

[Translation]

The Form of Audit Reports

Japan Corporate Auditors Association
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(Notes)

This translation is prepared only for reference purposes and in the case of any matters falling within the ambit of The Form of Audit Reports (the Form), reference should be made to the original Japanese text of the Form.

This translation merely covers the form of the partial cases given below out of the cases given in the table of contents.

I Audit report to be provided to shareholders

1. In the case of a company with “board of directors + *kansayaku-kai* + accounting auditor”

II Audit report to be prepared by each *kansayaku*

1. In the case of a company with “board of directors + *kansayaku-kai* + accounting auditor”

(1) In the case of a full-time *kansayaku*

(2) In the case of a part-time *kansayaku*

1. This form, hereinafter referred to as “the Form,” outlines a model and terms of reference for *kansayaku* or the *kansayaku-kai* when preparing an audit report as stipulated in the Companies Act of Japan (*Kaishahou*). The term “audit report (*kansahoukoku*)” used in the laws and regulations is expressed as the “audit report (*kansahoukokusho*)” in the Form, in accordance with customary practice¹. Of course, it is possible to also describe it as the “audit report (*kansahoukoku*).”

Essentially, the audit report is prepared based on the actual situation of the audit of each company. *Kansayaku* or the *kansayaku-kai* are expected to prepare an audit report which accurately reflects the actual conditions discovered by their audit pursuant to the Companies Act of Japan, the Ordinance for Enforcement of the Companies Act of Japan and the Company Accounting Regulations, etc. For assistance in this regard, please refer to the many examples of statements in the “Notes” regarding the method of conducting audits which actively incorporates the “Code of *Kansayaku* Auditing Standards” stipulated by the Japan Corporate Auditors Association, and reflecting the Code in the audit reports.

2. With respect to the audit reports prepared by *kansayaku* or the *kansayaku-kai*, under the laws or regulations, there are separate provisions for the preparation of audit reports concerning the business report and any annexed specification hereinafter referred to as “the business report, etc.” and for the preparation of audit reports concerning accounting-related documents. However, the auditing for the

¹ [In this translation, both of “*kansahoukoku*” and “*kansahoukokusho*” are translated into “audit report.”]

business report, etc. and the auditing for accounting-related documents by *kansayaku* or the *kansayaku-kai* are closely related, and have much in common. Therefore, in the Form, the form of preparation that was adopted as a basic method of preparation which combines the “audit report concerning the business report, etc.”, the “audit report concerning accounting documents for each business year and the annexed specification hereinafter referred to as ‘accounting documents, etc.’” and the “audit report concerning consolidated accounting documents,” into one audit report. Under the laws and regulations, while four weeks are allocated as the audit period for the *kansayaku(-kai)* for the business report, etc., there are four weeks allocated as the audit period for an accounting auditor, and one week allocated as the audit period for the *kansayaku-kai* thereafter for accounting-related documents. Therefore, in the event of the preparation of the three audit reports noted above together in one document, as provided for in the Form, please note that there are occasions where the period for the audit for the business report, etc. must be extended by agreement with the specified directors.

With respect to the method of preparation of the *kansayaku(-kai)* audit report, other than as noted above, it is also possible to (i) prepare an “audit report concerning the business report, etc.” and an “audit report concerning accounting documents, etc.” together as one document, and to prepare an “audit report concerning consolidated accounting documents” separately, (ii) prepare the “audit report concerning business report, etc.” independently and to prepare the “audit report concerning accounting documents, etc.” and the “audit report concerning consolidated accounting documents” together as one document, or (iii) prepare all of these three audit reports separately.

Therefore, in the Form, while adopting “the form of preparation of combining all the audit reports together” as a basic method of preparation, in order to respond to companies which (i) intend to select the method of preparation of the audit report concerning consolidated accounting documents separately and independently or (ii) are not required to prepare the consolidated accounting documents in the first place, etc., the method of addressing such cases is explained by the notes affixed to the Form and examples of statements in cases where audit reports concerning consolidated accounting documents were prepared separately and independently are found in the “Reference Materials.”

3. In the case of companies with *kansayaku-kai*, each *kansayaku* shall prepare his/her respective audit report, and the audit of the *kansayaku-kai* is formed by combining the contents of each *kansayaku*'s audit report, to be provided to the shareholders. However, each *kansayaku*'s audit report shall also be the subject of safekeeping and inspection. In light of the law requiring that each *kansayaku* and the *kansayaku-kai* respectively prepare the audit report, the Form adopts a style for each *kansayaku* to prepare their respective audit report and demonstrates the forms to be used by full-time *kansayaku* and part-time *kansayaku*.

It is also understood that the preparation of the audit report in one document which combines the audit reports of the *kansayaku-kai* and each *kansayaku* may be possible. In cases where the audit reports are combined in one document, it is desirable that the scope, the method and the contents, etc. of each *kansayaku*'s audit are clarified.

In the case of companies without a *kansayaku-kai*, each *kansayaku* shall also prepare an audit report. With respect to the audit report to be provided to the shareholders, in place of the method of providing the shareholders with the audit reports of each *kansayaku*, it is possible to prepare one audit report combining the audit reports of each *kansayaku* and provide the shareholders with the one combined audit report. The Form demonstrates this form of combined audit report.

