audit policy with the external auditor. During audits conducted as needed, relevant departments and auditors regularly exchange opinions with the external auditor on audit procedures, results, and evaluations through communication.

(iv) If the external auditor identifies fraud and requests appropriate action or points out deficiencies or issues, the responsible directors, under the president's instructions, will conduct investigations and promptly take corrective actions. Auditors, upon receiving reports from the external auditor, will immediately request a status report from directors and conduct investigations in collaboration with the internal audit department and relevant departments, led by the full-time auditor, to ensure corrective actions are taken.

Additionally, auditors will conduct investigations in collaboration with the internal audit department and relevant departments, and if necessary, request investigations by the investigation committee to ascertain the facts. Based on the investigation results, auditors will analyze the causes and monitor and verify the response status of directors and the investigation committee regarding measures to prevent recurrence.

Section 4: Responsibilities of the Board

【General Principle 4】

Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid-to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:

- (1) Setting the broad direction of corporate strategy;
- (2) Establishing an environment where appropriate risk-taking by the senior management is supported; and
- (3) Carrying out effective oversight of directors and the management (including shikkoyaku and so-called shikkoyakuin) from an independent and objective standpoint.

Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with Kansayaku Board (where a part of these roles and responsibilities are performed by kansayaku and the kansayaku board), Company with Three Committees (Nomination, Audit and Remuneration) or Company with Supervisory Committee.

- The board of directors will fulfill its responsibilities to shareholders by:

- Making decisions on important business executions of the Company in accordance with the Companies Act, and supervising the execution of duties by executive directors and executive officers.
- Each director obtaining sufficient information and making management decisions that contribute to the company's mid- to long-term sustainable growth and enhancement of corporate value with due care and in good faith.
- Actively establishing an organizational environment that allows executive directors and executive officers to control appropriate risk-taking in promoting business.
- Conducting effective oversight of executive directors and executive officers from an independent and objective standpoint, evaluating the performance of the Company group appropriately, and reflecting such evaluations in the treatment of executive directors and executive officers.

【Principle 4.1 Roles and Responsibilities of the Board (1)】

The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities. It should engage in constructive discussion with respect to specific business strategies and business plans, and ensure that major operational decisions are based on the company's strategic direction.

- The Company balances the board of directors and executive officers with diverse experiences and high expertise to make timely and appropriate decisions on mid-term profit plans, future investment plans, management strategies, business plans, and its execution and supervision. The Company recognizes the importance of each person fulfilling their respective roles and responsibilities.

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- In the Company group's business areas, the Company analyzes the current status of each business, identify the strengths and weaknesses of the group, areas needing reinforcement, and the ideal state. The Company comprehensively examines the surrounding environment and its changes to formulate business plans. These plans are discussed from multiple perspectives by directors and auditors at the regular board meeting held in March each year, and risks are evaluated before decisions are made.
 - Executive directors and executive officers work towards achieving business plans by solving problems swiftly, reporting progress at monthly board meetings, and discussing issues, variance analysis, and responses to achieve the plans. This cycle is repeated to strive towards achieving goals.

【Supplementary Principles 4.1.1】

The board should clearly specify its own decisions as well as both the scope and content of the matters delegated to the management, and disclose a brief summary thereof.

- In the Company, matters requiring board resolution are defined in the board regulations in accordance with laws and regulations. The Company has introduced an executive officer system to improve the efficiency of the board and strengthen its supervisory functions.
- The Company has established regulations on the division of duties and authority, clearly defining the scope of decision-making and execution for directors, executive officers, and each department.
- Under the board of directors, the Company has established a management meeting operated by management (executive officers, department heads, etc.) to monitor and manage the execution of business plans for each business division.

【Supplementary Principles 4.1.2】

Recognizing that a mid-term business plan (chuuki keiei keikaku) is a commitment to shareholders, the board and the senior management should do their best to achieve the plan. Should the company fail to deliver on its mid-term business plan, the reasons underlying the failure of achievement as well as the company's actions should be fully analyzed, an appropriate explanation should be given to shareholders, and analytic findings should be reflected in a plan for the ensuing years.

- The Company adopts a rolling method of reviewing business plan each fiscal year in response to changes in the business environment, and announces three-year medium-term management policy and one-year business forecast. However, due to corporate actions such as corporate acquisitions and rapid changes in the external environment, the planned and actual results may differ significantly during a fiscal year.

【Supplementary Principles 4.1.3】

Based on the company objectives (business principles, etc.) and specific business strategies, the board should proactively engage in the establishment and implementation of a succession plan for the CEO and other top executives and appropriately oversee the systematic development of succession candidates, deploying sufficient time and resources.

- The Company will implement an educational curriculum for senior management as part of succession planning. This curriculum, led by the Chairman of the Board, will regularly conduct development programs for senior management, based on the corporate philosophy and management strategies. Through this curriculum, the Company aims to identify and nurture individuals who have the potential to become executive leaders. The Nomination Committee, which consists of internal directors including the Chairman of the Board and a majority of external directors, will oversee and monitor the placement, promotion, and development status of the targeted individuals. Additionally, the Company will advance discussions on the succession plan with an eye on selecting future CEO candidates, and will operate a system that reports to the Board of Directors as necessary.
- In selecting the successor for the CEO (Representative Director and President), the current Representative Director and President will choose a candidate from among the directors. The Nomination Committee will then carefully deliberate on whether the candidate possesses the qualities suitable for the CEO role, considering diverse perspectives including those of external directors, and the final decision will be made by the Board of Directors.

【Principle 4.2 Roles and Responsibilities of the Board (2)】

The board should view the establishment of an environment that supports appropriate risk-taking by the senior management as a major aspect of its roles and responsibilities. It should welcome proposals from the management based on healthy entrepreneurship, fully examine such proposals from an independent and objective standpoint with the aim of securing accountability, and support timely and decisive decision-making by the senior management when approved plans are implemented. Also, the remuneration of the management should include incentives such that it reflects mid- to long-term business results and potential risks, as well as promotes healthy entrepreneurship.

