Message from an Independent Director

Supporting JAFCO's transformation with dedication and diverse skills

Shigeru Tamura
Independent Director

What has impressed you about JAFCO's management team?

When I was appointed as an independent director in 2017, JAFCO was already recognized for its role in building the venture capital industry in Japan, and as an established leader in the industry. After joining the Board, however, I learned for the first time that the Company had overcome numerous difficulties in the preceding years, such as the collapse of the dot-com bubble, the 2008 financial crisis, and its separation from the Nomura Group. JAFCO has since shifted toward a policy of "highly selective, intensive investment," and has reduced the number of companies in its portfolio so that it can work more closely with each one. In doing so, JAFCO has established a solid structure for more stable investment performance. The current management team, including partners, who are responsible for making fund investment decisions, are the very people who helped tide the Company over past adversities. Competent and sincere, its members are capable of leveraging their experience to achieve future growth.

I evaluate JAFCO's management team highly on the following two points. The first is that the Company is not haphazard in exploring new business opportunities; it is committed to and focused on the investment business where there is the potential to help create new industries through the provision of risk money and business expertise to entrepreneurs and challengers. The second is that the team maintains a high level of professionalism, ensuring that conflicts of interest among stakeholders, to which the investment sector can be prone, never arise. In addition, they trust the independent directors and do not hesitate to seek advice of any kind from us. Since we do not always know everything that occurs on the business front lines, there are occasions when we participate in discussions without being fully aware of the relevant details. Nevertheless, in such cases, the team is careful to explain the reasoning and background of matters to the point where we have gained a full understanding.

What are JAFCO's current issues, and what should be prioritized going forward?

In my opinion, JAFCO previously operated under the straightforward belief that the way to enhance corporate value was simply to improve fund performance. While this idea may be correct in theory, unfortunately, this did not lead to JAFCO receiving a necessarily fair evaluation in the stock market. Recognizing this as an issue to quickly address, we took part in intensive discussions of improvement measures at Board meetings. In February 2021, the Board established the new Policy on Shareholder Returns, initiated the sale of around 40% of the Company's Nomura Research Institute, Ltd. (NRI) shareholdings, and decided to carry out share buybacks. JAFCO then launched internal projects to develop growth strategies and measures for enhancing corporate value. In August 2022, the management team received a number of proposals from shareholders regarding the enhancement of corporate value, the content of which substantially overlapped with the content covered in discussions at Board meetings.

Following this chain of events, in November 2022 the Company announced the Basic Policy for Enhancing Corporate Value, which outlines its capital efficiency improvement plan and growth strategy. In particular, the policy emphasizes the need for improving capital efficiency and ROE as well as for contributing to the sustainability-oriented corporate management of portfolio companies. Furthermore, I believe that it is critical that JAFCO strengthen its investment and fundraising capabilities. Currently most of the partners have been with the Company since they were hired straight out of college. However, JAFCO needs to recruit new talent from outside the Company. Such talent should include partner-level investment officers and fundraising professionals capable of attracting risk money from global investors. JAFCO must change its mindset so that such mid-career newcomers can thrive, fully supported within the Company. Moreover, it is essential to introduce a framework for further developing expertise and for encouraging the growth of talented human resources with diverse potential and backgrounds.

Improving external-facing communication is also extremely important. Although JAFCO has in the past emphasized a corporate culture of discipline in which action is valued over words, I believe that it must now "say and act." By this, I mean that JAFCO must actively communicate what it has achieved and what it is going to do in the future. I myself and the other independent directors will also proactively seek opportunities for listening to shareholders and investors, and in our capacity as directors we hope to help the Company strengthen its communication.

What do you consider to be the skillset and strengths of JAFCO Group's Board of Directors?

One of the key roles of independent directors is to always maintain an outside perspective and to provide useful advice to the management team. While JAFCO's independent directors include an attorney-at-law, a certified public accountant, and experienced corporate executives, all of us possess a wide range of abilities beyond our own fields. Koji Tanami, who is an attorney-at-law, provides not only legal advice but also expresses opinions from a broader perspective based on his experience, including as a top government official. It seems to me that Kenichi Akiba, a full-time professor who teaches the latest developments in accounting at one of Japan's top professional accounting schools, will on occasion see how academic theories apply to JAFCO's actual business. Yoshie Kajihara offers specific and realistic advice based on her experience as an executive in charge of management planning and human resources at several startups and listed public companies. I myself make a point of actively participating in Board discussions of matters that I am less familiar with. I also regularly attend important internal meetings as a full-time but independent member of the Board, and from time to time serve as a coordinator among the independent directors.

I would also like to mention that we independent directors are strongly committed to improving JAFCO's management. In comparison to other companies where I have served as an independent director, I feel that we have many more opportunities for sharing and discussing management matters together with and separate from full-time executives, beyond the scope of regular Board meetings, and discussions often go beyond our individual professional fields. Furthermore, the Basic Policy for Enhancing Corporate Value was formulated on the basis of comprehensive and timely discussions with the full cooperation of each independent director.

In April 2022, Keisuke Miyoshi was elected as the new President & CEO. Can you outline the discussion and decision process?

We had been requesting a concrete CEO succession plan for several years. While the previous president, Shinichi Fuki (currently the chairman), was only 60 years old in 2021 without any issues in terms of mental and physical strength, he had reached his 12th year as president. During his tenure he resolved many important issues such as shifting toward highly selective, intensive investment, separating from the Nomura Group, and introducing the quasi-partnership. As such, he probably felt that it was the right time to pass the baton to a successor. In autumn 2021, the Nomination and Remuneration Committee, which is comprised of the president and the independent directors, began to discuss the timing and candidates for a successor. There were three potential choices of candidate: a current Board member, someone from outside, or a relatively young executive. It was definitely a top priority to choose someone who had a deep understanding of investment, especially in the venture field, and who could carry out ongoing reforms. Keisuke Miyoshi had consistently supported Shinichi Fuki in implementing reforms and had served for many years as the head of domestic venture investment. He is a seasoned investment professional who holds the deep trust of employees, and understands the Company's true value. We judged that he would lead the Company in enhancing its corporate value, and the Nomination and Remuneration Committee was unanimous in recommending him as the new President & CEO.

