

Interview with an Outside Director

“We will enhance the effectiveness of the Board of Directors to maximize returns through solid analysis of current operations and risk management.”

Tomoya Yoshizumi
Outside Director

Joined Ajinomoto Co., Inc. in 1978.
Named a Member of the Board in 2007.
Served in leadership positions, including President of Amino Acids Company, General Manager, North America Division, Bioscience & Finechemicals Business Division and President of Ajinomoto U.S.A. (currently called Ajinomoto Health & Nutrition North America, Inc.).
An Outside Director of Duskin Co., Ltd. since June 2017.



Q1 What is your evaluation of Duskin’s Board of Directors?

Two years have passed since I assumed the position of Outside Director in June 2017. I believe the effectiveness of the Board of Directors has been improved compared to what it was in my first year. The Operating Officer System, which was introduced from April 2018, has greatly contributed to this improvement. In my first year, detailed reports on the status of business operations were made at the meetings of the Board of Directors. There were many times that I felt the items on the agenda needed to be better organized. With the introduction of the Operating Officer System, the function of the Board of Directors was made clearer by delegating the business execution to the Operating Officers. This led to a better organized agenda at the Board meetings, and expedited decision-making processes for both Directors and Operating Officers.

Due to the reduction of the number of internal Directors, Outside Directors now comprise one-third of all Directors. This facilitated more active discussions, helping us, Outside Directors and Outside Audit & Supervisory Board Members to express our opinions more freely. As a result, management

decisions, from a company-wide perspective, are now made more effectively. We hold regular meetings of the Outside Directors and Audit & Supervisory Board Members Council (with three Outside Directors and three Audit & Supervisory Board Members) as an advisory body for the Board of Directors. The discussion report and recommendations from this Council are shared and reviewed within the business divisions. Responding to our recommendations, the business divisions developed their measures and have come to present them to the Board of Directors. This is a good example of the improved effectiveness of our Board of Directors.

If I would make a request, I would ask for more diversity among our Board of Directors. Our current Board has two female outside directors, but there are no women among the internal Directors. I look forward to having female directors on board. Also, the majority of the internal Directors are from the business divisions. To maintain diverse viewpoints, I think it is beneficial for us to have directors from other areas, such as finance, human resources, or compliance departments.

Q2 What do you think your role is as an Outside Director?

Outside Directors at Duskin have different backgrounds. As for myself, I have experiences in developing strategic plans for a whole group of companies and supervision of business operations outside Japan. Leveraging this expertise, I will support the Board to make good management decisions, which I believe is my most important mission.

I also raised the topic and led a discussion at the Board meetings on the capital policy for improvement of the Return on Equity and Price Book-value Ratio.

In the future, I expect to take more opportunities to give advice and make recommendations for overseas business development based on my experiences in global businesses.

Q3 How do you evaluate Duskin’s support system for Outside Directors?

Duskin supports us well by giving us all the information we need to fulfill our duties as Outside Directors. We are also given opportunities to talk directly with franchise owners at the events and meetings. In these past two years, my understanding of Duskin’s management philosophy, policies and businesses has been significantly deepened. Because of my background in the manufacturing industry (Ajinomoto Co., Inc.), I did not have sufficient knowledge and understanding of some aspects of franchising. Duskin has another stakeholder, franchisees, who are united in our philosophy of Prayerful Management. I have come to understand that the profit distribution at Duskin should be considered with our franchisees included as stakeholders to improve shareholders value. This needs a different

approach from that of general manufacturers.

As to the meeting materials, I would appreciate more digitization of documents. Electronic documents facilitate and expedite the process of the preparation for the meetings. We can check such documents at home or elsewhere and pose questions well in advance to the related business divisions or departments. This can help the divisions or departments to prepare the required explanations and information in time.

I hope the use of less paper, more electronic documents and tablet devices will be accelerated to further improve efficiency and save resources.

Q4 What do you think is necessary to improve effectiveness of the Board of Directors?

The effectiveness of Duskin’s Board of Directors has been steadily improving. However, I believe we should aim for a higher level of effectiveness. The role of the Board of Directors is to identify potential risks from the current business operations, to develop response measures and to maximize the returns. Business divisions and other departments are responsible for the optimum operations in their own areas. However, such optimization tends to be partial or divisional as their focus stays within the scope of division/department’s operations. It is the responsibility of the Board of Directors to achieve total optimization for all of our activities from a company-wide perspective.

the key issues and concentrating the effort required, in order to decide the effective asset allocations to achieve long-term strategic goals. Then, the Board should delegate the execution to business divisions. I believe effective portfolio management, one that drives the execution of the growth strategy is the key to improve the effectiveness of the Board of Directors. Following this process and approach will also contribute to the development of the next generation of leaders.

