

Selection Standards for Directors and Statutory Auditors

Selections of director and statutory auditor candidates place emphasis on the diversity of the Board of Directors and Board of Statutory Auditors by maintaining the proper balance in terms of experience, professional skills and other knowledge.

1. Selection Standards for Director Candidates and Nomination Procedure

(1) Qualifications of Directors

- Directors must have a thorough understanding of a broad range of problems involving management as well as a sound character, excellent insight and balanced management perspective and skills.
- A strong commitment to compliance with laws and regulations
- A strong desire to further upgrade skills and knowledge
- The ability to use a company-wide perspective for objectively analyzing management and making decisions and to state opinions frequently
- The ability to quickly and accurately identify changes in the management environment and market conditions and take actions as needed
- None of the director disqualification items in Article 331, Paragraph 1 of the Companies Act is applicable

(2) Procedure for Nominating Directors

- The Board of Directors selects director candidates to be submitted at a shareholders meeting. Approval of shareholders of a proposal for the election of directors is required.
- Director candidates are selected by taking into consideration the qualifications of directors and the position concerning composition of the Board of Directors.

(3) Position Concerning Composition of the Board of Directors

- For diversity, the Board of Directors is composed of individuals with a broad range of backgrounds in terms of professional knowledge, experience and other characteristics.
- The suitable number of members of the Board of Directors is no more than 10, including at least two independent outside directors.

2. Selection Standards for Statutory Auditors and Nomination Procedure

(1) Qualifications of Statutory Auditors

- Statutory auditors must have a sound character, excellent insight and considerable experience and knowledge concerning their fields of specialization.
- A strong commitment to ethics
- A strong desire to further upgrade skills and knowledge
- The ability to objectively analyze management and make decisions and to state opinions frequently

- The ability to quickly and accurately identify changes in the management environment and market conditions and take actions as needed
- None of the statutory auditor disqualification items in Article 335, Paragraph 1 of the Companies Act is applicable

(2) Procedure for Nominating Statutory Auditors

- The Board of Directors selects statutory auditor candidates to be submitted at a shareholders meeting. Approval of shareholders of a proposal is required for the election of statutory auditors after receiving the consent of the Board of Statutory Auditors.
- Statutory auditor candidates are selected by taking into consideration the qualifications of statutory auditors and the position concerning composition of the Board of Statutory Auditors.

(3) Position Concerning Composition of the Board of Statutory Auditors

- The majority of the members of the Board of Statutory Auditors is outside auditors in order to ensure the independence of the auditors. At least one auditor must be an independent officer as defined by the Tokyo Stock Exchange.
- Outside auditors are individuals with professional skills involving accounting, legal affairs, management or other fields.

Standards for Independence of Outside Directors and Outside Statutory Auditors

Scala has established the following requirements for independence in order to certify the independence of outside directors and outside statutory auditors (collectively, “outside officers”).

1. An individual cannot be a director*, statutory auditor*, executive officer or employee of Scala or a consolidated subsidiary (the “Scala Group”) currently or at any time in the past.(*except an outside director or outside statutory auditor)
2. During the past five years, an individual cannot be a director, statutory auditor, executive officer or employee of a major shareholder holding directly and/or indirectly at least 5% of Scala voting rights.
3. An individual cannot be a director, statutory auditor, executive officer or employee of a major shareholder holding at least 5% of the voting rights of the Scala Group.
4. An individual cannot be a director, statutory auditor, executive officer or employee of a company that has a significant business relationship with the Scala Group. A significant business relationship is average annual transactions during the past three fiscal years that are equivalent to at least 2% of the consolidated sales of the Scala Group or of the company that has the business relationship with the Scala Group.
5. An individual cannot be a director, statutory auditor, executive officer or employee of a significant lender used by the Scala Group. A significant lender is an institution with the average of loans to the Scala Group at the end of each of the past three fiscal years equivalent to at least 2% of the consolidated total assets of Scala or the lender.
6. An individual cannot be a director, statutory auditor, executive officer or employee of the primary securities company used by Scala.
7. An individual must not be affiliated with the accounting firm used as the independent accounting auditor of the Scala Group.
8. An individual must not be an attorney, certified public accountant, consultant or other provider of professional services who receives a large amount of cash or other financial assets from the Scala Group, other than compensation from a group company as a director or statutory auditor. A large amount is more than an annual average of 10 million yen during the past three fiscal years.
9. An individual must not be a spouse or a first or second-degree relative of an individual who is subject to one of the preceding disqualification items 1 through 8.
10. In addition, there must be no doubts about the ability of the individual to perform the duties of an outside officer from an independent standpoint.

Even if any of the preceding disqualification items 2 through 9 apply to an individual, the individual can be an outside officer candidate as an exception, with the disclosure of the reason for this exception, if the individual meets the outside officer requirements of the Companies Act and Scala decides that the individual is suitable to serve as an outside officer.

Concluded.