4. With respect to the “method and the contents of the audit,” in the audit report, the method of the audit actually conducted by *kansayaku* must be described clearly and briefly so that the reliability of the audits may be accurately determined. In the Form, the method and the contents of audits which are considered to be generally conducted are indicated. However, the “method and the contents of the audit” are expected to vary due to the differences, in each company’s organizational structure and internal control systems, etc., and the assignment of the duties of *kansayaku*. In the Form, notes are added where various descriptions of the audit methods are expected, and explanations are added where needed. Please prepare the audit reports with reference to these notes.

Needless to say, the audit report is prepared with the assumption that the *kansayaku* fulfill the duty of care. The *Kansayaku* must clarify the standards of the audit and keep records of the audit and the minutes of the *kansayaku-kai*, etc. to substantiate the performance of this duty.

5. In the event the *kansayaku-kai* prepares the audit report, the *kansayaku-kai* must deliberate the contents of the *kansayaku-kai* audit report once or more by holding meeting(s) or by a method in which opinions can be exchanged simultaneously by the transmission and reception of information.

6. The Form is targeted at companies with a board of directors. Please also prepare the audit report with reference to the Form in the case of companies organized without the board of directors.

7. In cases where extraordinary accounting documents are prepared by companies, *kansayaku* or the *kansayaku-kai* must prepare an audit report concerning such extraordinary accounting documents. Even though extraordinary accounting documents may be prepared by companies without a board of directors, a *kansayaku-kai*, or an accounting auditor, if the companies are companies with *kansayaku* (including in the event that the scope of the audit of *kansayaku* is limited to those documents concerning accounting), the Form only lists the form of the audit report to be provided to the shareholders by companies whose organizational structure is: a “board of directors + *kansayaku-kai* + accounting auditor.” Therefore, please prepare the audit report to be provided to the shareholders and the audit report by each *kansayaku* with reference to the Form in the case of companies with a different organizational structure to that noted above.

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II Audit report to be prepared by each *kansayaku*

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5. “Audit report on extraordinary accounting documents” in the case of a company with “board of directors + *kansayaku-kai* + accounting auditor”
 - (1) In the case of a full-time *kansayaku*
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Reference Materials

Audit report to be provided to shareholders

- A Audit report on consolidated accounting documents in the case of a company with “board of directors + *kansayaku-kai* + accounting auditor”
- B Audit report on consolidated accounting documents in the case of a company with “board of directors + *kansayaku* + accounting auditor”

Audit report to be prepared by each *kansayaku*

- C Audit report on consolidated accounting documents in the case of a company with “board of directors + *kansayaku*”
 - (1) In the case of a full-time *kansayaku*
 - (2) In the case of a part-time *kansayaku*
- D Audit report on consolidated accounting documents in the case of a company with “board of directors + *kansayaku* + accounting auditor”

I Audit report to be provided to shareholders

1. In the case of a company with “board of directors + *kansayaku-kai* + accounting auditor” (Note 1)

[Date]

To Mr. [____], Representative Director-President
[____] Co., Ltd. **(Note 2)**

Kansayaku-kai **(Note 3)**

Submission of Audit Report

The *kansayaku-kai* has prepared this audit report in accordance with the provisions of Article 390, paragraph 2, item 1 of the Companies Act of Japan and submits the report as per the enclosure **(Note 4)**.

End.

Audit Report

With respect to the directors' performance of their duties during the [__]th business year (from [____] to [____]), the *kansayaku-kai* has prepared this audit report after deliberations **(Note 5)** based on the audit reports prepared by each *kansayaku*, and hereby report as follows:

1. Method and Contents of Audit by *Kansayaku* and the *Kansayaku-kai* (Note 6)

The *kansayaku-kai* has established the audit policies **(Note 7)**, assignment of duties **(Note 8)**, etc. and received a report from each *kansayaku* regarding the status of implementation of their audits and results thereof. In addition, the *kansayaku-kai* has received reports from the directors, etc. and the accounting auditor regarding the status of performance of their duties, and requested explanations as necessary.

In conformity with the *kansayaku* auditing standards established by the *kansayaku-kai* **(Note 9)**, and in accordance with the audit policies and assignment of duties **(Note 10)**, etc., each *kansayaku* endeavored to facilitate a mutual understanding with the directors, the internal audit division **(Note 11)** and other employees, etc., endeavored to collect information and maintain and improve the audit environment **(Note 12)**, has attended the meetings of the board of directors and other important meetings, received

reports on the status of performance of duties from the directors and other employees (**Note 13**) and requested explanations as necessary, examined important approval/decision documents, and inspected the status of the corporate affairs and assets at the head office and other principal business locations. Also, each *kansayaku* monitored and inspected the status of (i) the contents of the board of directors' resolutions regarding the development and maintenance of the system to ensure that the directors' performance of their duties complied with all laws, regulations and the articles of incorporation of the company and other systems that are set forth in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act of Japan as being necessary for ensuring the appropriateness of the corporate affairs of a joint stock company (*kabushiki kaisha*), and (ii) the systems (internal control systems) (**Note 14**) based on such resolutions. The contents of the basic policies set forth in Article 127, item 1 of the Ordinance for Enforcement of the Companies Act of Japan and undertakings set forth in item 2 of said article, as described in the business report, were also considered in light of the circumstances, etc. of deliberations by the board of directors and other bodies (**Note 15**). With respect to the subsidiaries, each *kansayaku* endeavored to facilitate a mutual understanding and exchanged information with the directors and *kansayaku*, etc. of each subsidiary and received from subsidiaries reports on their respective business as necessary (**Note 16**). Based on the above-described methods, each *kansayaku* examined the business report and annexed specifications for the business year under consideration.