- The board of directors receives business plans compiled by the management planning department as proposals from the representative director and president, and conducts multifaceted and thorough examinations from an independent and objective standpoint, considering risk management. The Company promotes risk management under the internal control system and supports directors' decision-making when executing measures based on business plans.
- Directors' remuneration consists of fixed remuneration as basic pay, performance-linked bonuses as executive bonuses, and non-monetary remuneration such as restricted stock compensation for long-term incentives aimed at sustainable enhancement of corporate value.

【Supplementary Principles 4.2.1】

The board should design management remuneration systems such that they operate as a healthy incentive to generate sustainable growth, and determine actual remuneration amounts appropriately through objective and transparent procedures. The proportion of management remuneration linked to mid- to long-term results and the balance of cash and stock should be set appropriately.

- The directors' remuneration is designed to retain and attract talented individuals, which is the source of the Company's competitiveness, and emphasizes increasing the corporate value of the group. Specifically, it consists of fixed remuneration as basic pay, performance-linked bonuses as executive bonuses, and restricted stock compensation for long-term incentives.
- To enhance transparency and objectivity, the Company has established a remuneration committee, composed of a majority of external officers, as an advisory body to the board of directors to review the content of remuneration. When reviewing remuneration, the Company sets the remuneration ratio for each type of director based on benchmark remuneration levels of companies of similar business scale and related industries.

【Supplementary Principles 4.2.2】

The board should develop a basic policy for the company's sustainability - 20 - initiatives from the perspective of increasing corporate value over the mid- to long- term. In addition, in light of the importance of investments in human capital and intellectual properties, the board should effectively supervise the allocation of management resources, including such investments, and the implementation of business portfolio strategies to ensure that they contribute to the sustainable growth of the company.

- Under the management philosophy of fueling the growth through "innovation" having a trustworthy relationship with customers through "trust" and creating products that benefit society through "creation", the Company aims to address social issues through the corporate activities and business, contributing to the realization of a richer, safer, and more sustainable society as a "company that is kind to society, the environment, and people." The Company discloses sustainability initiatives and approach on the website and other channels.

Sustainability (<https://www.megachips.co.jp/sustainability/>)

Securities Report (<https://www.megachips.co.jp/irinfo/resource/report/>)

- When formulating the mid-term management plan, the Company review the business structure, profit plans, and investment plans, including human capital, under the supervision of the board of directors, and develop management strategies for each business division. The Company also monitor the execution and progress of these management strategies to contribute to the company's sustainable growth.

【Principle 4.3 Roles and Responsibilities of the Board (3)】

The board should view the effective oversight of the management and directors from an independent and objective standpoint as a major aspect of its roles and responsibilities. It should appropriately evaluate company performance and reflect the evaluation in its assessment of the senior management. In addition, the board should engage in oversight activities in order to ensure timely and accurate information disclosure, and should establish appropriate internal control and risk management systems. Also, the board should appropriately deal with any conflict of interests that may arise between the company and its related parties, including the management and controlling shareholders.

- The board of directors recognizes that one of its primary responsibilities is to oversee management from an objective and neutral perspective. With the involvement of the nomination committee, it decides on the appointment of senior management, taking into account the company's performance evaluation.
- According to The Company's board of directors rules and regulations, "Each director shall establish a corporate governance system to ensure efficient and sound management and conduct compliance management." Additionally, "Efforts shall be made to establish and implement internal rules aimed at achieving high profitability and ensuring transparency, and to evaluate these efforts." Directors establish and oversee the risk management system based on the "Basic Policy on Internal Control Systems of MegaChips."
- For transactions with related parties, procedures are defined in the board of directors rules and regulations. When conducting transactions with related parties, a factual explanation and approval resolution by the board of directors are required, ensuring oversight by the board.

【Supplementary Principles 4.3.1】

The board should ensure that the appointment and dismissal of the senior management are based on highly transparent and fair procedures via an appropriate evaluation of the company's business results.

- The Company has established a nomination committee under the board of directors as a voluntary advisory body. The nomination committee, with the human resources department as its secretariat, consists of more than half external directors and internal directors. The committee deliberates on proposals for the appointment and dismissal of directors and auditors, nomination policies, and the establishment, amendment, and abolition of necessary rules and procedures, providing recommendations and suggestions to the board of directors.
- For the appointment and dismissal of senior management, the nomination committee provides recommendations in response to the board's inquiries to ensure fairness and transparency. The board of directors then makes the final decision. To respond swiftly to changes in the business environment, the term of office for directors is set at one year in the articles of incorporation, and the board of directors makes decisions each fiscal year, clarifying the management responsibilities of senior management.

【Supplementary Principles 4.3.2】

Because the appointment/dismissal of the CEO is the most important strategic decision for a company, the board should appoint a qualified CEO through objective, timely, and transparent procedures, deploying sufficient time and resources.

【Supplementary Principles 4.3.3】

The board should establish objective, timely, and transparent procedures such that a CEO is dismissed when it is determined, via an appropriate evaluation of the company's business results, that the CEO is not adequately fulfilling the CEO's responsibilities.