Board of Directors

Directors

Chairman
Shinichi Fuki

Apr. 1985 Joined JAFCO
Jun. 2003 Director in charge of Investment Group II, Kansai Branch and Planning & Administration, JAFCO
Feb. 2005 Managing Director in charge of Finance, Investment Group II, Kansai Branch and VA Department III, JAFCO
Mar. 2007 Executive Managing Director in charge of Finance, Structured Investment, Kansai Branch and VA Department III, JAFCO
Jan. 2010 President & CEO (Representative Director)
Apr. 2022 Chairman, JAFCO (present)

President & CEO
(Representative Director)
Keisuke Miyoshi

Apr. 1993 Joined JAFCO
Aug. 2011 Group Officer of Investment Group II, JAFCO
Apr. 2013 Corporate Officer in charge of Investment, JAFCO
Jun. 2015 Director in charge of Investment, JAFCO
Mar. 2018 Director in charge of Investment, Partner, JAFCO
Apr. 2022 President & CEO, in charge of Investment, Partner, JAFCO (present)

Independent Directors

Director
(Board-Audit Committee member, full-time)
Shigeru Tamura

Apr. 1985 Joined The Bank of Yokohama, Ltd.
Jun. 2000 General Manager of Business Administration and Head of Office of IPO, Members Co., Ltd.
Aug. 2000 Director & CFO, Members Co., Ltd.
Sep. 2002 General Manager of the Business Management Headquarters (CFO), Aplix Corporation
Jun. 2003 Vice President of Principal Investments, Investment Banking Headquarters, ORIX Corporation
Aug. 2005 Senior Corporate Officer, Medical Industries Corp. (currently MEDISCIENCE PLANNING INC.)
Aug. 2006 Executive Vice President, MIC Medical Corporation (currently MEDISCIENCE PLANNING INC.)
Jun. 2010 President & CEO, MIC Medical Corporation
Oct. 2014 Chairman, MIC Medical Corporation (until May 2015)
Jun. 2017 Director (Board-Audit Committee member), JAFCO
Jun. 2019 Director (Board-Audit Committee member, fulltime), JAFCO (present)

Director
(Board-Audit Committee member)
Koji Tanami

Apr. 1964 Joined the Ministry of Finance
Jul. 1994 Director-General of the Financial Bureau, Ministry of Finance
Jul. 1996 Chief Cabinet Councilor for Internal Affairs, Cabinet Secretariat
Jan. 1998 Administrative Vice Minister, Ministry of Finance
Sep. 1999 Special Advisor to the Minister of Finance
Jun. 2001 Deputy Governor and Managing Director, Japan Bank for International Cooperation
Oct. 2007 Governor, Japan Bank for International Cooperation
Sep. 2008 Resigned from the position of Governor of Japan Bank for International Cooperation
Dec. 2010 Registered as Attorney-at-Law (Dai-ichi Tokyo Bar Association)
Attorney-at-Law, Hashidate Law Office (present)
Jun. 2015 Director (Board-Audit Committee member), JAFCO (present)

Director
(Board-Audit Committee member)
Kenichi Akiba

Sep. 1986 Joined Eiwa Audit Corporation (currently KPMG AZSA LLC)
Jul. 1989 Registered as a certified public accountant
Sep. 2001 Accounting Standards Board of Japan, seconded as Technical Manager
Apr. 2007 Accounting Standards Board of Japan, seconded as Technical Director (until Aug. 2009)
Jul. 2007 Partner, KPMG AZSA Corporation (currently KPMG AZSA LLC)
Sep. 2009 Professor, Waseda University Graduate School of Accountancy (present)
Jun. 2015 Director (Board-Audit Committee member), JAFCO (present)
Jun. 2018 Auditor of the Board (outside), Mitsui Sumitomo Insurance Co., Ltd. (present)

Director
(Board-Audit Committee member)
Yoshie Kajihara

Oct. 2001 General Manager of Accounting, Aplix Corporation
Mar. 2005 Corporate Officer and Head of Corporate Planning Office, Aplix Corporation (until Mar. 2007)
May 2007 Corporate Auditor (full-time), MIC Medical Corporation (currently MEDISCIENCE PLANNING INC.)
Feb. 2008 Resigned from the position of Corporate Auditor (full-time) of MIC Medical Corporation
Oct. 2009 Joined CCS Inc.
Nov. 2013 Executive Officer in charge of Corporate Planning, CCS Inc.
Oct. 2016 Resigned from the position of Executive Officer of CCS Inc.
Jan. 2017 Joined Interactive Solutions Corporation
Aug. 2017 Director and General Manager of Human Resources & Administrations, Interactive Solutions Corporation
Jul. 2018 Resigned from the position of Director of Interactive Solutions Corporation
Jun. 2019 Director (Board-Audit Committee member), JAFCO (present)

Experience and Expertise of Directors

The policy and procedure for selection of director candidates are stipulated in the Corporate Governance Policy of the Company as shown below.

- Directors and corporate officers are appointed by the Board of Directors based on deliberations by the Nomination and Remuneration Committee.
- All directors (excluding directors serving as Board-Audit Committee members) are subject to election/reelection every year at the General Meeting of Shareholders. The Board-Audit Committee expresses its opinion on directors' appointment/dismissal at the General Meeting of Shareholders when it deems it necessary.
- The Company shall select director candidates who have business skills, insight, experience, and expertise to serve as a director to allow the Board of Directors to fully exercise its operational and supervisory functions. The Company proactively selects suitable candidates from diverse backgrounds regardless of gender and nationality.
- The Company shall select independent director candidates who have abundant experience and deep insight into corporate management or specialist fields, and can be expected to fulfill the roles and responsibilities of an independent director. The selection is in accordance with the Company's Standards for Independence of Independent Directors.

The experience and expertise required of directors comprising the Company's Board of Directors, and the experience and expertise of the directors appointed at the Annual General Meeting of Shareholders held on June 21, 2022, are outlined below.

Experience/Expertise Director	Corporate management	Investment	Fundraising/Fund operation	Overseas operation	Expertise Personnel/Labor affairs	Treasury accounting	Legal affairs/compliance	Finance	Academic research/education
Shinichi Fuki	●	●	●	●	●	●	●	●	
Keisuke Miyoshi	●	●	●		●	●	●	●	
Shigeru Tamura (Independent Director)	●	●		●	●	●		●	
Koji Tanami (Independent Director)	●			●			●	●	
Kenichi Akiba (Independent Director)						●		●	●
Yoshie Kajihara (Independent Director)	●				●	●			

Notes: 1. Expertise
Directors Shinichi Fuki and Keisuke Miyoshi have experience of management team member recruitment, management figure analysis, investment legal affairs, fundraising arrangement, etc. at unlisted companies through their venture investment operations. Therefore, even if they have not worked in the relevant divisions, they are deemed to have expertise in personnel/labor affairs, treasury/accounting, and legal affairs.
2. The table above does not represent all the knowledge or experience of the directors.

Corporate Officers

Hiroaki Matsuda	In charge of Administration
Naoki Sato	In charge of Business Development
Sueko Matsumoto	In charge of Fund Management; Administration

Partners

Atsushi Fujii	In charge of Venture Investment
Tomotake Kitazawa	In charge of Venture Investment
Yutaro Saka	In charge of Venture Investment
Shozo Isaka	In charge of Venture Investment
Mizuki Takahara	General Manager of the West Japan Branch and in charge of Venture Investment

Corporate Governance

Basic Views on Corporate Governance

The Company's basic views on corporate governance are as outlined below. With an eye to increasing corporate value over the medium to long term, the Company makes continuous efforts to enhance corporate governance.