The Board of Directors is required to consider our current portfolio and to make swift and steady decisions by selecting

As an Outside Director, I will continue to actively participate in the analysis of our current operations and discussions for our future development. In so doing, I hope to contribute to further improve the effectiveness of our Board of Directors.

Corporate Governance

Basic policy

Duskin positions the strengthening of corporate governance as one of its highest priorities in order to meet the expectations of stakeholders, increase corporate value over the medium- to long-term, and achieve continuous growth of business operations. Alongside establishing a management framework that allows us to accommodate changes in our business environment with swiftness and precision, Duskin is building a structure, an organization and systems to ensure transparent and sound management.

Duskin also places compliance at the center of all our corporate activities in order to continuously improve our corporate value.

Corporate governance structure

Duskin is a company with an Audit & Supervisory Board. At the Board of Directors, Directors monitor and supervise other Directors' performance. The Audit & Supervisory Board consists of Outside Audit & Supervisory Board Members capable of objectively conducting audits and internal full-time Audit & Supervisory Board Members, who are well acquainted with our business operations and have skills needed to gather information. Under this system, the Audit & Supervisory Board Members, internal and outside, perform accurate audits. We consider this structure highly effective as it supports customer-oriented management while ensuring sound and efficient business operations. This system also enables us to swiftly and precisely respond to changes in the business environment.

In addition, Duskin started using the Operating Officer System in FY2018. Delegating authority to the Operating Officers strengthens the supervisory and advisory functions of the Board of Directors.

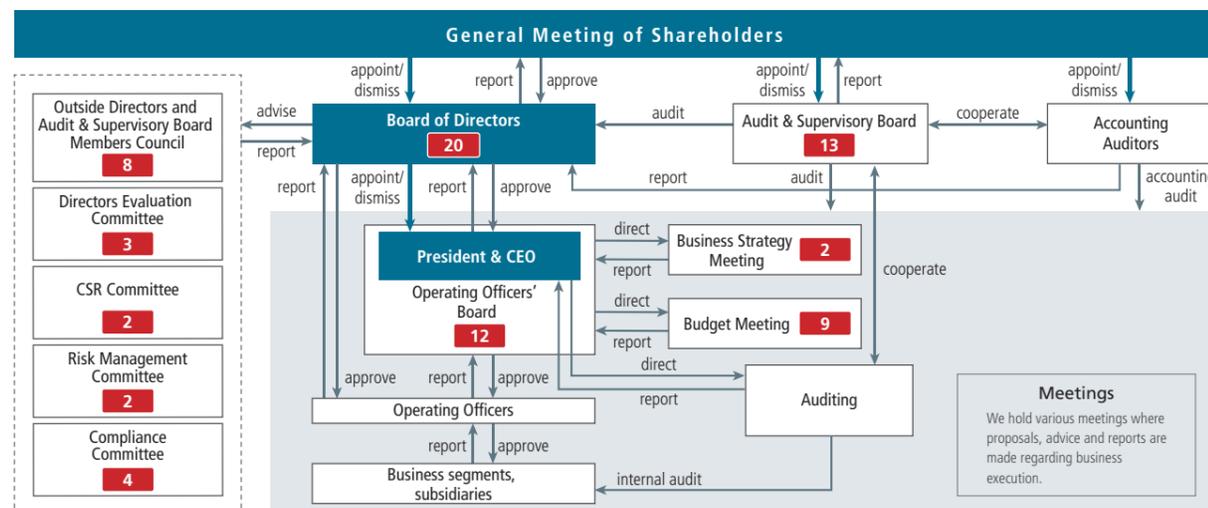
Board of Directors

Directors are selected by taking into account the diversity of the board as a whole in terms of abilities, experience, gender and other characteristics. This is for the purpose of enabling the Board to make accurate management decisions in a wide range of business fields while maintaining the soundness, efficiency and effectiveness of the management. The number of Directors is limited to 12.

We select internal Directors from individuals who meet the requirements of becoming Directors, in light of our management philosophy, Duskin's guiding principles and medium- to long-term growth strategies. Outside Directors are appointed from among business executives and experts who are independent and free of any real vested interest in Duskin, after taking into account the diversity of their views, knowledge and management experience.