- As part of succession planning, the Company implements an educational curriculum for senior management. This curriculum, led by the chairman of the board, regularly provides training programs for senior management, focusing on management philosophy and strategy. Through this curriculum, the Company identifies and develop potential senior management candidates, and the nomination committee, consisting of internal directors including the chairman and more than half external directors, reviews the development status and appropriateness of the candidates. The Company also discuss succession planning for future CEO candidates and report to the board of directors as necessary.
- In selecting CEO (President) candidates, the President selects successor candidates from among the directors, and the nomination committee carefully deliberates on the suitability of the candidates from various perspectives, including external directors before making a final decision at the board of directors.
- For the appointment and dismissal of the President, the nomination committee provides recommendations in response to the board's inquiries to ensure fairness and transparency, and the board of directors makes the final decision. The term of office for directors is set at one year in the articles of incorporation to respond swiftly to changes in the business environment, and the board of directors makes decisions each fiscal year, clarifying the management responsibilities of the President.
- The procedures for dismissing the CEO follow the procedures for dismissing directors. The board of directors can recommend resignation to directors deemed unqualified, and if a director engages in or is likely to engage in acts that violate laws or the articles of incorporation, the board will consider recommending resignation or submitting a dismissal proposal to the General Shareholder Meeting. The dismissal of directors is stipulated in the articles of incorporation to be conducted by a special resolution of the General Shareholder Meeting.

【Supplementary Principles 4.3.4】

The establishment of effective internal control and proactive enterprise risk management systems has the potential to support sound risk-taking. The board should appropriately establish such systems on an enterprise basis and oversee the operational status, besides utilizing the internal audit department.

- The Company believes that minimizing and preventing risks that may arise in various aspects of global business activities is important. Therefore, as an organizational structure under the board of directors, the promotion of compliance is handled by the intellectual property and legal department, and the internal control reporting system is managed by the internal audit department. Under the supervision of the board of directors, the Company strive to prevent and manage risks.
- The Company has established compliance regulations under the jurisdiction of the intellectual property and legal department, setting norms that employees must follow and promoting their dissemination. Additionally, the internal audit department conducts internal control evaluations related to financial reporting and operational audits. The results of internal control evaluations and operational audits are reported in a timely manner to the President and full-time auditors.
- The Company applies the internal control system to the entire group, including subsidiaries, to ensure the proper conduct of operations. Each subsidiary regularly reports its operational status and financial condition to The Company, and the board of directors and management meetings of The Company confirm the appropriateness of operations. The internal audit department conducts regular operational audits, identifying issues from the perspectives of compliance and operational efficiency.

【Principle 4.4 Roles and Responsibilities of Kansayaku and the Kansayaku Board】

Kansayaku and the kansayaku board should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of directors' duties, appointment and dismissal of kansayaku and external auditors, and the determination of auditor remuneration. Although so-called "defensive functions," such as business and accounting audits, are part of the roles and responsibilities expected of kansayaku and the kansayaku board, in order to fully perform their duties, it would not be appropriate for kansayaku and the kansayaku board to interpret the scope of their function too narrowly, and they should positively and proactively exercise their rights and express their views at board meetings and to the management

- The Company has an audit committee, consisting of one full-time auditor and three external auditors, emphasizing independence from directors.

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- According to the audit committee regulations, auditors, as independent bodies entrusted by shareholders, audit the execution of duties by directors, ensuring that the company considers the interests of various stakeholders and collaborates with them, thereby achieving sound and sustainable growth and creating long-term corporate value. Auditors understand these responsibilities and fulfill their duties independently, including auditing the execution of duties by directors and exercising authority over the appointment, dismissal, and remuneration of auditors and external accounting auditors.
 - To fulfill their responsibilities, auditors attend board meetings and other important meetings, where the full-time auditor, familiar with the company's business, and external auditors with extensive experience actively ask questions, provide opinions, and make suggestions from their respective areas of expertise, such as corporate management, law, intellectual property, finance, accounting, taxation, technology, and quality. They strive to express proactive and active opinions to directors and employees without overly narrowing their scope of duties.

【Supplementary Principles 4.4.1】

Given that not less than half of the kansayaku board must be composed of outside kansayaku and that at least one full-time kansayaku must be appointed in accordance with the Companies Act, the kansayaku board should, from the perspective of fully executing its roles and responsibilities, increase its effectiveness through an organizational combination of the independence of the former and the information gathering power of the latter. In addition, kansayaku or the kansayaku board should secure cooperation with outside directors so that such directors can strengthen their capacity to collect information without having their independence jeopardized.

- In the audit committee, the full-time auditor, as a full-time member who can timely grasp business trends from within the company, actively engages in improving the audit environment, exchanging information and opinions with the accounting auditor, and collecting internal information, while monitoring the construction and operation of the internal control system on a daily basis.
- External auditors, recognizing the expectation to leverage their independence and expertise to conduct audits from a neutral and objective standpoint and actively express opinions, ask questions and provide opinions to the President and the board of directors.
- The audit committee considers matters related to information exchange and collaboration with external directors, striving to ensure the effectiveness of audits.

【Principle 4.5 Fiduciary Responsibilities of Directors and Kansayaku】

With due attention to their fiduciary responsibilities to shareholders, the directors, kansayaku and the management of companies should secure the appropriate cooperation with stakeholders and act in the interest of the company and the common interests of its shareholders.

- Directors, aware that they are trustees of management elected by shareholders, bear the duty of care and loyalty and act for the benefit of the company and its shareholders while ensuring appropriate collaboration with stakeholders. This is clearly stated in the preamble of the board of directors' rules and regulations as follows:
- The company is an organization that pursues the interests of all shareholders based on their investment and risk-bearing. The company exists to conduct business and create value by receiving labor and capital. The company is a collaborative system of various stakeholders, and a good company maximizes shareholder value by efficiently creating value, enriching employees, and enhancing the trust of other stakeholders, thereby contributing to the creation of a prosperous society.
- Good governance is essential for a good company. The company is legally and economically owned by shareholders, and even if shareholders have governance, the company cannot ignore economic efficiency and effectiveness as it utilizes valuable economic resources. The company requires certain discipline, and to ensure this, "transparency" is emphasized, and it is desirable for management to be under public scrutiny.
- If managers do not reflect this discipline in their management, the company cannot fulfill its role. It is necessary to have independent directors who can make judgments from the shareholders' perspective, understanding the essence and significance of the company system, with high-minded spirit and excellent insight. The reason for appointing external directors is to establish a system where managers listen to the opinions of independent directors and manage the company.
- Each director shall establish a corporate governance system to ensure efficient and sound management and conduct compliance management. Additionally, efforts shall be made to establish and implement internal rules aimed at achieving high profitability and ensuring transparency, and to evaluate these efforts.
- Directors, entrusted with capital from shareholders, manage and supervise the execution of operations by executive officers, who are appointed by the board of directors and execute operations in line with the management policies decided by the board. The board of directors is positioned as a monitoring function of management.
- The company shall conduct sincere and fair corporate activities that comply with all laws and rules and do not violate social norms, with a sense of mission as a good corporate citizen with high ethical standards that are recognized internationally, contributing to the development of the economy and society both domestically and internationally. The company shall actively and fairly disclose accurate management information and communicate widely with society, striving for transparent management that is evaluated by society.

