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Takasago Thermal Engineering Co., Ltd.
Kazuhito Kojima, President and Representative Director, COO
Contact: Jun Ito, Chief Executive Officer of Corporate Operations Headquarters
TEL:03-6369-8212
Ticker code: 1969
https://www.tte-net.com

The corporate governance of Takasago Thermal Engineering (the "Company") is described below.

I Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The basic policy of corporate governance of the Company is to secure the legality, transparency and agility of corporate management and improve the management efficiency in order to earn the trust of society and improve corporate value in the medium and long terms. For details, see [Principle 3-1 Full Disclosure] (ii) below.

[Reasons for Non-Compliance with the Principles of the Corporate Governance Code]

The Company is in compliance with the principles of the Corporate Governance Code.

[Disclosure Based on the Principles of the Corporate Governance Code] Update

[Principle 1-4 Cross-Shareholdings]

The Company allows cross-shareholdings only when it contributes to the sustainable improvement of corporate value such as maintenance/strengthening of business relations and business expansion by alliance and makes a decision therefor on a regular and continuous basis. The Board of Directors shall review the results every year.

Specifically, the Company makes a decision regarding the suitability of cross-shareholdings after comprehensively considering relevant earnings including dividends and relevant trading profit/benefit, risks of holding and capital cost while examining the purpose of holding and the consistency with the policy for shareholding by each stock from a medium- and long-term perspective.

Regarding the exercise of voting rights, the Company makes a decision on whether each agenda contributes to improving the corporate value of an issuer and to the interests of the Company as a shareholder and properly exercises voting rights.

[Principle 1-7 Related Party Transactions]

The Company, in conducting a transaction with any officer thereof, has the following system in place so that such transaction does not harm the interests of the Company and shareholders.

・ In principle, internal rules prohibit all directors and executive officers from conducting a transaction or a competing transaction for themselves or others by using their position at work.
・ However, internal rules also stipulate that reporting to the Board of Directors is required if an adequate reason exists, and that if a transaction is actually conducted, important matters concerning such transaction should be reported to the Board without delay.
・ Internal rules require audit & supervisory board members to monitor and review competing transactions, conflict-of-interest transactions, provision of property benefits with no charge by the Company (including provision of property benefits with significantly limited counter-performance) and irregular transactions with subsidiaries and shareholders to see if there is any violation of the duties of directors.
・ The Company requires its officers to submit a "Letter of Confirmation" concerning related party transactions at the end of every fiscal year, and the Board of Directors monitors if such transactions are conducted. If such transaction of high importance is conducted, the Company discloses it in accordance with the Companies Act and the Financial Instruments and Exchange Act.

There is no shareholder who owns 10% or more of the Company's voting rights. However, in conducting a transaction with such shareholder, the Company, as with any regular transaction, judges the necessity thereof based on the decision-making standards stipulated by internal rules. The Company shall obtain prior approval of the Board of Directors for any transaction of high importance and non-regular ones.

[Principle 2-6 Roles of Corporate Pension Funds as Asset Owners]

As the Company has a defined benefit corporate pension plan, in managing the reserve fund, it works to appoint a person with expertise and qualifications for pension management to fulfill the expected function as an asset owner. In terms of management, the Corporate Pension Management Committee monitors the status of management and determines a management policy.

[Principle 3-1 Full Disclosure]

(i) Management Policy, Management Principles, Long-Term Management Vision and Medium-Term Management Plan

The management policy of the Company is "Contribution to society through personal harmony and creativity." Its management principles consist of "To serve society through the development of business activities that focus on the creation of the best product quality," "To develop technology that serves our customers' needs and utilizes the creativity of all employees" and "To enhance personal character and harmony between people by nurturing talent and promoting mutual respect."

The Company created "GReeN PR!DE 100," the Group's long-term management vision, with a view to the 100th anniversary of its foundation in 2023. The vision intends to realize a "Corporate group continuously meeting customer expectations and always relied on and trusted by them," an "Environmental company whose presence is admired in the global market" and an "Environmental solution professional contributing to the global environment" and shift from an independent contractor to a general engineering company.

Based on the achievements of "iNnovate on 2016," the medium-term business plan with the "Establishment of the foundations for innovation" as the first step (FY2014 – 2016) toward the realization of the long-term vision, the Company has been committed to "iNnovate on 2019 just move on!," the medium-term business plan with the "Bold implementation of innovations for growth" as the second step (FY2017 – 2019). Having developed the new medium-term business plan for the final step (FY2020 – 2023), the Company is now preparing for its announcement.