To enable the Board of Directors to focus on making important management decisions and monitoring business operations in order to swiftly and precisely respond to changes in our business environment, the Board of Directors consists of six internal Directors with extensive knowledge about the group's businesses and three independent Outside Directors.

■ Corporate governance structure (as of April 2019)



■ Number of meetings held in FY2018

■ Initiatives to strengthen corporate governance (FY)

2003	Organized Quality Assurance Committee to establish quality assurance structure within the company (now called CSR Committee) Established Compliance Promotion Committee (now called Compliance Committee)
2006	Prayerful Management included in the Articles of Incorporation Established a basic policy for the Internal Control System Established Risk Management Committee Duskin stock listed on the first section of Tokyo Stock Exchange and Osaka Securities Exchange* * The cash equity markets of Tokyo Stock Exchange and Osaka Securities Exchange were integrated on July 16, 2013.
2007	Terminated the Directors' retirement benefit program
2008	Increased the number of Outside Audit & Supervisory Board Members from two to three
2013	Participation in Electronic Voting Platform
2014	Increased the number of Outside Directors from one to two Established Outside Directors and Audit & Supervisory Board Members Council
2015	Increased the number of Outside Directors from two to three Started to post our shareholders' meeting notice on the internet earlier than distributing print version
2016	Started to analyze and evaluate the effectiveness of the Board of Directors
2017	Established a share-based-remuneration-type stock option program Introduced Directors Evaluation and Nomination system. Organized Directors Evaluation Committee Introduced Operating Officer System
2018	Decreased the number of Directors from not more than 15 to not more than 12 Independent Outside Directors account for at least one third of all Directors
2019	The Directors Evaluation Committee was changed to consist of only independent directors and to function an advisory body for the Board of Directors.

Audit & Supervisory Board

The Audit & Supervisory Board has five members. There are two full-time members who have considerable knowledge concerning finance, accounting, legal matters and compliance, and three outside members (all independent directors, one woman) who are certified public accountants and an attorney. These individuals are responsible for auditing important decision making processes and the status of business execution of Duskin Group, while supervising the performance of the Directors.

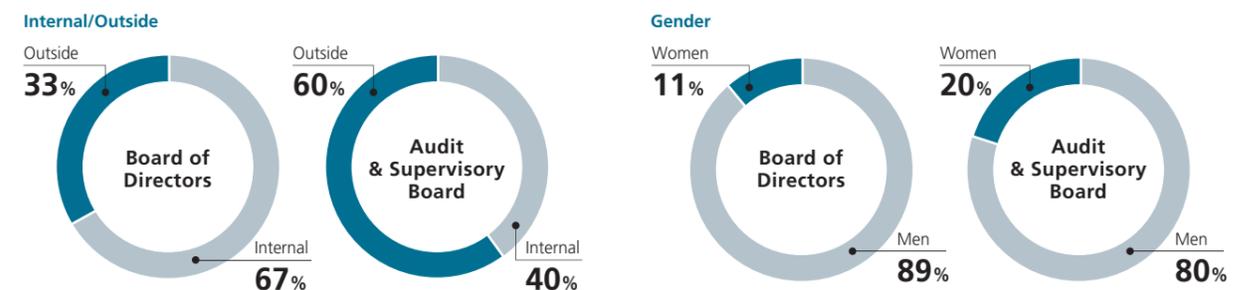
Audit & Supervisory Board Members attend the Board of the Directors meetings and other key meetings, where they share their professional opinions with the Directors. Meetings of the Audit & Supervisory Board are held monthly to discuss decisions on audit policies and progress involving audits.

Advisory bodies

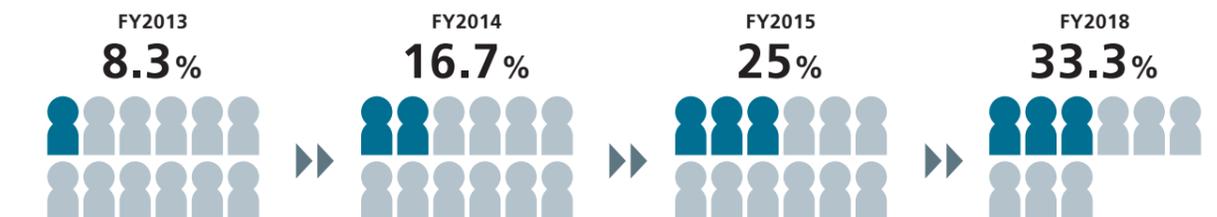
Outside Directors and Audit & Supervisory Board Members Council

Duskin has an Outside Directors and Audit & Supervisory Board Members Council, which is an advisory council for the Board of Directors. Its purpose is to provide beneficial views for ensuring effective corporate governance, while enabling Outside Directors to gather information without affecting their independence. This makes it possible to monitor and supervise Duskin's management from a transparent, fair and objective viewpoint.