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- The company shall take a firm stance against anti-social forces that threaten the order and safety of civil society and shall never compromise.
 - Auditors, as independent bodies entrusted by shareholders, audit the execution of duties by directors, ensuring the company's sound and sustainable growth and establishing a high-quality corporate governance system that responds to social trust, fulfilling their responsibilities with pride.

【Principle 4.6 Business Execution and Oversight of the Management】

In order to ensure effective, independent and objective oversight of the management by the board, companies should consider utilizing directors who are neither involved in business execution nor have close ties with the management.

- Of The Company's 10 directors, five directors, including one internal director and four external directors (all of whom are independent external directors), do not engage in the execution of operations. In board meetings and other important meetings, these external directors actively provide opinions and suggestions from an independent and objective standpoint based on their respective experiences and knowledge, enhancing the effectiveness of management supervision.

【Principle 4.7 Roles and Responsibilities of Independent Directors】

Companies should make effective use of independent directors 9 , taking into consideration the expectations listed below with respect to their roles and responsibilities:

- (i) Provision of advice on business policies and business improvement based on their knowledge and experience with the aim to promote sustainable corporate growth and increase corporate value over the mid-to long-term;
- (ii) Monitoring of the management through important decision-making at the board including the appointment and dismissal of the senior management;
- (iii) Monitoring of conflicts of interest between the company and the management or controlling shareholders; and
- (iv) Appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders.

- The Company has four independent external directors, consisting of scholars, certified public accountants, and experienced corporate managers with extensive experience and broad knowledge. In board meetings and other important meetings, these independent external directors actively provide opinions from an objective standpoint based on their respective experiences and knowledge, such as approving management policies and plans, making important decisions related to personnel and organization, and monitoring transactions between directors and the company. The Company will continue to strive to create an environment where the supervisory function of management can be effectively fulfilled.

【Principle 4.8 Effective Use of Independent Directors】

Independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. Companies listed on the Prime Market should therefore appoint at least two one-third of their directors as independent directors (two directors if listed on other markets) that sufficiently have such qualities. Irrespective of the above, if a company listed on the Prime Market believes it needs to appoint the majority of directors (at least one-third of directors if listed on other markets) as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should appoint a sufficient number of independent directors.

- The Company has appointed four independent external directors, who meet the independence criteria set by the Tokyo Stock Exchange and are judged by The Company to have no potential conflicts of interest with general shareholders and to have substantial independence.
- In selecting external directors, the Company emphasize their extensive experience, knowledge, and insight, and choose candidates who can provide realistic advice and suggestions from an objective and neutral perspective to ensure the supervisory function from an independent standpoint.
- Although The Company has an audit committee, considering the current business scale and business locations, the Company limit the number of directors to 12 or fewer. The Company believe that at least one-third of the directors should be independent external directors, and the Company aim to maintain a system that strengthens the audit and supervisory functions of management through the objective and neutral perspectives of highly independent external directors.

【Supplementary Principles 4.8.1】

In order to actively contribute to discussions at the board, independent directors should endeavor to exchange information and develop a shared awareness among themselves from an independent and objective standpoint. Regular meetings consisting solely of independent directors (executive sessions) would be one way of achieving this.

- Out of the Company's 10 directors, 4 are independent outside directors. Each of them supervises from an objective and neutral perspective, and the Company appoint individuals with outstanding experience, ability, and knowledge to ensure that their responsibilities are fully fulfilled. At the Board of Directors meetings, independent outside directors actively participate in discussions by asking questions, expressing opinions, and making suggestions.
- Although the Company do not have regular meetings consisting solely of independent officers, the Company coordinate as necessary. If requested by independent outside directors, meetings consisting solely of independent officers can be held at any time.

【Supplementary Principles 4.8.2】

Independent directors should endeavor to establish a framework for communicating with the management and for cooperating with kansayaku or the kansayaku board by, for example, appointing the lead independent director from among themselves.

- Out of the Company's 10 directors, 4 are outside directors, all of whom are independent outside directors. Although the Company do not designate a lead independent outside director, each outside director exchanges information and coordinates with the management and auditors as necessary. Additionally, the Finance Department serves as the secretariat of the Board of Directors, ensuring the provision of materials in advance and facilitating information exchange and sharing with the management as needed.

【Supplementary Principles 4.8.3】

Companies that have a controlling shareholder should either appoint at least one-third of their directors (the majority of directors if listed on the Prime Market) as independent directors who are independent of the controlling shareholder or establish a special committee composed of independent persons including independent director(s) to deliberate and review material transactions or actions that conflict with the interests of the controlling shareholder and minority shareholders.

- The Company does not have a controlling shareholder holding a majority of issued shares.

【Principle 4.9 Independence Standards and Qualification for Independent Directors】

Boards should establish and disclose independence standards aimed at securing effective independence of independent directors, taking into consideration the independence criteria set by securities exchanges. The board should endeavor to select independent director candidates who are expected to contribute to frank, active and constructive discussions at board meetings.