In addition, each *kansayaku* monitored and verified whether the accounting auditor maintained its independence and properly conducted its audit, received a report from the accounting auditor on the status of its performance of duties, and requested explanations as necessary. Each *kansayaku* was notified by the accounting auditor that it had established a "system to ensure that the performance of the duties of the accounting auditor was properly conducted" (the matters listed in the items of Article 159 of the Company Accounting Regulations) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council on October 28, 2005), and requested explanations as necessary (**Note 17**). Based on the above-described methods, each *kansayaku* examined the accounting documents (balance sheet, profit and loss statement, shareholders' equity variation statement, and schedule of individual notes (**Note 18**)) and the annexed specifications thereto, as well as the consolidated accounting documents (consolidated balance sheet, consolidated profit and loss statement, consolidated shareholders' equity variation statement, and schedule of consolidated notes), for the business year under consideration.

2. Results of Audit (**Note 19**)

(1) Results of Audit of Business Report, etc.

- (i) We acknowledge that the business report and the annexed specifications thereto fairly present the status of the Company in conformity with the applicable laws and regulations and the articles of incorporation of the company.
- (ii) We acknowledge that no misconduct or material fact constituting a violation of any law or regulation or the articles of incorporation of the company was found with respect to the directors' performance of their

duties **(Note 20)**. **(Note 21)**

(iii) We acknowledge that the board of directors' resolutions with respect to the internal control systems are appropriate. **(Note 22)** We did not find any matter to be mentioned with respect to the directors' performance of their duties concerning the internal control systems. **(Note 23)**

(iv) We did not find any matter to be mentioned with respect to the basic policies, described in the business report, regarding those who rule on the company's determination of its financial and business policies. Undertakings, described in the business report, set forth in Article 127, item 2 of the Ordinance for Enforcement of the Companies Act of Japan are in line with the basic policies, do not impair the common interests of the company's shareholders, and are not directed to the purpose of maintaining the status of the company's officers. **(Note 24)**

(2) Results of Audit of Accounting Documents and their Annexed Specifications

We acknowledge that the methods and results of audit performed by the accounting auditor, [_____] **(Note 25)**, are appropriate. **(Note 26)**

(3) Results of Audit of Consolidated Accounting Documents

We acknowledge that the methods and results of audit performed by the accounting auditor, [_____] **(Note 27)**, are appropriate. **(Note 28)**

3. Opinion of *Kansayaku* [_____] (if any *kansayaku* has a different opinion) **(Note 29)**

4. Subsequent Events (if any material subsequent event has occurred) **(Note 30)**

[Date] **(Note 31)**

Kansayaku-kai of [_____]

Fulltime *kansayaku* **(Note 32)**: [_____] (seal)

Full-time *kansayaku* (Outside *kansayaku*) **(Note 33)**: [_____] (seal)

Outside *kansayaku* **(Note 34)**: [_____] (seal)

Kansayaku: [_____] (seal)

(Under their hands) **(Note 35)**

(Note 1) This form integrates "audit report on business report, etc.," "audit report on accounting documents" and "audit report on consolidated accounting documents." In case the "audit report on consolidated accounting documents" is prepared separately, the underlined portion in this form shall be deleted.

- (Note 2) Under the Companies Act of Japan, an audit report shall be submitted to a “specified director” (Article 132, paragraph 1 of the Ordinance for Enforcement of the Companies Act of Japan, Article 160, paragraph 1 of the Company Accounting Regulation. Refer to Article 132, paragraph 4 of the Ordinance for Enforcement of the Companies Act of Japan, Article 158, paragraph 4 of the Company Accounting Regulation with respect to the definition of “specified director”). Therefore, it may be considered to describe the position and name of the specified director at the address of the invoice. However, in this form, the audit report is addressed to a representative director-president, because (i) a representative director is responsible to shareholders to provide the audit report, (ii) the company, namely the representative director, is responsible to keep the audit report and (iii) other reasons (it may be considered to be put down with representative director and specified director according to circumstances). The address of the invoice should be examined in the context of the actuality of each company.
- (Note 3) The seal of the *kansayaku-kai* at invoice shall be pursuant to the internal rule of each company.
- (Note 4) This invoice assumes the case that the audit report was submitted in writing. In cases where the audit report is reported to a specified director by electromagnetic means or other cases, some modification is necessary. For example, the phrase “as per enclosure” shall be replaced by “as attached hereto.”
- (Note 5) With respect to the wording “after deliberations,” it may be considered to describe such proper expression as “after deliberations, as unanimous opinion of all *kansayaku*.”
- (Note 6) With respect to the “1. Method and Contents of Audit by *Kansayaku* and the *Kansayaku-kai*,” although under the former act, the Commercial Law of Japan, it was required to describe the “outline” of the method of audit, under the Companies Act of Japan it should be kept in mind that the *kansayaku-kai* shall describe a more concrete method and contents of audit related to the audit activities that the *kansayaku-kai* actually did, instead of providing an “outline” (Article 129, paragraph 1, item1 of the Ordinance for Enforcement of the Companies Act of Japan, Article 156, paragraph 2, item1 of the Company Accounting Regulation). From this viewpoint, if described much more concretely, in cases where there is a special audit item in this fiscal year, it is desirable, for example, to describe “the *kansayaku-kai* has established the audit policies and assignment of duties, etc., set [_____] as priority subject for audit, and received a report from each *kansayaku* . . .” when there is an audit item that the *kansayaku-kai* did audit with an emphasis as a priority subject (priority subject for audit).
- (Note 7) With respect to the wording “audit policies,” it may be considered to describe “audit policies in this fiscal year” if the *kansayaku-kai* indicates clearly having followed the audit policies of the period subject to audit.