- Build respectful relationships with stakeholders
- Maintain transparency and fairness in decision making
- Establish an appropriate supervising structure
- Establish a corporate structure that ensures effective and swift business execution

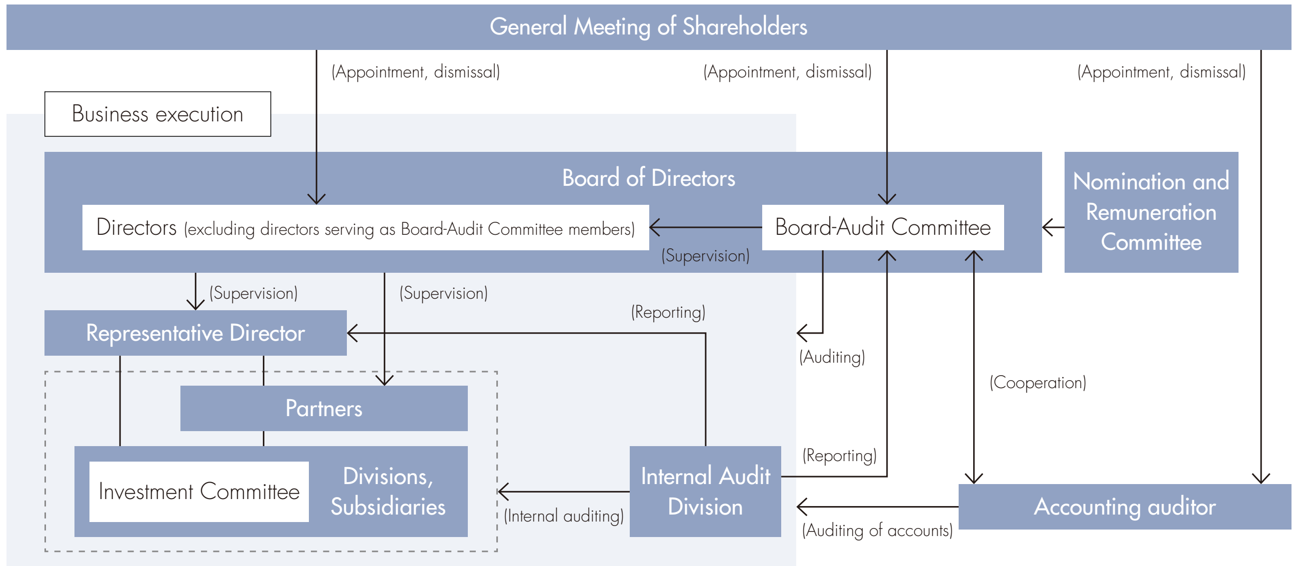
Corporate Governance Policy

Based on the above basic views, the Company has established the Corporate Governance Policy, which outlines its concrete corporate governance measures.

- Corporate Governance Policy   More information
- Corporate Governance Report   More information

Corporate Governance Structure

The Company is a company with a board-audit committee, whereby the Board of Directors and the Board-Audit Committee make important management decisions and audit/supervise business execution by directors.



Board of Directors

As of March 31, 2022, the Board of Directors was composed of seven directors, including three internal directors and four independent directors. On April 1, 2022, the number of internal directors was changed to two, with independent directors continuing to be the majority. The Board of Directors is chaired by the President & CEO.

Board-Audit Committee

The Board-Audit Committee is composed of four independent directors and currently the full-time member is serving as head of the committee. The committee audits the execution of duties by directors and prepares audit reports. The Company has set out the Standards for Independence of Independent Directors to ensure that their independence is maintained. We elect independent directors who meet these standards.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is composed of four independent directors and the President & CEO. To ensure transparency and objectivity of nominations and remuneration, important decisions regarding the nomination and remuneration of directors, corporate officers, partners, and representatives of major subsidiaries are deliberated by the committee in advance. The Board of Directors discusses and makes decisions on nomination and remuneration based on deliberation by the committee.

Investment Committee

Investment decisions are made by the Investment Committee comprising the President & CEO, partners, and others to allow quick decision-making. Directors who are Board-Audit Committee members also participate in the committee on an as-needed basis.

(Fiscal year ended March 31, 2022)

Organization form		Company with a board-audit committee
Chairperson of the Board[1]		Keisuke Miyoshi, President & CEO
Directors[1]	Number of directors [of which, Board-Audit Committee members]	6 [4]
	Ratio of female directors	16.7%
	Ratio of independent directors	66.7%
	Term	1 year[2]
Board of Directors meetings	Number of meetings held	13
	Director attendance rate	100%
	Board-Audit Committee member attendance rate	100%

Board-Audit Committee meetings	Number of members	4
	Ratio of independent directors	100%
	Number of meetings held	14
	Attendance rate	100%
Nomination and Remuneration Committee	Number of members	5
	Ratio of independent directors	80%
	Number of meetings held	5
	Attendance rate	100%
Accounting auditor		Ernst & Young ShinNihon LLC

1. Since April 2022.
2. Excludes directors serving as Board-Audit Committee members.

Main deliberation items at meetings of the Board of Directors (fiscal year ended March 31, 2022)

- Appointment of directors, corporate officers, and partners
- Remuneration for directors, corporate officers, and partners (basic, extraordinary, and stock-related compensation)
- Directors and officers liability insurance, indemnity agreements with directors
- Approval of potential conflict-of-interest transactions by directors
- Acquisition and cancellation of treasury shares, stock split
- Surplus dividend
- Convening of the General Meeting of Shareholders
- Organizational reform
- Important personnel changes, bonuses
- Establishment and revision/abolition of rules
- Approval of financial statements
- Annual securities report
- Expense budget, financial plan
- Fund strategy
- Portfolio status report
- Approval of JAFCO Group's investment in venture investment deals (from the perspective of prevention of conflicts of interest)
- Matters related to corporate governance (Corporate Governance Code compliance, Corporate Governance Report, evaluation of the effectiveness of the Board of Directors)
- Verification of cross-shareholdings
- Risk management

Governance Initiatives

For the Company, which operates a high-risk business of venture and buyout investments, it is extremely important to enhance management governance and carry out fair and prompt decision-making. We have been upgrading governance in stages each year, focusing on "management independence," "ensuring good balance between shareholder returns and strong shareholders' equity," and "transition to a partnership model." Our efforts continue to enhance governance.

Mar. 2016
- ☑ Transition to a company with a board-audit committee

Mar. 2017
- ☑ Basic policy on dividends announced
- ☑ Independent directors account for more than one-third of the Board

Mar. 2018
- ☑ Eliminated cross-shareholdings with Nomura Group by buying back all shares held by Nomura Group
- ☑ Partnership model introduced

Mar. 2019
- ☑ One female director appointed

Mar. 2020
- ☑ Majority of Board of Directors members are independent directors
- ☑ Nomination and Remuneration Committee established

Mar. 2021
- ☑ Sold NRI shareholdings
- ☑ Shareholder Return Policy announced, after which share buybacks (2 times) totaling ¥50 billion were conducted

Mar. 2022
- ☑ Director Keisuke Miyoshi became the new president after deliberations by the Nomination and Remuneration Committee

Appointment and Dismissal of Directors and Officers

- ○ Directors and corporate officers are appointed by the Board of Directors based on deliberations by the Nomination and Remuneration Committee.
- ○ All directors (excluding directors serving as Board-Audit Committee members) are subject to election/reelection every year at the General Meeting of Shareholders. The Board-Audit Committee expresses its opinion on directors' appointment/dismissal at the General Meeting of Shareholders when it deems it necessary.
- ○ The Company shall select director candidates who have business skills, insight, experience, and expertise to serve as a director to allow the Board of Directors to fully exercise its operational and supervisory functions. The Company proactively selects suitable candidates from diverse backgrounds regardless of gender and nationality.
- ○ The Company shall select independent director candidates who have abundant experience and deep insight into corporate management or specialist fields, and can be expected to fulfill the roles and responsibilities of an independent director. The selection is in accordance with the Company's Standards for Independence of Independent Directors.
- ○ In the case where a director has caused the Company to incur a tremendous loss or operational problems by committing a wrongful act, or violating laws, regulations, the Articles of Incorporation or the Company's internal rules, or is no longer able to effectively execute duties due to other reasons, such director shall be subject to a dismissal proposal.
- ○ A partner is nominated with consensus of all partners and appointed upon the approval of the Board of Directors after deliberations by the Nomination and Remuneration Committee.
- ○ In principle, a majority of the Board of Directors are independent directors, and the Board size shall be determined to allow high effectiveness in terms of the Company's scale and business. The Company strives to ensure diversity in terms of gender, nationality, career history, and age.
- ○ The Company discloses major concurrent positions of directors in the Notice of Convocation of the Annual General Meeting of Shareholders every year.