- In appointing independent outside directors, the Company select candidates who are expected to supervise from an objective and neutral perspective and fulfill their responsibilities fully, emphasizing their extensive experience, knowledge, and expertise in corporate management and their rich knowledge and expertise in specialized fields.
- Based on the independence standards stipulated by the Tokyo Stock Exchange, the Company designate individuals who are not likely to have conflicts of interest with general shareholders and whose independence is ensured from a substantial perspective, with their consent, as independent officers.

【Principle 4.10 Use of Optional Approach】

In adopting the most appropriate organizational structure (as stipulated by the Companies Act) that is suitable for a company's specific characteristics, companies should employ optional approaches, as necessary, to further enhance governance functions.

- The Company is a company with an Audit & Supervisory Board, with 10 directors (including 4 outside directors) and 4 auditors (including 3 outside auditors). The Board of Directors is positioned as the decision-making and supervisory body for management strategies and business execution, and the Company have established a system that allows for swift decision-making by a small number of directors. Additionally, to revitalize the Board of Directors by separating decision-making and supervision from business execution, the Company have introduced an executive officer system.
- In the Company's current governance structure, highly independent outside directors and outside auditors strengthen the audit and supervisory functions over management from an objective and neutral perspective, and the Company believe that the Company have sufficient audit and supervisory functions over management.
- The Company has established a Nomination Committee and a Compensation Committee under the Board of Directors as voluntary advisory bodies, with both committees consisting of more than half outside officers.

【Supplementary Principles 4.10.1】

If the organizational structure of a company is either Company with Kansayaku Board or Company with Supervisory Committee and independent directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination (including succession plan) and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from the committees, including from the perspective of gender and other diversity and skills, in the examination of such important matters as nominations and remuneration by establishing an independent nomination committee and remuneration committee under the board, to which such committees make significant contributions.

In particular, companies listed on the Prime Market should basically have the majority of the members of each committee be independent directors, and should disclose the mandates and roles of the committees, as well as the policy regarding the independence of the composition.

- The Company is a company with an Audit & Supervisory Board, but independent outside directors do not constitute a majority. In the deliberations of the Board of Directors, the Company receive advice from independent outside directors, consisting of scholars, certified public accountants, and experienced corporate managers, and independent outside auditors, consisting of lawyers, tax accountants, and experienced business operators, from their respective perspectives, ensuring the independence and objectivity of the Board's functions.

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- In deciding matters related to directors' compensation, the Company have established a Compensation Committee consisting of more than half the outside auditors to enhance the involvement of outside officers, obtaining recommendations and suggestions to ensure the independence and objectivity of the Board of Directors.
 - In deciding matters related to the nomination of senior management and directors, the Company have established a Nomination Committee consisting of more than half outside directors to enhance the involvement of outside officers, obtaining recommendations and suggestions to ensure the independence and objectivity of the Board of Directors. In selecting director candidates, the Company considers the appropriate and speedy decision-making and supervision of business execution for the business activities, selecting internal directors with expertise in various business areas such as technology research, product development, production management, and financial accounting, and outside directors who can actively discuss issues and solutions from an objective and neutral perspective to enhance the growth strategy and governance.

【Principle 4.11 Preconditions for Board and Kansayaku Board Effectiveness】

The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity, including gender and, international experience, work experience and age, and appropriate size. In addition, persons with appropriate experience and skills as well as necessary knowledge on finance, accounting, and the law should be appointed as kansayaku. In particular, at least one person who has sufficient expertise on finance and accounting should be appointed as kansayaku. The board should endeavor to improve its function by analyzing and evaluating effectiveness of the board as a whole.

- The Company is a company with an Audit & Supervisory Board, with 10 directors (including 4 outside directors) and 4 auditors (including 3 outside auditors). The Board of Directors is positioned as the decision-making and supervisory body for management strategies and business execution, and the Company have established a system that allows for swift decision-making by a small number of directors. Additionally, the Company have introduced an executive officer system to optimize the size of the Board of Directors by separating decision-making and supervision from business execution.
- The Company's Board of Directors consists of 10 directors, 9 of whom are men and 1 is a woman. While the Company do not have specific criteria for diversity, the Company select individuals with experience, ability, and character. With the involvement of the Nomination Committee, the Company will consider the selection of candidates with an awareness of diversity, including gender, internationality, career background, and age.
- The Audit & Supervisory Board consists of one full-time auditor familiar with quality control and business management, and three outside auditors who are lawyers, tax accountants, and experienced business operators, with one having sufficient expertise in finance and accounting. Each auditor's role is determined through consultation, and they conduct audits from a specialized perspective in areas such as overall management, legal affairs, intellectual property, finance, accounting, technology, and quality.

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- At the Board of Directors meetings, the Company engage in active discussions on matters to be decided, thoroughly deliberating before making resolutions. During resolutions, outside directors and outside auditors ask questions and provide advice from various perspectives, ensuring that the Board of Directors functions effectively. To enhance the effectiveness of the Board of Directors, the Company conduct meetings efficiently with an appropriate size, and the Company do not plan to conduct analysis or evaluation of the Board's effectiveness for the time being.

【Supplementary Principles 4.11.1】

The board should identify the skills, etc. that it should have in light of its managing strategies, and have a view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size. Consistent with its view, the board should establish policies and procedures for nominating directors and disclose them along with its view the combination of skills, etc. that each director possesses in an appropriate form according to the business environment and business characteristics, etc., such as what is known as a "skills matrix." When doing so, independent director(s) with management experience in other companies should be included.