- (Note 8) In cases where an audit plan including assignment of duties of each *kansayaku* has been drawn up, it may be considered to describe the “audit plan” instead of the “assignment of duties” by taking into consideration the audit’s importance.
- (Note 9) In cases where the *kansayaku-kai* has not stipulated the code of *kansayaku* auditing standards, the wording “in conformity with the *kansayaku* auditing standards” shall be cut off.
- (Note 10) Refer to Note 7 concerning “audit policies,” and refer to Note 8 concerning “assignment of duties.”
- (Note 11) The wording “the internal audit division” should describe an appropriate name of divisions, etc. in accordance with the actuality of each company.
- (Note 12) Refer to Article 105, paragraph 2 and 4 of the Ordinance for Enforcement of the Companies Act of Japan. In cases where there exists a parent company, it may be considered to describe “···with the directors, the internal audit division, other employees, *kansayaku* of the parent company and others, endeavored to ···.”
- (Note 13) This form mentions the matters in which *kansayaku* received a report based on “systems for directors and employees to report to *kansayaku* and any other systems relating to reports to be provided to *kansayaku*” resolved by the board of directors pursuant to Article 100, paragraph 3, item 3 of the Ordinance for Enforcement of the Companies Act of Japan. Depending on the embodiment of audit, with respect to the wording “employees” in the phrase “received reports on the status of the performance of duties from the directors and other employees,” it may be considered to specify the “internal audit division”, etc.
- (Note 14) In this form, we describe systems developed in accordance with the board of directors’ resolution set forth in Article 362, paragraph 4, item 6 of the Companies Act of Japan as “internal control systems.” It may be considered to describe the concrete title, page, etc. in the business report.
In addition, if the *kansayaku-kai* indicates having stipulated the audit practice standards for internal control systems and having conducted its audit in accordance with the standards, it may be considered to describe “··· monitored and inspected the status of ··· the systems (internal control systems) based on the audit practice standards for internal control systems set by the *kansayaku-kai*” or other wording. Incidentally, a Large Company shall determine by a board of directors’ resolution with respect to the internal control systems that the other companies can resolve voluntarily. Refer to Note 22 and 23.
- (Note 15) The sentence “··· as described in the business report, were also considered in light of the circumstances, etc. of deliberations by the board of directors and other bodies” shall be described when the company has formulated so-called takeover defense measures, etc.

The sentence is not required in cases where the matters set forth in Article 127 of the Ordinance for Enforcement of the Companies Act of Japan are not described in the business report. Refer to Note 24.

(Note 16) Refer to Article 105, paragraph 2 and 4 of the Ordinance for Enforcement of the Companies Act of Japan with respect to facilitating a mutual understanding and exchanging information with the directors and *kansayaku*, etc. of the subsidiaries.

In cases where the *kansayaku-kai* exercised the right to investigate the status of the operations and the financial status of the subsidiaries (set forth in Article 381, paragraph 3 of the Companies Act of Japan), it may be considered to describe this as “... each subsidiary and demanded a report on the business for the subsidiary and investigated the status of the operations and the financial status of the subsidiary.”

(Note 17) *Kansayaku* and the *kansayaku-kai* shall describe “the matters concerning systems to ensure that the performance of the duties of the accounting auditor are properly conducted” (Article 156, paragraph 2, item 2; Article 155, item 4 of the Ordinance for Enforcement of the Companies Act of Japan, hereinafter referred to as “systems that ensure the appropriateness of performance of accounting auditors’ duties”) in the audit report. *Kansayaku* and the *kansayaku-kai* shall confirm that the system has been developed in accordance with an appropriate standard after they received notice from accounting auditors of matters on systems that ensure the appropriateness of performance of their duties (Article 159 of the Company Accounting Regulation; “the matters concerning systems to ensure that the performance of the duties of the accounting auditor are properly conducted”). In this form, with respect to matters to be noticed relevant to systems that ensure the appropriateness of performance of accounting auditors’ duties and measures to confirm that, it is mentioned “Each *kansayaku* was notified by the Accounting Auditor that it established ... in accordance with ... , and requested explanations in accordance with necessity.” Although as “certain proper standard,” this form mentions “Quality Control Standards for Audits” (Business Accounting Council on October 28, 2005), the practical guidelines of The Japanese Institute of Certified Public Accountants (Quality Control Committee Report No.1 “The Quality Control at Audit Firm” and Audit Standards Committee Report No.32 “Quality Control for Audit Activities”), etc. are also important. Incidentally, with respect to the results that *kansayaku* and the *kansayaku-kai* confirm the systems that ensure the appropriateness of performance of accounting auditors’ duties, in this form they are not described separately, but included in the description of “the methods and results of audit performed by the accounting auditor are appropriate” at “(2) Results of Audit and Accounting Documents and Annexed Specifications” or “(3) Results of Audit of Consolidated Accounting Documents” in “2. Results of Audit.” In cases where there is a matter considered to be appropriate to be emphasized or cleared up concerning the systems to ensure that the performance of the duties of the accounting auditor, the *kansayaku-kai* shall describe concretely at “1. Methods and Substance of Audit by the *kansayaku* and the *kansayaku-kai*”, or “(2) Results of Audit and Accounting

Documents and Annexed Specifications” or “(3) Results of Audit of Consolidated Accounting Documents” in “2. Results of Audit.”