Reasons for Appointment of Independent Directors

Name	Reasons for Appointment	Attendance in the fiscal year ended March 31, 2022	
		Board of Directors' meetings	Board-Audit Committee meetings
Shigeru Tamura	Mr. Tamura had been involved in the management of listed and unlisted companies as CEO, CFO, etc., and has abundant experience and deep insight. He also has experience in financial and investment businesses as well as international operations. He has leveraged his achievements, insight, and knowledge to contribute to the Company's important management decision-making while supervising the execution of its operations from an independent perspective as the full-time Board-Audit Committee member. Also, he chairs the Nomination and Remuneration Committee and actively contributes opinions at the committee meetings. Based on the above, the Company believes that he is capable of appropriately performing his duties as an independent director serving as a Board-Audit Committee member.	13 out of 13 (100%)	14 out of 14 (100%)
Koji Tanami	Mr. Tanami has held various important positions at government agencies and international organizations, and has extensive experience and insight in monetary, financial, tax, and international matters, as well as expertise in legal affairs as an attorney-at-law. He has leveraged the above experience and insight to contribute to the Company's important management decision-making while supervising the execution of its operations from an independent perspective. He also serves as a member of the Nomination and Remuneration Committee and actively contributes opinions at the committee meetings. Based on the above, the Company believes that he is capable of appropriately performing his duties as an independent director serving as a Board-Audit Committee member.	13 out of 13 (100%)	14 out of 14 (100%)
Kenichi Akiba	Mr. Akiba is a certified public accountant with extensive knowledge of international accounting systems and has contributed to the development of accounting standards in Japan. He is also committed to research activities and human resources development as a graduate school professor. He has leveraged his high level of expertise in financial accounting, etc. to contribute to the Company's important management decision-making while supervising the execution of its operations from an independent perspective. He also serves as a member of the Nomination and Remuneration Committee and actively contributes opinions at the committee meetings. Based on the above, the Company believes that he is capable of appropriately performing his duties as an independent director serving as a Board-Audit Committee member.	13 out of 13 (100%)	14 out of 14 (100%)
Yoshie Kajihara	Ms. Kajihara has served as an executive, mainly in charge of accounting and management planning, at listed and unlisted companies and has abundant experience and deep insight in these fields. She has leveraged her achievements, insight, and knowledge to contribute to the Company's important management decision-making while supervising the execution of its operations from an independent perspective. She also serves as a member of the Nomination and Remuneration Committee and actively contributes opinions at the committee meetings. Based on the above, the Company believes that she is capable of appropriately performing her duties as an independent director serving as a Board-Audit Committee member.	13 out of 13 (100%)	14 out of 14 (100%)

Evaluation of the Effectiveness of the Board of Directors

The Board of Directors analyzes and evaluates its effectiveness every year and discloses a summary of the evaluation results.

The summary of the results of the evaluation of the effectiveness of the Board of Directors for the fiscal year ended March 31, 2022 is as follows:

The Board of Directors ("BOD") evaluates the effectiveness of the BOD on an annual basis. In the fiscal year ended March 31, 2022, BOD deliberations over items such as composition, operation, role, duties, etc. of the BOD were held as in previous years based on questionnaires and interviews administered to all directors.

As the majority of the BOD consisted of independent directors, it was confirmed that the BOD composition was appropriate in terms of internal-external balance and size to fulfill its function to supervise business executions.

In the fiscal year ended March 31, 2022, the BOD deepened mutual discussions further from a medium-to-long-term perspective, which was an issue raised in the evaluation results for the fiscal year ended March 31, 2021. In addition to the BOD meetings, opportunities were provided for BOD members to allow active opinion exchange and mutual discussions in a timely and appropriate manner.

Through such discussions, the BOD decided to introduce the stock compensation plan, carried out share buybacks and cancellation of treasury shares continuing from the previous year, and decided to change the BOD structure from April 2022 onward (appointment of new CEO and change of BOD composition). The evaluation determined that further progress has been made in terms of the effectiveness of the BOD.

As upcoming issues to be addressed, the need was confirmed to further enhance the effectiveness of the BOD under the new structure after the aforementioned changes and continue to deepen discussions with a medium-to-long-term perspective.

Based on the above results, it is evaluated that the effectiveness of the BOD increased in general compared to the previous year.

We will continue to conduct effectiveness evaluations regularly and further increase the effectiveness of the BOD.

Remuneration of Directors and Officers

Basic approach to the remuneration of directors, etc.

- The levels and structure of remuneration shall be sufficient to attract, retain, and motivate competent personnel for the realization of the Company's Purpose of "Fueling perpetual growth; investing in bold visions" and its Mission to "Commit to new business creation and jointly shape the future."
- Remuneration shall motivate our directors, etc. to commit to an increase in corporate value and the improvement of not only short-term financial results, but also medium-to-long-term results.
- Given the Company's business nature of being an investment company managing funds investing in unlisted companies, the remuneration of directors, etc. executing Company business shall reflect fund management performance.
- With the aim of gaining stakeholders' trust, the remuneration plan shall be transparent, fair, and rationalized, determined through an appropriate and transparent process.
- The plan shall also be designed to prevent fraud and over-emphasis on short-term performance.

Remuneration of directors (excluding Board-Audit Committee members)

The remuneration of directors (excluding Board-Audit Committee members) is determined by the Board of Directors based on deliberations by the Nomination and Remuneration Committee.

The monetary compensation of directors (excluding Board-Audit Committee members) shall consist of basic compensation and extraordinary compensation. Part of basic compensation is linked to the Company's ordinary income and other business performance, and extraordinary compensation additionally takes into account fund performance. In addition, from the perspective of improving the Company's corporate value in the medium to long term, stock-based remuneration shall be paid to directors (excluding directors serving as Board-Audit Committee members and independent directors).

As an investment company managing highly volatile venture and buyout investment funds, the level of compensation shall reflect the amount of assets under management, the Company's business performance as a result of asset management, and shareholder value, and be appropriate for securing highly capable human resources.

The maximum total amount of monetary compensation of directors (excluding directors serving as Board-Audit Committee members) shall be within ¥600 million per annum (based on a resolution of the 43rd Annual General Meeting of Shareholders held on June 16, 2015). The number of directors (excluding directors serving as Board-Audit Committee members) as of the end of the 43rd Annual General Meeting of Shareholders was six.