(ii) Basic Views on Corporate Governance and Basic Policy Based on the Principles of the Code

With "Contribution to society through personal harmony and creativity" as the management policy, the Company positions at its root CSR management which contributes to shareholders, employees, customers, subcontractors and communities and works to earn the trust of society through its corporate activities.

The Company also considers strengthening of corporate governance as one of the important management issues and works to achieve sustainable growth and medium- and long-term improvement of corporate value through enforcing effective corporate governance.

1. Securing the Rights and Equal Treatment of Shareholders

(Securing the Rights of Shareholders)

The Company recognizes that shareholders are important stakeholders and develops an environment where they can fairly exercise their rights. The Company also works to secure the equality of minority shareholders and foreign shareholders and ensure that they can properly exercise their rights as well.

(Basic Strategy for Capital Policy)

The Company enhances the trust of stakeholders such as shareholders, customers and suppliers by securing a stable financial base. At the same time, the Company works to realize efficient corporate management based on ROE with an awareness that efficiency and adequacy of capital such as effective use thereof is an important issue.

For profit allocation, based on the basic policy which positions return to shareholders as one of its priority issues and pays stable dividends while improving profitability and capital efficiency, the Company pays dividends with a consolidated dividend payout ratio of 30% and consolidated dividend on equity ratio (DOE) of 2% or more.

The Company also believes in the idea of total return, which combines dividends and share buybacks, and promotes shareholder return in terms of total return including acquisition of treasury stock if there is no large demand for funds.

For sustainable growth of the Group and medium- and long-term improvement of corporate value, the Company uses internal reserves as funds to develop technology and reinforce the financial standing to strengthen its competitiveness and for business and capital alliances to expand its business domains. The Company also works on acquiring treasury stock in a flexible manner to improve shareholder value.

2. Appropriate Cooperation with Stakeholders Other Than Shareholders

(Management Principles)

Based on the management principles, "Best product quality, unique technology development and human resource development and mutual respect," the Company believes that cooperation with all stakeholders is essential for sustainable growth and medium- and long-term improvement of corporate value. In order to do this, the management leads activities to nurture a corporate culture that respects the rights and positions of stakeholders and corporate ethics.

(Sustainability)

Given the recent growing awareness of social and environmental issues on a global level, the Company bears social responsibilities while striving to enhance its corporate value, engaging in ESG-oriented management in an effort to contribute to the realization of a sustainable society.

The Company also facilitates fair and transparent corporate management, including thorough the implementation of corporate ethics, and actively promotes environmental preservation activities such as decarbonization and those that contribute to the enhancement of customer engagement.

3. Ensuring Appropriate Information Disclosure and Transparency

(Full Disclosure)

Regardless of whether required by law or not, the Company works to maintain timely and proper information disclosure from the perspective of protecting investors and earning the trust of the capital market.

In disclosing information, the Company works to be accurate and easy to understand so that it can have constructive dialogue with its shareholders.

(Accounting Auditors)

Accounting auditors, in collaboration with audit & supervisory board members and relevant departments such as Accounting & Finance and Internal Audit, work to secure an audit plan and a system and conduct a proper audit.

The Company promptly reports any event which affects accounting to the auditing firm and consults with and notifies it of an accounting policy. Accounting auditors work to understand accurate background information and the facts of such event to form an opinion.

4. Responsibilities of the Board

(Roles and Responsibilities of the Board)

The Company develops and uses a system including an optional committee so that the Board of Directors can fully perform its main roles and responsibilities: "Presentation of directions such as corporate strategy," "Development of environment which supports risk taking" and "Highly effective supervision of the management and directors."

The Board of Directors makes important decisions for business execution and supervises performance of duties by directors to improve the efficiency of business management and secure the legality and validity of business execution.

(Use of Independent Outside Directors)

The Company utilizes judgments of outside directors independent from the management to promote "Segregation of supervision and execution of management" and secure the independence and objectivity of the Board of Directors in supervising business management.

The Company believes that independent outside directors can have discussions which contribute to the sustainable growth of the Company and medium- and long-term improvement of corporate value by offering useful advice and opinions on a management policy and improvement of business management from an independent perspective based on their expertise, abundant experience and knowledge.