- (Note 18) In case the company does not prepare a “schedule of individual notes” separately, this portion shall be described in “the accounting documents (balance sheet, profit and loss statement and shareholders’ equity variation statement) and the annexed specifications thereto . . . for the business year under consideration.” In the case of schedule of consolidated notes, the same shall apply (ref. Article 89, paragraph 3 of the Company Accounting Regulation).
- (Note 19) In case there are matters to be indicated concerning “Results of the Audit,” the *kansayaku-kai* shall describe that effect and the fact thereof clearly and briefly. In case the *kansayaku-kai* could not undertake necessary investigations for audit, the *kansayaku-kai* shall describe that effect and the reason thereof to an appropriate section. With respect to stating “Results of the Audit,” in case there is an occurrence or circumstance affecting the company’s going-concern value, material accident or disaster, material litigation, or any other matter that may materially affect the soundness of the company, after confirming the record of the business report, etc. and examining whether the description of these in the audit report is necessary, if it is found to be necessary, these should be described in the audit report.
- (Note 20) With respect to the wording “directors’ performance of their duties,” it may be considered to describe “directors’ execution of their duties” in accordance with the wording in the law and regulations (ref. Article 130, paragraph 2, item 2; Article 129, paragraph 1, item 3 of Ordinance for Enforcement of the Companies Act of Japan). The wording is unified “performance of directors’ duties.”
- (Note 21) In case the *kansayaku-kai* has found any misconduct or material fact constituting a violation of any law or regulation or the articles of incorporation of the company, the *kansayaku-kai* shall describe that fact concretely.
- (Note 22) In case the contents of the board of directors’ resolutions on the internal control systems are “found to be inappropriate” (Article 129, paragraph 1, item 5; Article 130, paragraph 2, item 2 of the Ordinance for Enforcement of the Companies Act of Japan), the *kansayaku-kai* shall describe that effect and the reason thereof concretely. In particular, the contents of board of directors’ resolutions regarding systems for ensuring the effectiveness of *kansayaku*’s audit activities such as matters relating to employees who support the *kansayaku*’s duties, systems for directors and employees to report to *kansayaku*, etc. (the matters listed in the items of Article 100, paragraph 3 of the Ordinance for Enforcement of the Companies Act of Japan), are important as a basis of *kansayaku*’s effective audit, and in case any problems, etc. are found, such as lack of resolutions about allocation of employees who support the *kansayaku*’s duties, etc., which *kansayaku* demanded, the *kansayaku-kai* shall describe that effect actively.

- (Note 23) In cases where there are matters that should be noted particularly regarding the status of directors' performance of their duties on establishment and operation of the internal control systems, the *kansayaku-kai* shall describe that effect concretely. Because the board of directors' resolutions on the internal control systems are likely to remain a broad outline of the internal control systems, even if the board of directors' resolutions on the internal control systems are found to be appropriate (ref. Article 129, paragraph 1, item 5 of the Ordinance for Enforcement of the Companies Act of Japan), in cases where particular problems etc. which are found to breach the duty of care are found with respect to the status of the internal control systems which the directors in charge of development do develop as a part of performance of his/her duties, the *kansayaku-kai* shall describe to that effect.
- (Note 24) This is a description of the *kansayaku-kai's* opinion with respect to the so-called takeover defense measures, etc. and board of directors' decisions thereof (Article 130, paragraph 2, item 2 and Article 129, paragraph 1, item 6 of the Ordinance for Enforcement of the Companies Act of Japan; in cases where such measures and decisions are not included in a business report, the *kansayaku-kai's* opinion is not required to be described in the audit report). In consideration of the importance of that *kansayaku's* judgment regarding the appropriateness of takeover defenses measures, it is desirable to describe issues concretely that should be commented, if any. In addition, with respect to the wording "basic policies, described in the business report, regarding those who rule on the company's determination of its financial and business policies," or "undertakings, described in the business report, set forth in Article 127, item 2 of the Ordinance for Enforcement of the Companies Act of Japan," they may be considered to describe with reference to a concrete title or page etc. in the business report.
- (Note 25) The name of the audit firm or office of certified public accountant and his/her name are described.
- (Note 26) If the *kansayaku-kai* finds that the methods used in the accounting auditor's audit and the results thereof are inadequate, the *kansayaku-kai* shall describe that effect and the reason thereof specifically.
- (Note 27) Same as Note 25.
- (Note 28) Same as Note 26.
- (Note 29) In cases where the opinion of *kansayaku* is different from that of the *kansayaku-kai*, the *kansayaku-kai* shall describe the name of *kansayaku* and his/her different opinion and the reason thereof briefly.
- (Note 30) Under the laws and regulations, subsequent events required to be described in *kansayaku* or the *kansayaku-kai* audit report are limited to the matters regarding accounting-related documents (except events included in the audit report of accounting auditors. Article 155, item 3 of the Company Accounting Regulation). In cases where there is a

subsequent event required to be described, it should be described specifically.