As stock-based remuneration to be paid to directors (excluding Board-Audit Committee members and independent directors), the total amount of monetary claims for granting transfer-restricted shares (hereinafter referred to as "Restricted Stocks") shall be no more than ¥300 million per annum, and the total number of the Company's common shares to be issued or disposed of as transfer-restricted shares shall be within 300,000 shares per year (based on a resolution of the 50th Annual General Meeting of Shareholders held on June 21, 2022). The number of directors (excluding directors serving as Board-Audit Committee members and independent directors) as of the end of the 50th Annual General Meeting of Shareholders was two.

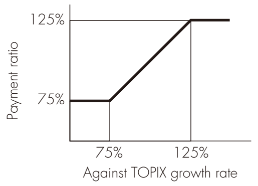
Outline of directors' monetary compensation

Basic compensation (fixed)	Fixed monetary remuneration paid monthly, determined by importance of roles and responsible areas of each job position, years in service, etc.
Basic compensation (performance-linked)	Monetary remuneration paid monthly, determined once a year, in principle, by the Board of Directors on a scale of 1 to 5 by reflecting short-term results based on the comparison of the Company's profit levels (capital gains, net additions to investment loss reserves, ordinary income, etc.) and its details for the preceding fiscal year with the past results. A standard percentage of performance-linked basic compensation to total basic compensation is about 20%, and the relevant portion increases/decreases within a range of 30% based on the above 5-point scale.
Extraordinary compensation (performance-linked)	The Board of Directors determines the year-on-year percentage change in the level of remuneration for each position based on the year-on-year comparison of ordinary income, core income (amount of management fees after subtracting SG&A expenses), unrealized gains, fund performance, which is a major management index over the medium to long term, and total fund size. The amount is then determined by the Board of Directors by taking into account respective job responsibilities and the degree of contribution, and paid to each director once a year. Extraordinary compensation may not be paid when the Company's performance deteriorates sharply.

Stock-based remuneration

In order to provide incentives to continuously improve the corporate value of the Company and to further promote value sharing with shareholders, the Company shall pay remuneration in the form of granting transfer-restricted shares to directors (excluding directors serving as Board-Audit Committee members and independent directors; hereinafter referred to as the "Eligible Directors"). The outline of the restricted-stock remuneration plan is as shown below.

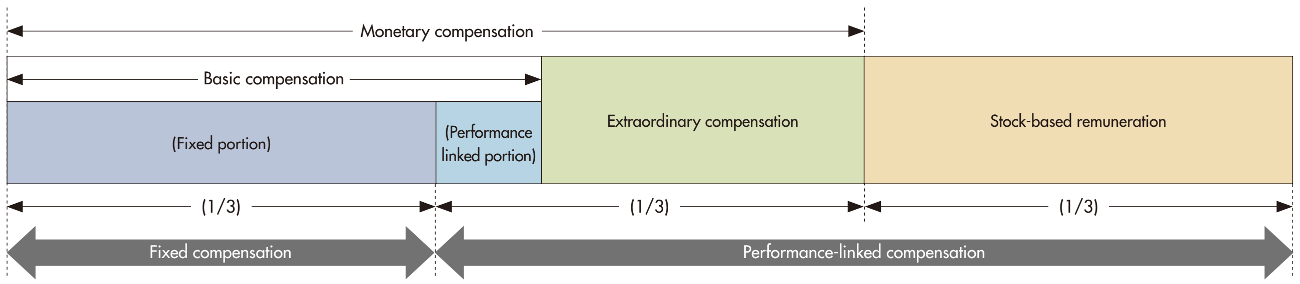
<table>
<tr><td>Granting of transfer-restricted shares</td><td>The Company shall grant transfer-restricted shares (hereinafter the "Allotted Shares") in an amount determined by the Board of Directors of the Company based on a base amount corresponding to the positions of the Eligible Directors and a comparison of the Company's stock price growth rate and the TOPIX (Tokyo Stock Price Index) growth rate for a certain period of time prior to the grant.

Payment ratio against base amount


Amount of stock-based remuneration = Base amount × Payment ratio
= Base amount × Against TOPIX growth rate

$$\text{Against TOPIX growth rate} = \frac{(A + B) \div C}{D \div E}$$
A Average closing price of the Company's common shares for the three months immediately preceding the month within which the allotment resolution date falls
B Dividend per share for the previous fiscal year
C Average closing price of the Company's common shares for the three months immediately preceding the month within which the date one year prior to the allotment resolution date falls
D Average closing price of TOPIX for the three months immediately preceding the month within which the allotment resolution date falls
E Average closing price of TOPIX for the three months immediately preceding the month within which the date one year prior to the allotment resolution date falls

The number of the Allotted Shares granted to the Eligible Directors shall be no more than the maximum of 300,000 shares per year as approved at the 50th Annual General Meeting of Shareholders held on June 21, 2022.</td></tr>
<tr><td>Transfer restriction period</td><td>From the allotment date to the time of retirement or resignation from director or other position of the Company or its subsidiary, as determined in advance by the Company's Board of Directors. Provided, however, if the time immediately after such retirement or resignation is prior to the date after a lapse of three (3) months from the end of the fiscal year within which the date of the allotment of the Allotted Shares falls, the end of the Transfer Restriction Period may be adjusted to a reasonable extent.</td></tr>
<tr><td>Removal of transfer restriction</td><td>(1) On the condition that the Eligible Directors continue to hold their position as director or other position of the Company or its subsidiary, as determined in advance by the Company's Board of Directors, during a period of time determined in advance by the Company's Board of Directors (the "Service Period"), the Company shall remove the Transfer Restriction as of the expiration of the Transfer Restriction Period. Provided, however, that: (a) if an Eligible Director retires or resigns from his or her position as director or other position of the Company or its subsidiary, as determined in advance by the Company's Board of Directors, before the expiration of the Service Period for justifiable reasons; or (b) if an Eligible Director resigns or retires from his or her position as director or other position of the Company or its subsidiary, as determined in advance by the Company's Board of Directors, for any reason other than justifiable reasons before the expiration of the Transfer Restriction Period, the number of the Allotted Shares to be removed from Transfer Restriction and the timing of the removal of Transfer Restriction shall be reasonably adjusted as necessary even after the expiration of the Service Period.
(2) If any matter relating to a merger agreement under which the Company becomes the disappearing company, or a contract of share exchange, a share transfer plan, or any other reorganization in which the Company becomes a wholly-owned subsidiary, is approved at a General Meeting of Shareholders of the Company (provided, however, that if the approval of such reorganization is not required by the General Meeting of Shareholders of the Company, the Board of Directors of the Company) during the Transfer Restriction Period, the Company shall, by resolution of the Board of Directors of the Company, remove the Transfer Restriction with respect to the number of Allotted Shares reasonably determined based on the period between the commencement date of the Transfer Restriction Period and the approval date of such reorganization, etc., prior to the effective date of such reorganization, etc.</td></tr>
<tr><td>Acquisition of the Allotted Shares without consideration</td><td>(1) The Company shall acquire, without consideration, the Allotted Shares, for which the Transfer Restriction has not been removed as of the time immediately after the removal of the Transfer Restriction pursuant to the "Removal of transfer restriction" above, as a matter of course.
(2) If an Eligible Director resigns or retires from his or her position as director or other position of the Company or its subsidiary, as determined in advance by the Company's Board of Directors, before the expiration of the Service Period, the Company shall acquire the Allotted Shares without consideration as a matter of course, unless there are reasonable grounds for the retirement or resignation such as the expiration of the term of office or the death of the Eligible Director.
(3) If the Board of Directors of the Company recognizes that an Eligible Director has violated laws, regulations, internal rules or the Allotment Agreement in any material respect during the Transfer Restriction Period, or in the case of certain grounds set forth in the Allotment Agreement, the Company shall acquire, without consideration, all of the Allotted Shares held by the Eligible Director at the relevant time as a matter of course.</td></tr>
</table>



Note: Fractions in parentheses are approximate.