(Evaluation of Effectiveness of the Board)

The Company checks whether the entire Board of Directors properly functions or not, so that it can effectively perform its roles and responsibilities. While regularly analyzing and evaluating the effectiveness of the entire Board of Directors based on self-assessment of the respective director and audit & supervisory board members, the Company directly obtains advice and opinions on this analysis and evaluation from outside directors and outside audit & supervisory board members, and takes proper measures to solve issues, if any.

The Company uses the results of analysis of this evaluation to improve the Board of Directors' decision-making/supervisory function. For details, see [Supplementary Principle 4-11-3 Analysis/Evaluation of Effectiveness of the Board, Disclosure of Summary of Results Thereof] below.

5. Dialogue with Shareholders

(Dialogue with Shareholders)

The Company believes listening to shareholders and taking proper measures lead to the sustainable growth and medium- and long-term improvement of corporate value. Thus, the Company commits to building a constructive relationship with shareholders through dialogue with shareholders and disclosure of materials. For details, see [Principle 5-1 Policy for Constructive Dialogue with Shareholders] below.

(i) Policy and Procedures for the Board of Directors to Determine Remuneration of Executives and Directors

The Company determines, based on a resolution of a shareholder meeting, the maximum limit of total remuneration of each director and audit & supervisory board member.

To enhance the independence, objectivity and transparency of officer remuneration, the Company, as an optional advisory body, established the Nomination and Remuneration Committee which consists of Representative Directors, the Chairman and Director, the President and Director, the Director and Executive Vice President, and outside directors. After discussions at the Committee, the Company determines, based on a resolution of the Board of Directors, the remuneration of directors. The majority of the Committee shall consist of outside directors, and at the time of submitting this Report, four out of seven members of the Committee are outside directors.

With regard to remuneration of directors of the Company, the Company passed a resolution to create a remuneration system which functions as a sound incentive to grow its businesses in the medium and long terms and increase corporate value and shareholder interest continuously and sustainably, given the trend of corporate governance, survey data of external specialized agencies and level of remuneration of other companies.

Remuneration of directors consists of basic remuneration, bonus as a short-term (annual) incentive and a trust-type stock compensation plan as a medium- and long-term incentive, and the ratio of each type of remuneration is set based on this policy.

The Company only pays basic remuneration to outside directors, and there is no bonus and trust-type stock compensation plan.

Basic remuneration is fixed according to the title of each director.

For bonus, from April 1, 2019, for the purpose of boosting directors' motivation to achieve a single-year performance goal, the Company introduced a system where bonus fluctuates depending on the base amount by position, according to the previous year's earnings as well as qualitative evaluation of each director (degree of achievement of individual goal, training of successors, improvement of corporate value, efforts on SDGs, vitalization of the Board of Directors and compliance).

The Company determines the bonus paid to each director in the fiscal year under review based on his/her performance, duty and degree of contribution in a comprehensive manner.

The purpose of trust-type stock compensation is to further motivate them to contribute to higher profits and improved corporate value in the medium and long terms. Points are granted every year depending on position, and each director receives the Company's shares in an amount equivalent to the cumulative points at the time of retirement. As with directors, remuneration of executive officers consists of basic remuneration, bonus as a short-term (annual) incentive and trust-type stock compensation as a medium- and long-term incentive, and is determined based on a resolution of the Board of Directors after discussion by the Nomination and Remuneration Committee.

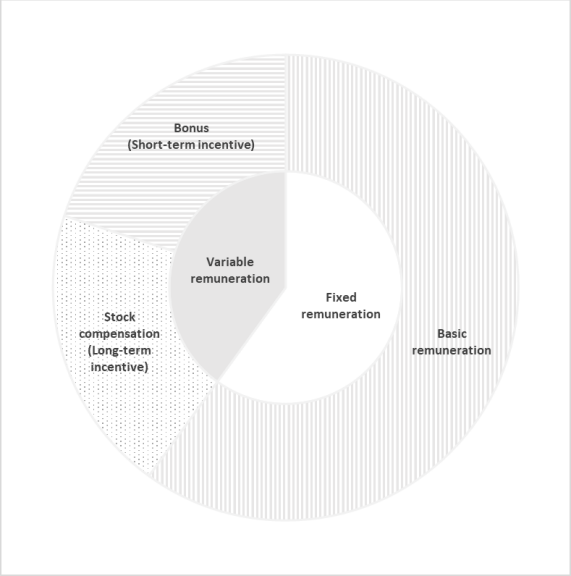
Each director (except for outside directors) and executive officer works to acquire shares of the Company by optional contribution through the director shareholding association.