- The Company's Articles of Incorporation stipulate that the number of directors shall be no more than 12. To respond quickly to changes in the business environment, the term of office for directors is set at one year, clarifying their management responsibilities.
- Regarding the diversity of the Board of Directors, the Company will select directors with diverse backgrounds in terms of career, nationality, gender, expertise, and experience, ensuring that the Board of Directors can function to its fullest extent. Currently, the Company's Board of Directors consists of 10 directors, 9 of whom are men and 1 is a woman. The outside directors include scholars, certified public accountants, and experienced corporate managers, selected for their extensive experience, expertise, and broad knowledge.
- The so-called skills matrix, which lists the expertise, experience, and abilities of each director and auditor, is disclosed in the reference documents for the General Shareholder Meeting, identifying the skills required in consideration of the business environment and characteristics.
General Meeting of Shareholders (<https://www.megachips.co.jp/irinfo/stockinfo/meeting/>)
- The Audit & Supervisory Board consists of more than half outside auditors, with one having expertise in finance and accounting. In selecting auditors, the Company choose candidates with advanced specialized knowledge and extensive experience in corporate management, finance, accounting, and law, who can respond to the trust of shareholders with strong determination. The President and Representative Director recommends candidates to the Board of Directors with the consent of the Audit & Supervisory Board, and they are proposed as candidates for the General Shareholder Meeting.

【Supplementary Principles 4.11.2】

Outside directors, outside kansayaku, and other directors and kansayaku should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and kansayaku also serve as directors, kansayaku or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.

- In The Company, to ensure that the roles and responsibilities of directors are appropriately and soundly fulfilled, the Company consider whether the concurrent positions with other companies are within a reasonable range when selecting director candidates. Regarding the concurrent positions of directors with the Company's subsidiaries or other companies, the Company requires prior approval from the Board of Directors as stipulated in the internal regulations.
- The status of concurrent positions of officers is disclosed in the business report provided as a document for the General Shareholder Meeting under "2. Current Status of the Company, (2) Status of Company Officers" and in the "Status of Officers" section of the Securities Report.
General Meeting of Shareholders (<https://www.megachips.co.jp/irinfo/stockinfo/meeting/>)
Securities Report (<https://www.megachips.co.jp/irinfo/resource/report/>)

【Supplementary Principles 4.11.3】

Each year the board should analyze and evaluate its effectiveness as a whole, taking into consideration the relevant matters, including the self-evaluations of each director. A summary of the results should be disclosed.

- At the Board of Directors meetings, the Company engage in active discussions on matters to be decided, thoroughly deliberating before making resolutions. During resolutions, outside directors and outside auditors ask questions and provide advice from various perspectives, ensuring that the Board of Directors functions effectively. To enhance the effectiveness of the Board of Directors, the Company conduct meetings efficiently with an appropriate size, and the Company do not plan to conduct analysis or evaluation of the Board's effectiveness for the time being. In the fiscal year ending March 2024, the Company held regular Board of Directors meetings and extraordinary Board of Directors meeting, deliberating and resolving important matters related to business execution without delay.

【Principle 4.12 Active Board Deliberations】

The board should endeavor to foster a climate where free, open and constructive discussions and exchanges of views take place, including the raising of concerns by outside directors.

- The Company has set "important decision-making matters of the company are decided democratically through discussions" as one of the Company's basic operational policies, emphasizing constructive discussions. At the Board of Directors meetings, for all agenda items and reports, outside directors and outside auditors actively express their opinions based on their respective experiences and knowledge through questioning, leading to free, open, and constructive discussions. Additionally, numerous issues and suggestions regarding the Company's management are raised by outside directors and outside auditors, leading to active exchanges of opinions on the agenda items presented to the Board of Directors. The Company will continue to strive to foster a culture that allows for free, open, and constructive discussions.

【Supplementary Principles 4.12.1】

The board should ensure the following in relation to the operation of board meetings and should attempt to make deliberations active:

- (i) Materials for board meetings are distributed sufficiently in advance of the meeting date;
- (ii) In addition to board materials and as necessary, sufficient information is provided to directors by the company (where appropriate, the information should be organized and/or analyzed to promote easy understanding);
- (iii) The schedule of board meetings for the current year and anticipated agenda items are determined in advance;
- (iv) The number of agenda items and the frequency of board meetings are set appropriately; and
- (v) Sufficient time for deliberations.

- In The Company, regular Board of Directors meetings are held once a month in principle, and extraordinary Board of Directors meetings are held as necessary. Considering the attendance of each director and auditor, the Company finalize the business schedule, Board of Directors meetings, and General Meeting of Shareholders schedule for the next fiscal year at the Board of Directors meeting held in January each year and notify them accordingly.
- To ensure substantial discussions at the Board of Directors meetings, the secretariat of the Board of Directors compiles the agenda items and reports submitted by the executive directors and executive officers into materials for the Board of Directors meetings and distributes them in advance.
- In conducting the proceedings of the Board of Directors meetings, the Company narrow down the deliberation items as much as possible and ensure sufficient time for deliberations.

【Principle 4.13 Information Gathering and Support Structure】

In order to fulfill their roles and responsibilities, directors and kansayaku should proactively collect information, and as necessary, request the company to provide them with additional information. Also, companies should establish a support structure for directors and kansayaku, including providing sufficient staff. The board and the kansayaku board should verify whether information requested by directors and kansayaku is provided smoothly.

- In The Company, the Finance Department, which serves as the secretariat of the Board of Directors, primarily provides support to directors and auditors. When directors and auditors request information necessary for the execution of their duties from relevant departments, the requested departments are required to promptly provide the information, ensuring a smooth flow of information to directors and auditors.
- For business reports presented at the Board of Directors meetings, the Corporate Planning Department compiles the latest business progress and risk factors from each business manager and submits them to the secretariat of the Board of Directors as meeting materials. Other proposed agenda items and reports are submitted to the secretariat by the responsible directors or executive officers.

【Supplementary Principles 4.13.1】

Directors, including outside directors, should request the company to provide them with additional information, where deemed necessary from the perspective of contributing to transparent, fair, timely and decisive decision-making. In addition, kansayaku, including outside kansayaku, should collect information appropriately, including the use of their statutory investigation power.