Compliance

Compliance Promotion System

Information related to JAFCO Group's compliance is reported to the Compliance Officer, who supervises overall compliance initiatives. The heads of each division are responsible for compliance in their respective divisions and promote daily compliance, the Administration Division supports and manages compliance-related initiatives as the supervising division, and the Internal Audit Division audits these activities. In addition, the Administration Division disseminates information concerning the enactment, revision, and abolition of laws and regulations to directors, officers, and employees and holds compliance training and seminars. In case of violation of laws, regulations, internal rules, etc. or administrative incidents, information is reported to the Compliance Officer and the supervising division, and immediate remedial measures are then examined and implemented to take steps to thoroughly prevent recurrence. Furthermore, we have established the JAFCO Hotline as a whistleblowing system for reporting compliance-related matters, which is connected to the Compliance Officer, the Administration Division, and an independent director.

Initiatives to Prevent Improper Use of Public Funds

Clarification of the responsibility system

We have established the necessary matters with regard to the handling of public research funds, etc., in accordance with the Guidelines for Supervision and Auditing of Public Research Funds at Research Institutions (implementation standards) to ensure their proper management and promote appropriate and smooth operation. Under the President & CEO as the chief administrative officer, the director in charge has been appointed as the supervising officer and the manager of the department handling competitive funds, etc., as the officer responsible for compliance promotion.

Consultation and contact desks

We have established the following consultation and contact desks for appropriate use of public research funds, etc.

- Consultation desk regarding appropriate use and administrative processing of public research funds, etc.
- Contact desk for reporting improper use, etc.

Initiatives to Prevent Bribery

In response to the global trend in the establishment and strengthening of bribery prevention systems, we have established the Basic Policy on Bribery Prevention to address prevention of improper transactions.

Basic Policy on Bribery Prevention

1. Prohibition of bribery

The directors, officers, and employees of JAFCO Group Co., Ltd. and its group companies (hereinafter "the Company Group") shall not engage in any act of offering or accepting bribes prohibited by laws and regulations of each country, either directly or indirectly, with public officials, their equivalents and persons of interest (hereinafter "public officials, etc.") to acquire illicit gains in business or offer benefits to third parties.

2. Establishment and operation of a bribery prevention framework

The Company Group shall establish internal rules related to bribery prevention in light of laws and regulations of each country, while building a framework to prevent bribery through establishment of a continuous monitoring system and an internal whistleblowing system.

3. Education and training

The Company Group shall provide periodic training to prevent its directors, officers and employees from offering or accepting bribes and ensure the effectiveness of the bribery prevention system.

4. Retention of payment records

The Company Group shall accurately record payments made to public officials, etc., and retain the records properly under the appropriate internal control systems.

5. Internal audit

The Company Group shall conduct periodic internal audits on the operational status of the bribery prevention framework.

6. Disciplinary action

The Company Group shall take strict disciplinary actions based on the Rules of Employment in the event that a director, officer, or employee violates this policy or internal rules related to bribery prevention.

Risk Management

Risk Management System

JAFCO Group considers risk management to be an important management issue and has established a system to ensure that operations are conducted appropriately.

Our risk management rules define the management system in accordance with the characteristics and importance of each risk. The risks that we manage are classified into categories including investment management risks, market risks, liquidity risks, compliance risks, information management risks, systems risks, back-office risks, and other risks. After deciding the degree of impact of risk materialization, each risk is assigned to departments in charge and managed.

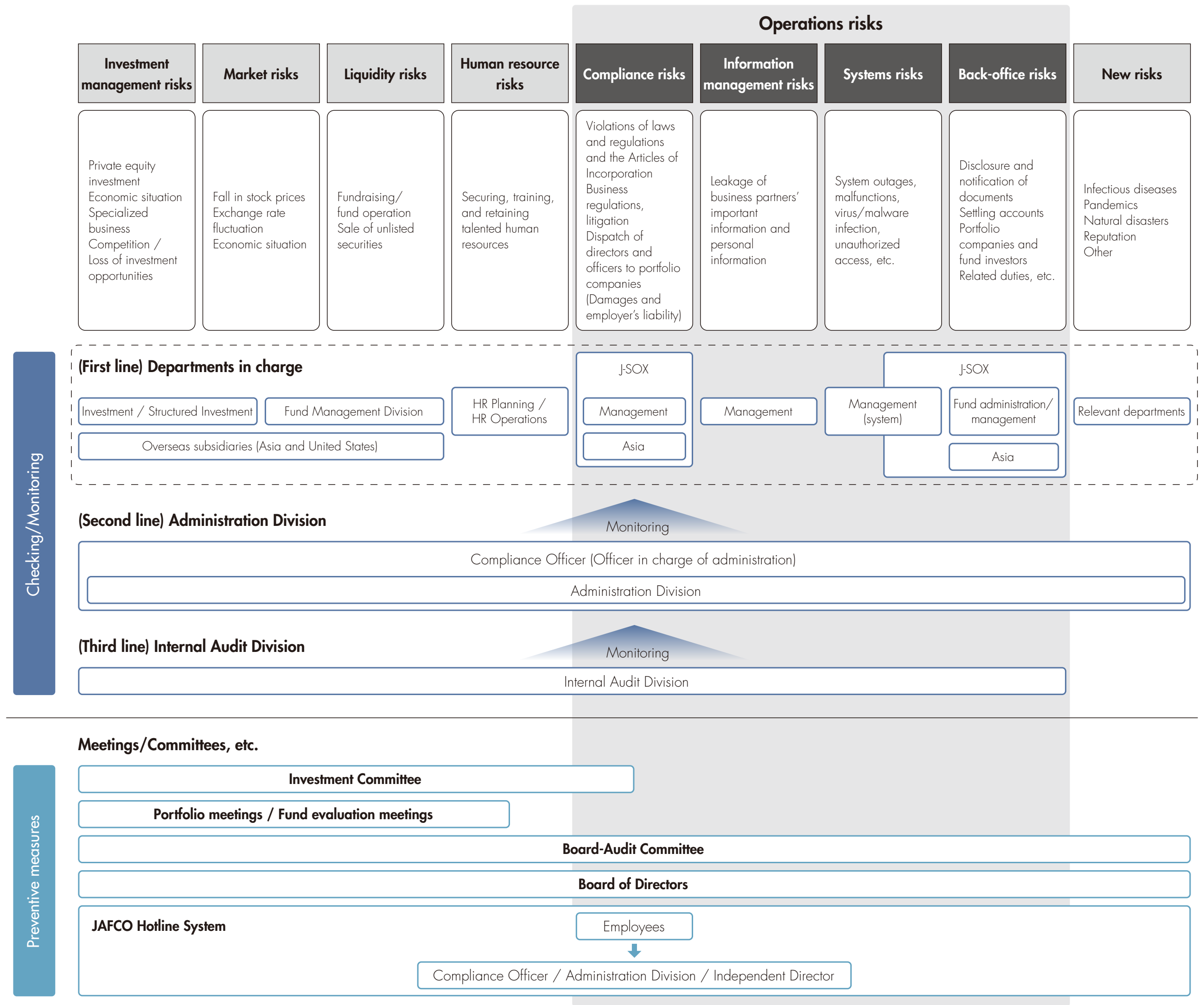
The risk management system adopts the Three Lines of Defense model: risk management by each department in charge (first line), monitoring by the compliance officer and Administration Division (second line), and monitoring by the Internal Audit Division (third line).