Remuneration of audit & supervisory board members only consists of basic remuneration whose amount is determined through discussions by audit & supervisory board members by considering the details, volume and difficulty of duties of each audit & supervisory board member and the extent of responsibilities in a comprehensive manner. No bonus or stock-related remuneration such as trust-type stock compensation is provided to audit & supervisory board members in light of their duties.

<Policy to determine the payout rate>

The remuneration of the Chairman and Representative Director and the President and Representative Director shall be the highest, and it declines as the rank goes down. In addition, the ratio of basic remuneration declines while the ratio of bonus and stock compensation increases as the rank goes up.

Conceptual image of director's remuneration



<Date of resolution by shareholders' meeting and details thereof concerning officers' remuneration>

1) Directors

Type of remuneration	Date of resolution	Eligible person	Amount	Number of members at the time of resolution
Basic remuneration and bonus	June 29, 2010	Director	¥550 million or less (in one fiscal year)	12
Stock compensation	June 26, 2018	Director (except for outside director) and executive officer	¥550 million or less (in three fiscal years) (*1) 119,400 shares or less (in one fiscal year) (*2)	6 directors and 20 executive officers who do not concurrently serve as a director

(*1) For a target period that starts in FY2018, the Company separately pays money up to 433 million yen as transition measures from stock option as compensation in addition to the above.

(*2) For a target period that starts in FY2018, the Company separately grants stock points equivalent to 144,100 shares as transition measures from stock option as compensation in addition to the above.

2) Audit & Supervisory Board Members

Type of remuneration	Date of resolution	Eligible person	Amount	Number of members at the time of resolution
Basic remuneration	June 26, 2018	Audit & Supervisory Board Member	¥120 million or less in a year	5

<Methods of determination of performance-linked compensation in recent fiscal years>

The Company determines the bonus paid to each director based on his/her performance, duty and degree of contribution in a comprehensive manner. Listed below are the target indicators for bonus in the fiscal year under review:

Indicator	Target
Profit attributable to owners of parent	¥12,800 million
Net income to consolidated sales	4.0%
Consolidated sales	¥320,000 million

(Reference)

The bonus to be paid to each director in the fiscal year that commenced on April 1, 2020 will be determined by comprehensively considering changes in the FY2020 actual results in comparison to (1) profit attributable to owners of parent company, (2) consolidated operating profit, and (3) consolidated sales for the fiscal year under review, as well as the performance, duties, and contribution of each director. In addition, the Company adopts a system where bonuses fluctuate between 0% and 150% of the base amount by position.

<Name(s) of those with decision-making authority>

The Board of Directors determines the amount of remuneration of directors after discussions at the Nomination and Remuneration Committee. For an overview of the Committee, see "2. Matters on Functions of Business Execution, Auditing/Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)."

<Details of authority and scope of discretion>

The Company determines the amount of each type of remuneration within the limit stipulated by shareholders' meetings.

As basic remuneration is determined based on the amount by position stipulated by resolutions of the Board of Directors, there is no room for discretion of Representative Directors or the Nomination and Remuneration Committee in principle. Bonus is calculated by the formula by position stipulated by resolutions of the Board of Directors. The Board approves its amount after the Nomination and Remuneration Committee verifies the appropriateness. Stock compensation is determined based on the formula by position stipulated by resolutions of the Board of Directors.

The scope of employees discussed by the Nomination and Remuneration Committee concerning remuneration includes directors (except for outside directors) and executive officers.

<Overview of procedures performed by the Committee involved in policy determination>

The Office of the Nomination and Remuneration Committee is established in the Corporate Planning Division and convenes meetings and provides prior explanation in accordance with the "Rules for Nomination and Remuneration Committee." What is discussed in those meetings is reported to the Board of Directors at the discretion of the chairperson.

<Activities of the Board of Directors and the Committee>

The Nomination and Remuneration Committee held 10 meetings during last fiscal year and discussed validity of the remuneration to each director proposed by the Company given the level of fulfillment of one's function while discussing the method of calculating performance-linked compensation. The Board of Directors received reports on discussions at the Committee.