■ Compositions of the Board of Directors and Audit & Supervisory Board (as of June 25, 2019)



■ Percentage of Outside Directors



Directors Evaluation Committee

The Directors Evaluation Committee was established as an advisory body for the President & CEO to consider Director and Operating Officer candidates and their remuneration, which requires the approval of the Board of Directors.

In April 2019, this committee was changed to an advisory body for the Board of Directors with the aim of improving the effectiveness of the Directors Evaluation and Nomination system. The committee now consists of only independent directors, resulting in greater transparency and objectivity.

CSR Committee

To fulfill our corporate social responsibilities (CSR), we have a CSR Committee, which is an advisory council for the Board of Directors. The purpose of the committee is to identify key CSR priorities to be addressed and the scope of our CSR activities in order to implement CSR management across Duskin Group.

Committees and meetings

Name	Chair	Members	Function
Board of Directors	Teruji Yamamura (President & CEO)	9 Directors (3 Outside Directors) Observers: 5 Audit & Supervisory Board Members (3 Outside Audit & Supervisory Board Members)	Makes decisions about important matters involving the Duskin Group's management and supervises business operations.
Audit & Supervisory Board	Yasuto Shigeyoshi (Standing Audit & Supervisory Board Member)	5 Audit & Supervisory Board Members (3 Outside Audit & Supervisory Board Members)	Audits in accordance with laws and regulations including designated number of audits, attends important meetings and monitors the Duskin Group's management.
CSR Committee	Kazushi Sumimoto (Director)	6 Operating Officers (5 are also Directors), 2 Outside Directors, 1 Standing Audit & Supervisory Board Member	Determines the medium-term basic policy for CSR, annual CSR activities, and discusses measures for issues requiring attention.
Risk Management Committee → P55	Kazuo Okai (Director)	2 Operating Officers (1 is also a Director), 8 managers of corporate departments, and 2 administration section chiefs of business divisions	Discusses annual plans for risk management, causes of incidents and responses, the business continuity plan (BCP), identifies risk factors, and examines risk audit results.
Compliance Committee → P56	Kazuo Okai (Director)	7 Operating Officers (2 are also Directors), 2 Outside Directors, 1 Standing Audit & Supervisory Board Member, 1 labor union chair, 1 attorney	Discusses the compliance framework, annual plan, training plans and status of the whistle-blowing system.
Outside Directors and Audit & Supervisory Board Members Council	Tadashi Yamamoto (Outside Director)	3 Outside Directors, 3 Outside Audit & Supervisory Board Members	Provides advice to improve medium- to long-term corporate value of Duskin.
Directors Evaluation Committee	Tadashi Yamamoto (Outside Director)	2 Outside Directors, 1 Outside Audit & Supervisory Board Members	Provides advice concerning the selection of candidates for Directors and Operating Officers and their remuneration in response to the Board of Directors' requests.
Business Strategy Meeting	Teruji Yamamura (President & CEO)	14 Operating Officers, 3 Outside Directors, 5 Audit & Supervisory Board Members (3 Outside Audit & Supervisory Board Members)	Discusses company-wide business strategies, business portfolios and the allocation of Duskin Group resources from a medium- to long-term perspective.
Operating Officers Board	Teruji Yamamura (President & CEO)	14 Operating Officers Observers: 2 Standing Audit & Supervisory Board Members	Examines important issues involving business operations.
Budget Meeting	Teruji Yamamura (President & CEO)	8 Operating Officers (6 are also Directors), 2 Standing Audit & Supervisory Board Members	Monitors budget progress at business divisions, identifies the discrepancies between forecasts and actual results and discusses necessary actions.

Business execution

Operating Officers' Board

For the President & CEO to conduct business operations based on the basic management policy established at the Board of Directors meetings, Duskin has an Operating Officers' Board, a deliberative body to examine important business matters.

Business Strategy Meeting

The Business Strategy Meeting is for all Directors and division managers to discuss company-wide business strategies, business portfolios and the allocation of Duskin Group resources from a medium- to long-term perspective.