As a preventive measure, the Board of Directors and Board-Audit Committee evaluate the effectiveness of risk management based on management status reports. Investment Committee meetings and portfolio meetings are also held regularly to appropriately manage investment management risks, market risks, liquidity risks, and human resource risks, ensuring the enhancement of the risk management system.

Investment decisions are made after deliberation by the Investment Committee, which is comprised of members including the President & CEO and partners. For making decisions, opinions of staff in charge of investment evaluation are asked separately from the relevant investment division. The status of unlisted portfolio companies is reported on a regular basis at Investment Committee meetings, portfolio meetings, and fund evaluation meetings, which is then reflected in the evaluation of portfolio companies, while discussing appropriate responses to address issues.

To create a culture that ensures proper recognition and management of risks as an organization, we have put in place a system for prompt reporting and consultation by the relevant divisions in case risk management concerns or issues arise. In addition, we have established the JAFCO Hotline as a means to enable directors, officers, and employees to directly report information on actions that violate or may violate laws and regulations.

Risk management system



Business Risks, Etc.

Economic situation	The Company Group uses capital from the funds it manages and operates to invest in unlisted securities. In addition to receiving fund management fees and success fees, we invest our own capital in the funds to receive capital gains. The Company Group diversifies regional risks by making investments in Japan, Asia and the United States. In addition, a fund makes new investments over a period of around three years to diversify risk over a certain period of time. We also seek opportunities for exits (sale) through M&A and other means. However, there is a possibility that capital gains may fluctuate significantly if the economy or the stock market become sluggish, and regional risk diversification may not be so effective due to factors such as geopolitical risks or global pandemics.
Investment in unlisted securities	A growing percentage of investments by the Company Group and its funds are at the seed stage of business foundation and the early stage of business startup. The Company Group rigorously selects promising companies, boosts its shareholdings in each company by making large investments, and increases management involvement in portfolio companies. Because it is difficult to fully ascertain the potential of companies in the seed and early stages, it is possible that we miss investment opportunities in companies with high potential and cannot generate significant returns on investment. In the case that the business of a portfolio company does not progress as initially planned, or its financial situation deteriorates, there is the risk that all invested capital will be lost. Also, investment exits through IPO, trade sales to third parties, M&A, etc. are not guaranteed. Furthermore, as unlisted securities by nature have considerably poor liquidity, their value may be significantly lower than expected if sold at the unlisted stage.
Specialized business	The Company Group conducts its business operations by concentrating management resources on the operation and management of funds and investment in unlisted securities. Since investment in unlisted securities is significantly affected by changes in the economy and the stock and IPO markets, the business performance and financial situation of the Company Group may be negatively impacted should such changes arise.
Competition	In our main business of private equity investment, competition for investment deals in promising unlisted companies is intensifying among competing companies, including specialist venture capital and corporate venture capital programs of business firms. Due to this competitive environment, we may miss opportunities to invest in promising companies or fail to generate sufficient capital gains depending on the terms of investment. As a result, fund performance as well as the Company Group's business performance and financial situation may be negatively impacted.
Fall in stock prices	Following the IPO of a portfolio company, we sell our shareholdings after considering factors such as trends in the stock market, acquisition cost, shareholding balance, stock price, trading volume, and the fund's term of contract. Decline in the prices of listed shareholdings may negatively impact fund performance and the business performance and financial situation of the Company Group. In particular, the negative impact from a fall in stock prices may increase substantially if the shareholding ratio of the Company Group or its funds is high.
Exchange rate fluctuations	We invest in U.S. dollar-denominated investments in Asian and U.S. funds. Since there is a five- to 10-year time lag between making capital contributions to a fund and receiving distributions, exchange rate fluctuations affect our business performance. The funds managed by the Company Group make new investments over a period of around three years, and distributions from the sale of shares and sale proceeds are paid over the fund term (usually 10 years). As a result, the exchange rate risks for the acquisition and liquidation of foreign currency denominated assets are diversified over a given period. However, as it requires several years for an investment in an unlisted company to achieve an exit, it is difficult to completely eliminate the effect of exchange rate fluctuations.
Fundraising	The investors in our funds are mainly institutional investors, such as financial institutions, for fund management purposes or business firms that wish to approach startups. We work to build trust with our fund investors and ensure transparency in our fund management by issuing regular reports on the status of fund management and arranging meetings and other types of communication as needed. However, in the event that we are unable to raise sufficient funds from investors due to sluggish business performance or a deterioration in the fundraising environment resulting from the economic climate and other factors, our investment activity may be impeded and our fund management fees may decrease, thereby negatively impacting the Company Group's business performance and financial situation.
Management of information	In order to manage the important information of business partners and personal information held by the Company Group, we have improved our information management system by establishing various company rules, thoroughly disseminating information to directors, officers, and employees, and strengthening the security of information systems. However, in the event of an information leak due to unauthorized external access, or malicious actions or carelessness of directors, officers, employees, or other relevant persons, the Company Group's business performance and financial situation may be negatively impacted by claims for damages, a loss of social credibility, or other factors.