- (Note 31) It should be kept in mind that the date of preparation on the audit report is required to be described by law (Article 130, paragraph 2, item 3 of the Ordinance for Enforcement of the Companies Act of Japan; Article 156, paragraph 2, item 3 of the Company Accounting Regulation).
- (Note 32) It is desirable that full-time *kansayaku* disclose his/her status as full-time *kansayaku*. With respect to the way of describing the status of full-time *kansayaku*, it may be considered to describe “*kansayaku* (full-time *kansayaku*):[_____].”
- (Note 33) It is desirable that outside *kansayaku* set forth in Article 2, item 16 and Article 335, paragraph 3 of the Companies Act of Japan disclose his/her status as outside *kansayaku*. With respect to the wording “full-time *kansayaku* (outside *kansayaku*):[_____],” it may be considered to describe “full-time outside *kansayaku* [_____].” In addition, with respect to the way of describing the status of outside *kansayaku*, instead of disclosure at the signature space, it may be considered to add a footnote at the end of audit report and to describe “(Note) *kansayaku*: [_____] and *kansayaku*: [_____] are outside *kansayaku* set forth in Article 2, item 16 and Article 335, paragraph 3 of the Companies Act of Japan.”
- (Note 34) With respect to the wording “outside *kansayaku*: [_____],” it may be considered to describe “*kansayaku* (outside *kansayaku*): [_____].”
- (Note 35) In order to ensure the veracity of the audit report and the reliability of the audit, it is desirable that each *kansayaku* affix his/her respective signature and seal impression. In cases where the *kansayaku-kai* prepares its audit reports by electronic means, each *kansayaku* shall affix his/her signature by electronic signature.
- (Other note) In the case of vacancy of *kansayaku*, it is necessary to note the fact concretely in the audit report.

II Audit report to be prepared by each *kansayaku*

1. In the case of a company with “board of directors + *kansayaku-kai* + accounting auditor”

(1) In the case of a full-time *kansayaku* (Note 1)

[Date]

To *Kansayaku-kai* (**Note a**)

[_____] Co., Ltd.

Full-time *kansayaku*: [_____]

Submission of Audit Report

I have prepared this audit report in accordance with the provisions of Article 381, paragraph 1 of the Companies Act of Japan, and submit my report as per the enclosure (**Note 4**).

End.

Audit Report

With respect to the directors' performance of their duties during the [__]th business year (from [_____] to [_____]), I have prepared this audit report, and hereby report as follows:

1. Method and Contents of Audit (Note b)

In conformity with the *kansayaku* auditing standards established by the *kansayaku-kai* (**Note 9**), and in accordance with the audit policies and assignment of duties (**Note c**), etc., I endeavored to facilitate a mutual understanding with the directors, the internal audit division (**Note 11**) and other employees, etc., endeavored to collect information and maintain and improve the audit environment (**Note 12**), have attended the meetings of the board of directors and other important meetings, received reports on the status of performance of duties from the directors and other employees (**Note 13**) and requested explanations as necessary, examined important approval/decision documents, and inspected the status of corporate affairs and assets at the head office and other principal business locations.

Also, I monitored and inspected the status of (i) the contents of the board of directors' resolutions regarding the development and maintenance of the system to ensure that the directors' performance of their duties complied with all laws, regulations and the articles of incorporation of the company and other systems that are set forth in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act of Japan as being necessary for ensuring the appropriateness of the corporate affairs of a joint stock company (*kabushiki kaisha*), and (ii) the systems (internal control systems) **(Note 14)** based on such resolutions. The contents of the basic policies set forth in Article 127, item 1 of the Ordinance for Enforcement of the Companies Act of Japan and the undertakings set forth in item 2 of said article, as described in the business report, were also considered in light of the circumstances, etc. of deliberations by the board of directors and other bodies **(Note 15)**. With respect to the subsidiaries, I endeavored to facilitate a mutual understanding and exchanged information with the directors and *kansayaku*, etc. of each subsidiary and received from subsidiaries reports on their respective business as necessary **(Note d)**. Based on the above-described methods, I examined the business report and annexed specifications for the business year under consideration.

In addition, I monitored and verified whether the accounting auditor maintained its independence and properly conducted its audit, received a report from the accounting auditor on the status of its performance of duties, and requested explanations as necessary. I was notified by the accounting auditor that it had established a "system to ensure that the performance of duties of the accounting auditor was properly conducted" (the matters listed in the items of Article 159 of the Company Accounting Regulations) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council on October 28, 2005), and requested explanations as necessary **(Note 17)**. Based on the above-described methods, I examined the accounting documents (balance sheet, profit and loss statement, shareholders' equity variation statement, and schedule of individual notes **(Note 18)**) and the annexed specifications thereto, as well as the consolidated accounting documents (consolidated balance sheet, consolidated profit and loss statement, consolidated shareholders' equity variation statement, and schedule of consolidated notes), for the business year under consideration.

2. Results of Audit **(Note 19)**

(1) Results of Audit of Business Report, etc.

- (i) I acknowledge that the business report and the annexed specifications thereto fairly present the status of the Company in conformity with the applicable laws and regulations and the articles of incorporation of the company.
- (ii) I acknowledge that no misconduct or material fact constituting a violation of any law or regulation or the articles of incorporation of the company was found with respect to the directors' performance of their duties **(Note 20)**. **(Note 21)**
- (iii) I acknowledge that the board of directors' resolutions with respect to the internal control systems are appropriate. **(Note 22)** I did not find any matter to be mentioned with respect to the directors' performance of their duties concerning the internal control systems. **(Note 23)**