Budget Meeting

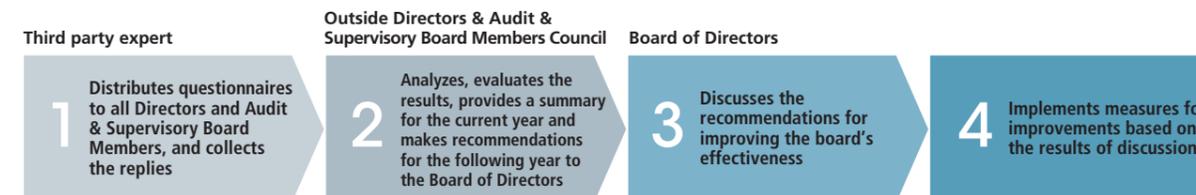
The Budget Meeting is held to monitor budget progress for each business division and identify the discrepancies between forecasts and actual results as well as to discuss measures to be taken.

Evaluation of the effectiveness of the Board of Directors

Duskin analyzes and evaluates the effectiveness of the entire Board of Directors annually in order to achieve medium- and long-term sustainable growth and stronger corporate value.

The FY2018 analysis and evaluation process and results and FY2019 plan are as follows:

Analysis and evaluation process



Target & Period: 15 meetings of the Board of Directors held between April 2018 and December 2018

Analysis and evaluation results

Issues	Improvements	Challenges to be addressed
Strengthening decision making and monitoring functions of the Board of Directors	<ul style="list-style-type: none"> Introduced Operating Officers System. Significant delegation of authority to Operating Officers gives the Board of Directors time for discussing important matters. Enhanced the corporate strategy planning department to facilitate constructive discussions of company-wide management strategies at the Board of Directors meetings. 	Review of management plan Enhanced initiatives in line with strategic themes unique to Duskin for sustainable growth
Composition of the Board of Directors	<ul style="list-style-type: none"> Reorganized the Board of Directors by reducing the number of Directors by three and optimized the composition of the Board. Expanded the roles and responsibilities of Directors and Operating Officers and enabled the Board to facilitate strategic discussions and have the results of the discussions reflected in the management of business operations. 	More diversity of members
Remuneration system that functions as sound incentive	<ul style="list-style-type: none"> Decided to start using new systems for Directors' remuneration system and remuneration governance in FY2019. Established a framework to have the Directors Evaluation Committee monitor the criteria and process for determining Directors remuneration. 	—
Improvement of objectivity and transparency of the process of selection and dismissal of Directors, including Representative Director, and the process of successor development	<ul style="list-style-type: none"> Disclosed the process of Directors evaluation, selection and dismissal process for Directors in the corporate governance report and improved transparency. Also complied with the corporate governance code supplementary principle 4.1.3 for selection of the CEO. Enhanced effectiveness of Directors Evaluation Committee by changing composition to all independent directors. Established a system to have the Directors Evaluation Committee monitor the election and dismissal of Directors. 	Development of next generations of senior executives

FY2019 initiatives

Issues	Plans
Enhanced discussions of management strategies	<ul style="list-style-type: none"> Review the business portfolio for sustainable growth while paying due attention to the cost of capital. Regularly review financial policies and resource allocations on investments (facilities, R&D, IT and human resources) and reflect the results in the business operations. The Board of Directors regularly monitors all resolutions made (including management plans) approved by the Board as needed.
Composition of the Board of Directors and development of next generations of executives	<ul style="list-style-type: none"> The Board of Directors shares the selection, development and promotion of current Directors and the next generations of Director candidates. Provide current Directors and the next generations of Director candidates with training for corporate operations and governance, including interactions with external organizations, with the aim of helping them acquire knowledge about management practices and thinking.

Election policies for the Board of Directors

Duskin selects candidates for election as Directors from among individuals who fulfill the basic conditions of having the character, knowledge and ethical views for serving as a Director and who have no health issues that would interfere with performing the duties of a Director.

For internal Director candidates, the Representative Director requests for recommendations from the current Directors and Audit & Supervisory Board Members. Then individuals who can execute medium- to long-term strategies of the Duskin Group and have a positive effect on the organization's vitality are chosen as candidates. The Board of Directors makes final selections after thorough discussions, with advice from the Directors Evaluation Committee (chaired by an Outside Director, the majority is comprised of independent Directors).