(ii) Policy and Procedures for the Board of Directors to Appoint/Dismiss Executives and Nominate Candidates for Directors and Audit & Supervisory Board Members

To enhance the objectivity and transparency of appointment/dismissal of executives as well as nomination of candidates for directors and audit & supervisory board members, the Company, as an optional advisory body, established the Nomination and Remuneration Committee which consists of Representative Directors, the Chairman and Director, the President and Director, the Director and Executive Vice President, and outside directors. After discussions at the Committee, candidates are submitted to the Board of Directors for further deliberation. However, for audit & supervisory board members, approval of the Audit & Supervisory Board is obtained when submitting candidates to the Board of Directors for deliberation. The Committee consists of seven members, and four of them are outside directors (independent officers) at the time of submitting this Report.

The criteria for appointment of directors include knowledge of business operation with excellent foresight, insight and objective judgment, ability to exercise leadership for sustainable growth of the Group and improvement of corporate value, ability to make an active and positive contribution to development of the next-generation executives, great character with popularity, high ethical standards and courage, ability to perform one's duty with no physical or mental problem and freedom from any problem such as having a vested interest. In addition to the above criteria, for directors who are not outside directors, sufficient experience and knowledge to manage the area he or she is in charge of and a sense of balance as well as leadership to execute business from the perspective of total optimization are required. For outside directors, an ability to supervise and check business management from an independent perspective by using abundant experience and knowledge of the area of expertise and corporate management is required. For the standards to secure the independence of independent outside directors, see [Principle 4-9 Independence Standards and Qualification for Independent Outside Directors] below.

The criteria for appointment of audit & supervisory board members include quality to fulfill responsibilities of audit & supervisory board members with high ethical standards, physical and mental fitness and freedom from any problem such as having a vested interest. In addition to the above criteria, for audit & supervisory board members who are not outside audit & supervisory board members, sufficient experience and knowledge of the Company's businesses and ability to conduct a proper audit are required. For outside audit & supervisory board members, an ability to conduct a proper audit from an independent perspective by using abundant experience and knowledge of the area of expertise and corporate management is required. For the standards to secure the independence of independent outside audit & supervisory board members, see [Principle 4-9 Independence Standards and Qualification for Independent Outside Directors] below.

The criteria for appointment of executive officers include an ability to perform important management in terms of corporate strategy supported by a high level of professionalism and track record, ability to exercise leadership for sustainable growth of the Group and improvement of corporate value, ability to make an active and positive contribution to development of the next-generation executives, great character with popularity, high ethical standards and courage, ability to perform one's duty with no physical or mental problem and freedom from any problem such as having a vested interest.

When executives are considered to lack aptitude in light of the above-mentioned standards, the Nomination and Remuneration Committee may discuss dismissal of such executives.

(iii) Explanation of Each Appointment/Dismissal and Nomination When the Board Appoints/Dismisses Executives and Nominates Candidates for Directors and Audit & Supervisory Board Members Based on (ii) Above

The Company, in nominating candidates for directors and audit & supervisory board members, specifies the reason for selecting each candidate in a notice of a general shareholder meeting. The explanations for nomination of current directors and audit & supervisory board members as candidates therefor are shown below.

Atsushi Ouchi: Chairman and Representative Director, CEO

Having served as President and Representative Director since April 2010 and Director, Chairman and President since April 2016, Atsushi Ouchi engages in management by exercising his leadership as the Group CEO. We believe that, as Chairman and CEO, he can be expected to achieve the Group's sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Kazuhito Kojima: President and Representative Director, COO; Director in Charge of Work Style Reforms, and Global Business Planning Headquarters

Through the execution of the air conditioning equipment business, Kazuhito Kojima has gained abundant experience and deep insight in the design/construction of building equipment relating to the Group's businesses. He has also fulfilled his executive responsibilities through the development of the Group's medium-term/annual business plans and through structural reforms and ESG/SDG-conscious corporate planning operations. We believe that, as President and COO, he can be expected to achieve the Group's sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Choichi Takahara: Director and Executive Vice President; President Adviser; Director in Charge of International Group Companies, and Sales & Marketing Headquarters

Through the execution of the air conditioning equipment business, Choichi Takahara has gained abundant experience and deep insight in the design/construction of building equipment relating to the Group's businesses. We believe that, as Executive Vice President, he can be expected to achieve the Group's sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Yoshiyuki Hara: Director and Senior Managing Executive Officer, CFO; Director in Charge of Property Development Management Department