<p>(iv)</p> <p>(2)</p> <p>(3)</p> <p>3.</p> <p>[Date]</p> <p>[_____] Co., Ltd.</p> <p>Full-time <i>kansayaku</i>: (Note 32)</p>	<p>I did not find any matter to be mentioned with respect to the basic policies, described in the business report, regarding those who rule on the company's determination of its financial and business policies. Undertakings, described in the business report, set forth in Article 127, item 2 of the Ordinance for Enforcement of the Companies Act of Japan are in line with the basic policies, do not impair the common interests of the company's shareholders, and are not directed to the purpose of maintaining the status of the company's officers. (Note 24)</p> <p>I acknowledge that the methods and results of audit performed by the accounting auditor, [_____] (Note 25), are appropriate. (Note 26)</p> <p><u>I acknowledge that the methods and results of audit performed by the accounting auditor, [_____] (Note 27), are appropriate. (Note 28)</u></p> <p>Subsequent Events (if any material subsequent event has occurred) (Note 30)</p> <p>[_____] (seal)</p> <p>(Under their hands) (Note 35)</p>
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In the context of the form above and the notes below, the parts with the notes with numbers all correspond to the relevant notes "1. In the case of a Company with "board of directors + *kansayaku-kai* + accounting auditor" of I. Audit report to be provided to shareholders". Therefore please refer to them.

(Note a) As set forth in paragraph 3 of the preamble, in the case of a company with a *kansayaku-kai*, audit reports as a *kansayaku-kai* are prepared by combining the contents of the audit reports prepared by each *kansayaku*. Therefore, the addressee of this invoice is stated as the "*kansayaku-kai*".

(Note b) Refer to Note 6. In cases where there is a special audit item in this fiscal year, especially, the methods and the contents of such audit should be stated.

(Note c) If the assignment of duties of each *kansayaku* is established, it is desirable to describe the contents thereof concretely. In such cases, it may be considered to describe such as "...in accordance with the audit policies and assignment of duties, etc., in order to conduct the audits on the [_____] to which I am assigned with the duties, I endeavored to..."

(Note d) Refer to Note 16.

In the case of a full-time *kansayaku*, the report to the *kansayaku-kai* of the implementation status and results of audits conducted on its own is also an important duty. Therefore, referring to the relationship with the *kansayaku-kai*, it may be considered to describe it as "... and received from subsidiaries reports on their respective business as necessary. With respect to the implementation status and results of these audits, I reported to the *kansayaku-kai* from time to time and endeavored to facilitate a mutual understanding and exchanged information with other *kansayaku* and the formation of appropriate audit opinions."

(Note e) With respect to the audit reports prepared by each *kansayaku* at a company with a *kansayaku-kai*, the date of preparation is not required to be described by law (Article 129, paragraph 1 (main paragraph/*hashira-gaki*) of the Ordinance for Enforcement of the Companies Act of Japan; Article 155, (main paragraph/*hashira-gaki*) of the Company Accounting Regulations). Here, the date of preparation is prescribed to be described as a desirable form.

<Others>

With respect to matters other than those set forth above, please consider the statement in accordance with the actual status of each company in reference to the notes set forth in, "In the case of a company with "board of directors + *kansayaku-kai* + accounting auditor" of "I. Audit report to be provided to shareholders" above, as necessary.

(2) In the case of a part-time *kansayaku* (Note 1)

[Date]
To <i>Kansayaku-kai</i> (Note a) [_____] Co., Ltd.
<i>kansayaku</i> : [_____]
Submission of Audit Report
I have prepared this audit report in accordance with the provisions of Article 381, paragraph 1 of the Companies Act of Japan and submit my report as per the enclosure (Note 4) .
End.

Audit Report
With respect to the directors' performance of their duties during the [__]th business year (from [_____] to [_____]), I have prepared this audit report, and hereby report as follows:
1. Method and Contents of Audit (Note b)
In conformity with the <i>kansayaku</i> auditing standards established by the <i>kansayaku-kai</i> (Note 9) , and in accordance with the audit policies and assignment of duties (Note c) , etc., I endeavored to facilitate a mutual understanding with the directors, the internal audit division (Note 11) and other employees, etc., endeavored to collect information and maintain and improve the audit environment (Note 12) , have attended the meetings of the board of directors (Note d) , received reports on the status of performance of duties from the directors and other employees (Note 13) and requested explanations as necessary, and received reports on the status and the results of the implementation of the audits from other <i>kansayaku</i> (Note e) .
Also, I monitored and inspected the status of (i) the contents of the board of directors' resolutions regarding the development and maintenance of the system to ensure that the directors' performance of their duties complied with all laws, regulations and the articles of incorporation of the company and other systems that are set forth in Article 100, paragraphs 1 and 3 of the

Ordinance for Enforcement of the Companies Act of Japan as being necessary for ensuring the appropriateness of the corporate affairs of a joint stock company (*kabushiki kaisha*), and (ii) the systems (internal control systems) **(Note 14)** based on such resolutions **(Note 1)**. The contents of the basic policies set forth in Article 127, Item 1 of the Ordinance for Enforcement of the Companies Act of Japan and the undertakings set forth in Item 2 of said article, as described in the business report, were also considered in light of the circumstances, etc. of deliberations by the board of directors and other bodies **(Note 15)**. Based on the above-described methods, we examined the business report and annexed specifications for the business year under consideration.

In addition, I monitored and verified whether the accounting auditor maintained its independence and properly conducted its audit, received a report from the accounting auditor on the status of its performance of duties, and requested explanations as necessary. I was notified by the accounting auditor that it had established a “system to ensure that the performance of duties of the accounting auditor was properly conducted” (the matters listed in the items of Article 159 of the Company Accounting Regulations) in accordance with the “Quality Control Standards for Audits” (Business Accounting Council on October 28, 2005), and requested explanations as necessary **(Note 17)**. Based on the above-described methods, I examined the accounting documents (balance sheet, profit and loss statement, shareholders’ equity variation statement, and schedule of individual notes **(Note 18)**) and the annexed specifications thereto, as well as the consolidated accounting documents (consolidated balance sheet, consolidated profit and loss statement, consolidated shareholders’ equity variation statement, and schedule of consolidated notes), for the business year under consideration.