Legal regulations	The Company Group operates and manages funds and invests in unlisted stocks mainly in Japan, Asia, and the United States. These activities are subject to the legal regulations of the respective country where they take place. At the Company Group, the relevant divisions gather information and respond to legal regulations related to their operations. However, in some cases, the Company Group's activities may be restricted by legal regulations and costs may rise due to the need to address these regulations.
Legal and other violations	At the Company Group, the heads of each division serve as a person responsible to promote daily compliance at their respective divisions. The Administration Division, as the controlling division, supports and manages compliance-related initiatives. In the event of non-compliance with laws, regulations, internal rules, etc. or an administrative accident, information is collected and reported to the Compliance Officer and the controlling division. Immediate remedial measures are then examined and implemented, and steps are taken to ensure recurrence prevention. In the event that the Company Group or its directors, officers, or employees cause damage to portfolio companies, fund investors, or other third parties due to violations of related laws and regulations or various contracts, breach of its duty of care as a fund manager, or operational errors or misconduct, the Group may be held liable for compensating such damage. Furthermore, the loss of social credibility and administrative sanctions by the supervising authorities in response to such legal violations, etc. could adversely impact the Company Group's performance and financial position.
Executive dispatch	The Company Group may dispatch its directors, officers, or employees to serve as executives at a portfolio company to improve the value of the portfolio company. In the event that a claim for damages is filed against such individual director, officer, or employee, the resulting economic loss, employer's liability, or loss of social credibility could adversely impact the Company Group's performance and financial position. In addition, to the extent possible, the Group takes out directors' and officers' liability insurance and signs liability limitation agreements with portfolio companies, but it may not be able to completely avoid an adverse impact on the Company Group's performance and financial position.
Securing and training of talented human resources	Due to the nature of its business, the future growth and success of the Company Group is heavily dependent on talented investment professionals and other human resources. We have continued to recruit new graduates, while actively hiring mid-career professionals, in an effort to secure and develop diverse, high-potential human resources. However, if we are unable to secure high-potential human resources, the Company Group's future growth, performance, and financial position could be adversely affected.
Impact of the COVID-19 pandemic	The Company Group has worked to prevent the spread of COVID-19, prioritizing the health and safety of our directors, officers, employees, and customers. In anticipation of a prolonged pandemic, we worked with portfolio companies to raise funds for their businesses, reduce costs, and conduct fundamental reviews of their profit plans. In addition, we ourselves seek to maintain our net cash and deposits and equity capital at levels that do not particularly hinder our medium-to-long-term business operations or investment activities. However, in the event that the impact of COVID-19 lingers due to the emergence and spread of new variants, there are risks that investment loss reserves may increase and IPOs, M&As, and other exits of portfolio companies may slow down. Furthermore, it may also cause delays in future fundraising and other negative impacts.
ESG	The environmental, social, and governance (ESG) perspective has become increasingly important in corporate management and investment activities, and JAFCO Group is also required to continuously address these initiatives. Established in May 2022, the Project Promotion Division mainly promotes the Company's sustainability projects and works to specifically incorporate sustainability concepts into the Company's business strategy. However, if these efforts are not fully effective and the Company Group's ESG investments and efforts to achieve sustainability were considered to be weak, we could lose the support of our stakeholders, which could, in turn, have a negative impact on our fundraising and investment activities and our ability to secure human capital. We will also work to gather and analyze necessary data on the impact of risks and revenue opportunities related to climate change, one of the key global issues, on our own business activities and earnings, and strive to ensure appropriate information disclosure as a listed company. However, if such disclosures were deemed insufficient, it could damage the Company Group's corporate value and negatively impact the Company Group's performance and financial position.

Environmental Initiatives

Recognizing that environmental problems are major social issues, JAFCO Group works to reduce its own environmental impact and, through its main business of investment, contribute to reducing environmental impact by supporting the establishment and development of companies with technologies and business models that contribute to the environment.

Reducing our own environmental impact

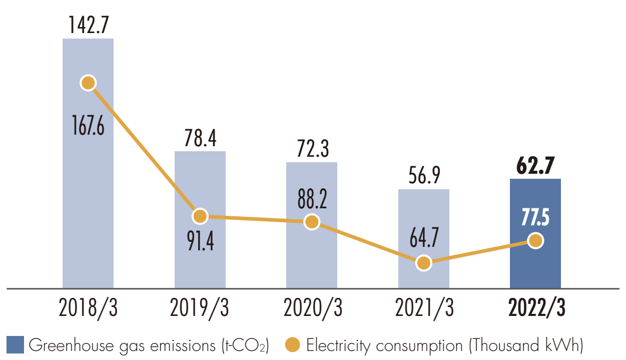
1. Initiatives to reduce energy consumption

JAFCO Group is working to reduce energy consumption through efficient office operations and active promotion of remote working. As a result, we reduced our overall electricity consumption by 53.8% and the greenhouse gas emissions associated with office electricity and air conditioning by 56.2%, compared to the fiscal year ended March 31, 2018.

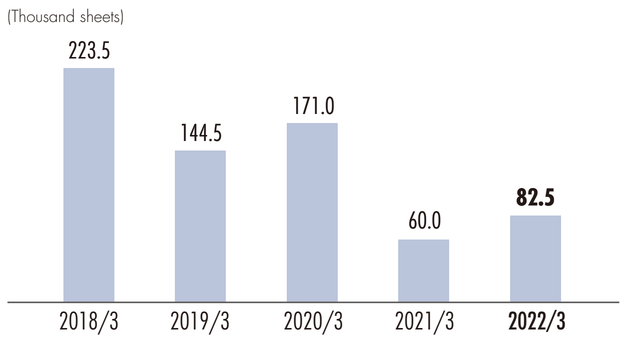
2. Reduction of office paper

In February 2018, we moved our headquarters to Toranomon Hills (Minato Ward, Tokyo) and introduced a free address system. We have made thorough efforts to reduce paper usage by discontinuing the distribution of paper-based materials for internal meetings and the storage of paper documents, and other means. This has resulted in a 63.1% reduction in the number of sheets of copy paper ordered, compared to the fiscal year ended March 31, 2018.

Office electricity consumption / Greenhouse gas emissions associated with office electricity and air conditioning



Sheets of copy paper ordered



Notes: 1. Figures are for the Tokyo Head Office and the West Japan Branch (formerly Kansai Branch until August 2021) only. The former Chubu and Kyushu branches are not included.
2. The Company will work to disclose the impact of risks and profit-earning opportunities stemming from climate change on its business activities and profits in accordance with the Task Force on Climate-related Financial Disclosure (TCFD) framework or similar.

Reducing environmental impact through the businesses of portfolio companies

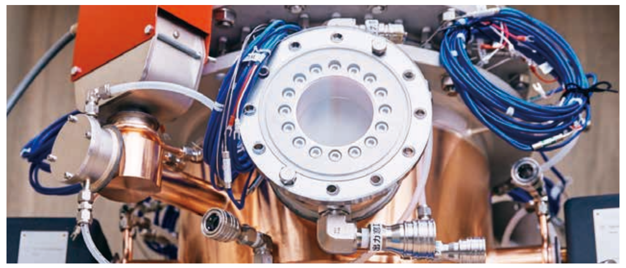
Our main business of investment creates new businesses, and our investment activities themselves contribute to sustainability. We are strengthening our investment in businesses and companies with the potential to contribute to the realization of a sustainable society through technologies and services that offer solutions to environmental problems, about which there is recent increasing concern.

Investment example 1

Kyoto Fusioneering Ltd.

KYOTO FUSIONEERING

The company is a Kyoto University-originated startup focusing on the development of specialized plant equipment for nuclear fusion. Nuclear fusion, which is the source of the sun's energy, has the power to supply energy for human beings for millions of years into the future if it can be harnessed on earth. As nuclear fusion enables fuel to be created from seawater and does not emit greenhouse gases, it is expected to provide a fundamental solution for energy and environmental problems.



Investment example 2

Power Spin Inc.

PowerSpin

Power Spin is a Tohoku University-originated venture focusing on circuit IP and design for IoT devices and AI systems using spintronics technology to increase the ratio of computing performance to energy consumption by a factor of 100 or more compared to conventional technologies. Because spintronics can achieve sufficient computing power with dramatically lower energy consumption, it solves the electricity consumption issues of semiconductors and contributes to the realization of both a carbon-neutral, energy-saving society and a livable society that harnesses AI, IoT, and DX (Society 5.0).