For Outside Director candidates, Duskin selects individuals who can maintain independence and have no special financial relationship with the Duskin Group. These individuals must also have a business career and professional knowledge needed for enabling the Board of Directors to perform its supervisory and advisory functions. These individuals must also be able to provide useful advice from many perspectives in order to maintain the transparency and soundness of management and the fairness of procedures. The Board of Directors makes final selections.

Under the provisions of Article 427, Paragraph 1 of the Companies Act, Duskin has contracts with Outside Directors that limit their liability as provided in Article 423, Paragraph 1 of this act. The maximum liability under the contracts is the amount as provided in laws and ordinances.

Reasons for selections of Outside Directors

Name	Reasons for selection/election
Tadashi Yamamoto	Extensive experience and insight in corporate management as a Director and Senior Managing Corporate Officer at Wacoal Corporation. Considerable business experience in the fields of human resource planning, international operations and other fields
Tomoya Yoshizumi	Extensive experience and insight in corporate management as a Member of the Board and Corporate Vice President at Ajinomoto Co., Inc., including strategic production planning, the Medium-Term Management Plan and implementing M&A strategies for the Ajinomoto Group, supervising business operations in North America as General Manager, North America Division and President of AJINOMOTO NORTH AMERICA, INC.
Nobuko Sekiguchi	Extensive experience and insight in corporate management as Managing Corporate Officer, including personnel system reforms and corporate planning such as formulation of its Medium-Term Plan, the annual budget management, organizational restructuring, and M&A transactions.

Note: All three are independent directors.

Standards for independence of Outside Directors and Outside Audit & Supervisory Board Members

To ensure the independence of an Outside Director or Outside Audit & Supervisory Board Member, Duskin selects a member in accordance with our own selection criteria* as well as the independence standards of the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange.

When selecting the candidates, Duskin confirms that they comply with all items of the criteria. Then, the Board of Directors makes the final decision.

* Our criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members are in our Annual Securities Report (Japanese version only).

Directors' remuneration

Duskin positions Directors' remuneration as an important issue for our corporate governance. To raise Directors' motivation to achieve medium- and long-term sustainable growth and enhance corporate value, Duskin established the Directors Evaluation and Nomination system. With this system, their contributions and capabilities are determined and reflected in their remuneration.

The remuneration of our Directors other than Outside Directors consists of basic compensation (fixed compensation), a performance-based bonus (short-term incentive) and share based-remuneration-type stock options (medium-to-long-term incentive). The determination of remuneration by the Board of Directors includes the use of officer remuneration survey data provided by an external research organization as well as comparisons of Duskin's current remuneration system and level of remuneration with those of companies of a similar size and companies in similar business sectors and with similar operations. The Board of

Directors remuneration (FY2019) (thousands of yen)

Category	Total remuneration	Type of remuneration			Members
		Basic remuneration	Bonus	Stock option	
Directors*	247,130	194,521	42,200	10,409	6
Outside Directors	23,400	18,600	4,800	0	3
Standing Audit & Supervisory Board Members	52,500	45,300	7,200	0	2
Outside Audit & Supervisory Board Members	29,700	24,900	4,800	0	3

* Excl. Outside Directors

Directors makes the final decisions, taking into consideration the advice of the Directors Evaluation Committee, after thorough discussions. The base compensation is determined in accordance with the responsibilities and rank of each Director. Based on the amount of profit attributable to owners of parent, an upper limit of the funds for the bonuses of all Directors is determined, with the amount distributed to each Director in accordance with the degree of contribution as determined by the Directors Evaluation and Nomination System. Share based-remuneration-type stock options replace part of the basic remuneration. Individuals can receive up to 50 million yen of stock options every year.

The compensation of Outside Directors and Audit & Supervisory Board Members consists of basic compensation and a performance-based bonus. A certain amount is set as base compensation and bonuses for Outside Directors, after taking into account their backgrounds and other matters. Total compensation for all Audit & Supervisory Board Members is determined within the amount resolved at the general shareholders' meeting. Remuneration for each member is determined based on discussions by Audit & Supervisory Board Members.

Training for Directors

At Duskin, newly elected Directors and Audit & Supervisory Board Members can attend seminars to receive information about their legal duties and responsibilities.

When selecting Outside Directors, the President & CEO explains Duskin's management philosophy and confirms their agreement. Then, Duskin's business strategy and business operations are explained. To help them deepen their knowledge of Duskin, opportunities to visit major business sites, training facilities and plants are provided.