- In The Company, the Company have established rules for document retention, recording and managing information related to the duties and business execution of officers and employees in documents or electronic media. Officers and accounting auditors are allowed to view these documents to understand the status of business execution and obtain information for audits.
- For auditors to gather information, they request necessary information from relevant departments, collaborate with the Internal Audit Department, which is responsible for operational audits, and exchange opinions on audit procedures, results, and evaluations with accounting auditors to appropriately gather information.

【Supplementary Principles 4.13.2】

Directors and kansayaku should consider consulting with external specialists at company expense, where they deem it necessary.

- Directors and auditors should consider utilizing external experts such as lawyers and consultants for their duties if deemed necessary. The company pays the cost of such advice.

【Supplementary Principles 4.13.3】

Companies should ensure coordination between the internal audit department, directors and kansayaku. by establishing a system in which the internal audit department appropriately reports directly to the board and the kansayaku board in order for them to fulfill their functions. In addition, companies should take measures to adequately provide necessary information to outside directors and outside kansayaku. One example would be the appointment of an individual who is responsible for communicating and handling requests within the company such that the requests for information about the company by outside directors and outside kansayaku are appropriately processed.

- The Internal Audit Department conducts operational audits based on the audit plan and reports the results to the President and auditors. When issues are identified, improvement orders are issued under the President's direction, and the improvement status is monitored. The overall "Operational Audit Results" for the fiscal year are reported to the Board of Directors through the President. A system is in place, as stipulated in internal regulations, allowing the Internal Audit Department to directly report to the President, auditors, and the Board of Directors as deemed appropriate. Issues related to business execution are reported to the President, responsible directors, and auditors as necessary.
- Under the internal control reporting system based on the Financial Instruments and Exchange Act, the Internal Audit Department evaluates the establishment and operation of internal controls and reports to the President. Recommendations for business improvements are made to the managers responsible of each operation and reported accordingly.
- Although The Company does not have a dedicated department for internal communication and coordination with outside directors and outside auditors, each department responds to requests from outside directors and outside auditors through the directors responsible, executive officers, and full-time auditors.

【Principle 4.14 Director and Kansayaku Training】

New and incumbent directors and kansayaku should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills. Accordingly, companies should provide and arrange training opportunities suitable to each director and kansayaku along with financial support for associated expenses. The board should verify whether such opportunities and support are appropriately provided.

【Supplementary Principles 4.14.1】

Directors and kansayaku, including outside directors and outside kansayaku, should be given the opportunity when assuming their position to acquire necessary knowledge on the company's business, finances, organization and other matters, and fully understand the roles and responsibilities, including legal liabilities, expected of them. Incumbent directors should also be given a continuing opportunity to renew and update such knowledge as necessary.

- In The Company, upon the appointment of outside directors and outside auditors, the Company provide explanations about the business content, corporate philosophy, management status from establishment to the present, and major internal regulations of the Company's group before their appointment. Information necessary for discussions at the Board of Directors meetings is provided through executive directors, executive officers, or the secretariat of the Board of Directors.
- Directors and auditors elected at the General Shareholder Meeting are selected as candidates based on their rich experience and knowledge, ensuring they can fulfill their duties as The Company's officers and respond to shareholders' trust. Therefore, the company does not provide specific training programs. However, they are encouraged to participate in various training sessions and seminars at their discretion, with the company bearing the costs.

【Supplementary Principles 4.14.2】

Companies should disclose their training policy for directors and kansayaku

- For officers, the Company selects candidates based on their abilities, rich knowledge, and insights, ensuring they can fulfill their duties as The Company's officers. They are appointed with the approval of the General Shareholder Meeting. To fulfill their roles and responsibilities, officers are expected to acquire, update, and refine new knowledge, with the company bearing the costs.
- For new outside officers (outside directors and outside auditors), the Company provides explanations about the business content, corporate philosophy, management status from establishment to the present, and major internal regulations of the group before their appointment. After the appointment, they can directly request explanations from responsible directors and executive officers to deepen their understanding of the Company's business.

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- Auditors, being independent, register as members of the Japan Audit & Supervisory Board Members Association to exchange information among auditors and participate in various lectures and training sessions hosted by the association to obtain the latest information.

Section 5: Dialogue with Shareholders

【General Principle 5】

In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting. During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly

- The Company actively engages in dialogue with domestic and international institutional investors and shareholders to contribute to sustainable growth and the enhancement of corporate value over the mid- to long-term. The Company's efforts are as follows:
- The President holds quarterly financial results briefings and small meetings for institutional investors and responds to individual interviews.
- The Company's website provides IR information and has an inquiry contact point to handle various inquiries. Past inquiries are databased and shared as information.

【Principle 5.1 Policy for Constructive Dialogue with Shareholders】

Companies should, positively and to the extent reasonable, respond to the requests from shareholders to engage in dialogue (management meetings) so as to support sustainable growth and increase corporate value over the mid- to long-term. The board should establish, approve and disclose policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders.

【Supplementary Principles 5.1.2】

At minimum, policies for promoting constructive dialogue with shareholders should include the following:

- (i) Appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place, including the matters stated in items ii) to v) below;
- (ii) Measures to ensure positive cooperation between internal departments such as investor relations, corporate planning, general affairs, corporate finance, accounting and legal affairs with the aim of supporting dialogue;
- (iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities);
- (iv) Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board; and
- (v) Measures to control insider information when engaging in dialogue.