2. Results of Audit **(Note 19)**

(1) Results of Audit of Business Report, etc.

- (i) I acknowledge that the business report and the annexed specifications thereto fairly present the status of the Company in conformity with the applicable laws and regulations and the articles of incorporation of the company.
- (ii) I acknowledge that no misconduct or material fact constituting a violation of any law or regulation or the articles of incorporation of the company was found with respect to the directors’ performance of their duties **(Note 20)**. **(Note 21)**
- (iii) I acknowledge that the board of directors’ resolutions with respect to the internal control systems are appropriate. **(Note 22)** I did not find any matter to be mentioned with respect to the directors’ performance of their duties concerning the internal control systems. **(Note 23)**
- (iv) I did not find any matter to be mentioned with respect to the basic policies, described in the business report, regarding those who rule on the company’s determination of its financial and business policies. Undertakings, described in the business report, set forth in Article 127, item 2 of the Ordinance for Enforcement of the Companies Act of Japan are in line with the basic policies, do not impair the common interests of the company’s shareholders, and are not directed to the

purpose of maintaining the status of the company's officers. (Note 24)	
(2)	Results of Audit of Accounting Documents and their Annexed Specifications I acknowledge that the methods and results of audit performed by the accounting auditor, [_____] (Note 25) , are appropriate. (Note 26)
(3)	<u>Results of Audit of Consolidated Accounting Documents</u> I acknowledge that <u>the methods and results of audit performed by the accounting auditor, [_____]</u> (Note 27) , are appropriate. (Note 28)
3.	Subsequent Events (if any material subsequent event has occurred) (Note 30)
[Date]	(Note g)
	[_____] Co., Ltd. Outside <i>kansayaku</i> : (Note 33, 34) [_____] (seal)
	(Under its hands) (Note 35)

In the context of the form above and the notes below, the parts with the notes with numbers all correspond to the relevant notes “1. In the case of a company with “board of directors + *kansayaku-kai* + accounting auditor” of “I. Audit report to be provided to shareholders”. Therefore please refer to them.

(Note a) As set forth in paragraph 3 of the preamble, in the case of a company with a *kansayaku-kai*, audit reports as a *kansayaku-kai* are prepared by combining the contents of the audit reports prepared by each *kansayaku*. Therefore, the addressee of this invoice is stated as the “*kansayaku-kai*”.

(Note b) Refer to Note 6. In cases where there is a special audit item in this fiscal year, especially, the methods and the contents of such audit should be stated.

(Note c) If the assignment of duties of each *kansayaku* is established, it is desirable to describe the contents thereof concretely. In such cases, it may be considered to describe such as “in accordance with the audit policies and assignment of duties, etc., in order to conduct the audits on the [_____] to which I am assigned with the duties, I endeavored to...”

(Note d) If there are any important meetings attended, other than the meetings of the board of directors, the names of such meetings shall be described concretely.

(Note e) In the event that principal business locations, etc. are inspected, it may be considered to make descriptions such as "... received reports from other *kansayaku* regarding the status of implementation of their audits and results thereof, and inspected the status of the corporate affairs and assets at the head office and other principal business locations."

Also, in the case of a part-time *kansayaku*, the reports to, and mutual consultation with, the *kansayaku-kai* will be the principal audit activities in addition to the meetings of the board of directors. Therefore, in the event of specification of the attendance at the *kansayaku-kai*, and illustration of the receipt of the reports from full-time *kansayaku*, it may be considered to make descriptions such as "... requested explanations as necessary. Also, we attended the *kansayaku-kai* and received the reports from the full-time *kansayaku* regarding the status of implementation of their audits and results thereof in addition to the status of the executive committee and other important meetings."

(Note f) In the case of mentioning the audits of the subsidiaries, it may be considered to make descriptions such as "... I monitored and inspected ... the status of the systems (internal control systems) based on such resolutions. With respect to the subsidiaries, I endeavored to facilitate a mutual understanding and exchanged information with the directors and *kansayaku*, etc. of each subsidiary and received from subsidiaries reports on their respective business as necessary. Based on the above-described methods..."

Also, in the case of a part-time *kansayaku*, because the audits of the internal control system are considered to be mainly on so-called indirect audits by reports from directors, etc. at the meetings of the board of directors and the reports and inquiries from full-time *kansayaku* and internal audit divisions at the *kansayaku-kai*, in order to clarify these, it may be considered to make descriptions such as "... Also, with respect to the status of ...(the internal control systems), I received reports from the meetings of the board of directors and the *kansayaku-kai*, etc. and requested explanations as necessary."

(Note g) With respect to the audit reports prepared by each *kansayaku* at the companies with a *kansayaku-kai*, the date of preparation is not required to be described by law (Article 129, paragraph 1 (main paragraph/*hashira-gaki*), of the Ordinance for Enforcement of the Companies Act of Japan; Article 155 (main paragraph/*hashira-gaki*), of the Company Accounting Regulations). Here, the date of preparation is prescribed to be described as a desirable form.

<Others>

With respect to matters other than those set forth above, please consider the statement in accordance with the actual status of each company in reference to the notes set forth in, “In the case of a company with “board of directors + *kansayaku-kai* + accounting auditor” of “I. Audit report to be provided to shareholders” above, as necessary.