Successor development plan

Duskin provides opportunities for successor candidates with the potential to become senior executives to gain experience at leadership positions of business divisions, regional offices and subsidiaries in order to acquire knowledge about management decisions. The President & CEO conducts monthly individual meetings with all Operating Officers. Quantitative assessments of their performances are made every six months in line with the Directors Evaluation and Nomination System. The President & CEO also reviews their capabilities and performance with them.

Policy related to acquisition and holding of cross-shareholdings

The policy for cross-shareholdings is to hold a suitable number of shares only when there is a legitimate reason for owning these shares. Investments in stocks for which there is no legitimate reason for ownership are reduced or eliminated.

Every year, the Duskin Board of Directors determines if the ownership of each cross-shareholding is proper or not. Decisions are based on the need for each cross-shareholding regarding business activities, such as business alliances, maintaining and strengthening business relationships, Duskin's cost of capital, share price movements and other factors.

Constructive dialogue with investors, analysts and shareholders

Duskin conducts a variety of investor relations (IR) and shareholder relations (SR) activities for the purposes of earning trust in the company's management, receiving a proper evaluation of the company, and achieving sustained business growth and medium- to long-term growth of business operations and corporate value. When requests for individual meetings are received from our shareholders, individual investors or institutional investors, our senior management and Directors respond to the extent believed to be reasonably necessary in relation to the purpose of each request.

Information, evaluation and opinions gained through IR and SR activities are reported at meetings of the Board of Directors twice each year. In addition, reports as deemed necessary are made by the IR Section to an Operating Officer in charge, then from the Operating Officer to the Board of Directors to reflect this information in the management.

We strive to improve our website and other IR information that is useful for individual investors and shareholders to make investment decisions. Duskin discloses the financial results, business strategies, ESG information, news and other topics of interest.

In FY2019, Duskin held company briefings targeting individual investors ten times with 1,090 participants. We also had a booth at the Nikkei IR Investment Fair and TSE IR Festa with 2,500 visitors. Duskin holds financial results briefings for analysts and institutional investors twice every year, and visits institutional investors and analysts quarterly to have active dialogue with them.

Risk Management

Risk Management Committee

Duskin has formulated Basic Rules on Risk Management that stipulate how risk is to be managed in the Duskin corporate group. In accordance with these rules, there is a risk management department and supervisors. At our subsidiaries, we name a risk management supervisor at each company in accordance with its size, types of business activities, and other characteristics. We conduct risk management in a consolidated, comprehensive manner.

Duskin has a Risk Management Committee, as an advisory council for the Board of Directors. The committee was held twice in fiscal 2018. It discussed and reported on Duskin's risk management annual plans, the causes of the risks that have occurred, and the measures to be taken to counter them, and results of auditing and business continuity plan (BCP).

In the event of an incident that may have a major impact on the Duskin Group, a response office is established.

Risk assessments

Each department identifies the risks that are specific to its responsibilities and analyzes their significance. Then, response measures for each presumed risk factor are formulated according to Risk Prevention Manual.

Every year, risk management departments and the secretariat office review and evaluate countermeasures and their effectiveness. With the feedback of these reviews and evaluations, all departments examine and enhance their countermeasures. Each department identifies new possible risks based on the information on revisions of laws and regulations and any crisis that occurred at Duskin. Each department formulates and implements its own risk management programs.