●The Company is committed to actively and fairly disclosing management and financial information in a timely manner to promote constructive dialogue with shareholders and investors, contributing to sustainable growth and the enhancement of corporate value over the mid- to long-term. The Company's efforts are as follows:

- (i) To earn the trust and appropriate evaluation from shareholders, investors, and securities analysts, the President himself actively engages in IR activities.
- (ii) The Finance Department serves as the contact point for IR activities and collaborates with various internal departments to gather necessary information and respond accordingly.
- (iii) We hold company briefings for institutional investors after the announcement of financial results and actively conduct individual meetings. We also participate in investor briefings and IR fairs to promote active dialogue with shareholders, investors, and securities analysts.
- (iv) The Finance Department provides timely feedback on the opinions of shareholders, investors, and securities analysts to the President and directors, sharing the information internally.
- (v) In conducting IR activities, the Company manages insider information based on the Insider Trading Management Regulations, which outline measures for managing internal information, and engage in dialogue with shareholders, investors, and securities analysts accordingly.

【Supplementary Principles 5.1.1】

Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management, directors, including outside directors, and kansayaku, should have a basic position to engage in dialogue (management meetings) with shareholders.

- The Company recognizes the importance of actively engaging in dialogue with domestic and international institutional investors and shareholders to reflect their opinions and requests in management, contributing to sustainable growth and the enhancement of corporate value over the mid- to long-term. Therefore, the Company has established an IR system and provides opportunities for dialogue with shareholders and investors to gain their understanding of the Company's management strategies and business plans. The Company also actively responds to interviews. Additionally, the Company considers and responds to requests for dialogue with officers, whether internal or external, as needed.
- Specifically, the Company holds quarterly financial results briefings four times a year, where the top management directly communicates the latest business conditions, future outlook, and medium-term management strategies to shareholders and investors. The Company also actively participates in conferences hosted by securities companies.

【Supplementary Principles 5.1.3】

Companies should endeavor to identify their shareholder ownership structure as necessary, and it is desirable for shareholders to cooperate as much as possible in this process.

- The Company monitors the shareholder structure based on the shareholder register as of the end of March and September and pays attention to any changes. To identify the beneficial owners of the Company's shares, the Company conducts investigations to identify substantial shareholders. The information obtained from these investigations is utilized in SR activities and overseas IR activities.

【Principle 5.2 Establishing and Disclosing Business Strategies and Business Plans】

When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company's cost of capital. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human capital, and specific measures that will be taken in order to achieve their plans and targets.

- The Company formulates a three-year medium-term management plan, which is reviewed annually. The outline of the medium-term management policy is disclosed on the Company's website and in securities reports.
Medium-term Management Policy (https://www.megachips.co.jp/irinfo/management/middle_plan/)
Securities Report (<https://www.megachips.co.jp/irinfo/resource/report/>)

- Measures to Achieve Management Conscious of Capital Costs and Stock Prices

The Company aims to balance high capital efficiency with a sound financial structure, allocating management resources appropriately according to market conditions, competitive environment, and growth opportunities. We recognize ROE, an indicator of capital profitability, and PBR, an indicator of market evaluation, as important metrics and strive to manage with an awareness of capital costs to enhance corporate value over the mid- to long-term. The group's ROE for the fiscal year ending March 2024 is 5.1%, slightly below the Company's recognized capital cost. The Company aims to achieve an ROE level of approximately 8% or higher, exceeding the Company's capital cost, and will continue to improve capital efficiency and execute medium- to long-term management strategies to enhance profitability. The Company believes that improving capital efficiency and gaining a thorough understanding of the Company's growth strategy through dialogue with investors will enhance market evaluations such as stock prices and PBR.

Regarding the financial structure, the Company will enhance the equity capital to respond quickly to changes in the business environment, maintain management stability even under challenging conditions, and prepare for risks such as market downturns.

- Overview of Initiatives to Enhance Corporate and Shareholder Value

The direction of the group's medium- to long-term initiatives to further enhance corporate and shareholder value is as follows:

- Growth Strategy

The Company will advance measures in line with its medium-term initiatives. To achieve sustainable growth over the medium- to long-term, the Company will strengthen the business foundations of the amusement business and ASIC business and launch new businesses such as the communication business to improve profitability and strengthen its business portfolio.

- Financial Strategy

To support medium- to long-term growth through business structure transformation and new business development, the Company will maintain a sound financial structure that can flexibly and quickly adapt to changes in the management environment. The Company will also implement proactive and stable profit returns based on the following policies and strive to improve capital efficiency.

- Regarding dividends of surplus, the Company will determine the total amount of dividends as an amount equivalent to 30% or more of the net income attributable to the parent company shareholders (excluding special factors) after considering the medium-term business outlook.

To improve capital efficiency, the Company will acquire treasury stock flexibly, considering market conditions, stock price trends, and financial conditions.

- Human Resource Strategy

To realize a society where diverse human resources can thrive, respecting human rights and culture, the Company considers human resource development as one of its important issues. The Company will promote measures to provide opportunities for employees to thrive and grow, promote diversity, provide scholarship grants through a foundation established by the founder, and support various human resource development initiatives for young people who will lead the future of the electronics industry.

- Enhancement of IR Activities

The Company will enhance communication opportunities such as individual IR meetings with institutional investors, promote constructive dialogue on management strategies, and gain understanding. The Company will share the opinions and requests obtained through dialogue internally and utilize them in considering future initiatives. Additionally, the Company will actively disseminate non-financial information on its website and other platforms to provide information that serves as material for dialogue with investors.

【Supplementary Principles 5.2.1】

In formulating and announcing business strategies, etc., companies should clearly present the basic policy regarding the business portfolio decided by the board and the status of the review of such portfolio.

- When formulating the medium-term management plan, the Company reviews the business structure, profit plans, investment plans including human capital, and management strategies for each business division. The outline of the medium-term management policy decided by the Board of Directors is disclosed on the Company's website and in securities reports. The Company will continue to strive to provide more understandable information.

Medium-term Management Policy (https://www.megachips.co.jp/irinfo/management/middle_plan/)

Securities Report (<https://www.megachips.co.jp/irinfo/resource/report/>)