Risk factors and measures

Category	Risks	Measures
Business model (franchise system)	Difficulty to obtain consent and cooperation from franchisees, which leads to suspension or delay of business plans	Sufficient communication to obtain consent for cooperation and sharing expenses from franchisees for development and introduction of new products and services, new shop openings and renovation of existing shops
	Termination/cancellation by franchisees, lawsuits with franchisees, violations of laws and ordinances by franchisees and scandals	Improve programs to provide guidance and training while further building relationships with franchisees.
Change in business environment	Dust control business: shrinking size of the market	Develop products, expand sales channels, and respond to diversified payment methods. New franchise recruitment for Care Service businesses for business expansion in the growing market.
	Mister Donut business: market trends, competition, change of consumers' preferences and higher cost of ingredients	New openings in urban and suburban areas, shop renovations and relocations to meet customers' needs and locational factors, value-added menu development, and expansion in Asia.
Product safety	Quality problems of products provided by Direct Selling Group	Objectively check safety and reliability of the products starting with the development stage. After product launches, conduct, from time to time, a quality check of the products distributed in the market and maintain quality standards.
Food safety	Food poisoning, violation of laws and ordinances, including Food Sanitation Act at our shops and restaurants	Develop and operate an internal system to maintain food safety, including production of a sanitary management guide, and perform regular voluntary inspections using third party experts.
Service quality	Liabilities for accidents occurred during service provision. Health hazards arising from service defects or problems involving equipment and materials	Improve skills of service staff by training them how to prevent from accidents and to respond to emergencies. Develop and maintain manuals. Improve service quality and consistency through staff training and licensing programs.
Procurement	Difficulties in production of products due to unexpected natural disasters and other emergencies	Procure products from multiple suppliers except the products purchased from specific singular suppliers because of a unique production technology.
Natural disasters	Suspension of business operations or damage to facilities caused by large-scale natural disasters such as earthquakes, typhoons and floods	To minimize the damage caused by natural disasters, establish a safety confirmation system, prepare response manuals, maintain a business continuity plan, and conduct disaster response drills.
Information security	Significant problems such as personal information leaks caused by unauthorized access	Develop and operate a management system for handling personal information, including regulations such as Personal Information Protection Rules, training for executives and employees, seminars for franchisees, and measures for IT system security.

Compliance

Compliance Committee

Duskin has established Compliance Committee Rules for the purposes of maintaining a compliance framework for the Duskin Group and ensuring that compliance is an integral part of business operations. The Compliance Committee serves as an advisory body to the Board of Directors. The members of this committee are Directors, Operating Officers, Audit & Supervisory Board Members, labor union representative and attorneys who are selected by resolutions of the Board of Directors. The committee is chaired by a Director and Operating Officer who is selected by the committee members. At regularly scheduled meetings, committee members discuss ideas for improvements regarding various issues from the standpoint of compliance. In addition, the committee's ideas and proposals are reflected in systems, rules and other aspects of compliance.

During FY2018, the committee held four meetings to discuss compliance structures, regulations, annual plans, training programs and internal reporting systems, and made reports.

Compliance training

Annual training sessions

As part of its efforts to ensure that its members are aware of and enforce the Duskin Code of Conduct, Duskin Group holds compliance training sessions every year for all of its Directors and employees.

FY2018 training sessions were highlighted by a lecture by an attorney at law, Mr. Shohei Furukawa, OH-EBASHI LPC & PARTNERS. A case study training session on racial harassment was also conducted.

Day of Resolve

May 31 is the Duskin Group's Day of Resolve. On May 31, 2002, Duskin was issued an order of partial business suspension by the Osaka Prefecture Government due to a violation of the Food Sanitation Act.

Every year on May 31, lectures by outside experts are conducted to help all Duskin employees reflect on the Large Meat Dumpling incident*. All employees write messages pledging compliance to consumers and society.

Employees who do not know about the incident are encouraged to listen to senior employees. By recalling the incident, Duskin reminds all employees of the importance of compliance with regulations. This is our responsibility to society. We pledge our resolve and reaffirm the determination to do right by building upon our solid compliance structure.

*Large Meat Dumpling incident: An unauthorized food additive in Japan Lwas used for the Large Meat Dumplings sold at Mister Donut. While Duskin discovered this problem at the early stage of the incident, the use of this food additive was not disclosed to the public until inquiries were made by the media. This resulted in severe social criticism.

Insider information management

Duskin has formulated Rules on Insider Information Management and the Detailed Rules on Insider Information. All information regarding Duskin's businesses, operations and performance is gathered and controlled at the IR Section, which is responsible for the handling of information. We disclose our information based on the belief that the timely and appropriate disclosure of corporate information to investors is the basis of a sound securities market. We are committed to ensuring the fairness and soundness of the securities market.

The IR Section organizes training and educational programs for Directors and employees of Duskin and its affiliated companies to help them deepen their understanding of the importance of information management and the prevention of insider trading, in accordance with the Rules on Insider Information Management.

Whistleblowing

In line with the intent of the Whistleblower Protection Act of Japan, Duskin operates Compliance Hotlines that make it possible to report occurrences directly to our Legal and Compliance Department and to an external law firm. By having mechanisms in place that keep an eye out for legal infractions, unethical conduct including bribery and corruption, and internal impropriety, we seek to foster a sound and highly transparent corporate climate.

We allow anonymous reporting, protect the privacy of whistleblowers, and ensure there are no negative consequences of submitting a report.

FY2018 hotline users 25: internal 21, external 4