Yoshiyuki Hara has gained abundant experience and deep insight in finance and banking field through his years of service with financial institutions. He has also fulfilled his executive responsibilities associated with accounting, finance, and planning-related operations toward the enhancement of the Group's corporate governance and management foundation. We believe that, as CFO, he can be expected to achieve the Group's sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Hiroshi Yamawake: Director and Managing Executive Officer; Director in Charge of Total Engineering, Research and Development Headquarters, and Environmental Business Development Department

Through the execution of the air conditioning equipment business, Hiroshi Yamawake has gained abundant experience and deep insight in the design/construction of building equipment relating to the Group's businesses. He has also fulfilled his executive responsibilities for the development of new technologies that contribute to the technical growth of the Group's building equipment as well as the creation of new revenue sources. We believe that, as Director in Charge of Total Engineering including R&D, he can be expected to achieve the Group's sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Tadashi Kamiya: Director and Managing Executive Officer; Director in Charge of Quality Environment & Safety Control, Japanese Group Companies, and Business Management Headquarters

Through the execution of the air conditioning equipment business, Tadashi Kamiya has gained abundant experience and deep insight in the design/construction of building equipment relating to the Group's businesses. He has also fulfilled his executive responsibilities through business management and productivity improvement in the air conditioning equipment business. We believe that, as Director in Charge of Quality Environment & Safety Control including core business management, he can be expected to achieve the Group's sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Toshikazu Yokote: Director and Managing Executive Officer; Director in Charge of Compliance, Corporate Operations Headquarters, and Business Innovation Headquarters

Through the execution of the air conditioning equipment business, Toshikazu Yokote has gained abundant experience and deep insight in the design/construction of building equipment relating to the Group's businesses. He has also fulfilled his executive responsibilities through the enhancement of the management foundation, as Officer in charge of human resources, general affairs, accounting & finance, and legal-related operations. We believe that, as Director in Charge of Compliance including overall corporate management, he can be expected to achieve the Group's sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Kazuo Matsunaga, Director

An explanation is shown below in "Reasons for Appointment" of the said Outside Director.

Mitoji Yabunaka, Director

An explanation is shown below in "Reasons for Appointment" of the said Outside Director.

Kiyoshi Fujimura, Director

An explanation is shown below in "Reasons for Appointment" of the said Outside Director.

Yoko Seki, Director

An explanation is shown below in "Reasons for Appointment" of the said Outside Director.

Yukitoshi Yamamoto, Full-time Audit & Supervisory Board Member

We believe Yukitoshi Yamamoto can supervise and check business management by using his knowledge of construction, overall technology such as technological administration and general administration such as general affairs and human resources.

Kunihiro Kondo, Full-time Audit & Supervisory Board Member

Kunihiro Kondo has abundant experience and knowledge of finance and accounting from his work at financial institutions. As he has served as Deputy General Manager of the Tokyo Main Office and Deputy Chief Executive Officer of the Sales & Marketing Headquarters since joining the Company, we believe he can supervise and check business management.

Tetsuo Ito, Audit & Supervisory Board Member

An explanation is shown below in "Reasons for Appointment" of the said Outside Audit & Supervisory Board Member

Masahiro Seyama, Audit & Supervisory Board Member

An explanation is shown below in "Reasons for Appointment" of the said Outside Audit & Supervisory Board Member.

Makio Fujiwara, Audit & Supervisory Board Member

An explanation is shown below in "Reasons for Appointment" of the said Outside Audit & Supervisory Board Member.

[Supplementary Principle 4-1-1 Scope of Delegation to Management]

The “Rules for the Board of Directors” and the “Regulations for the Management Council” stipulate matters to be discussed by the Board and the Management Council.

The Board of Directors supervises performance of duties by Representative Directors and other directors, improves the efficiency of business management and secures the legality and validity of business execution while making a decision on matters stipulated by laws and the Articles of Incorporation, the basic policy for business management and other important matters for business execution. For matters to be resolved by the Board of Directors, clear procedures are in place by developing certain quantitative criteria for disposal/transfer of important assets and large borrowings.

The Management Council consists of the President, the Executive Vice President, Chief Executive Officers of the Headquarters, and directors excluding outside directors, working to have full discussions on important matters for business management and expedite decision-making on allocation of management resources. After the Management Council discusses important matters for business management, they are submitted to the Board of Directors for further discussion. For matters concerning allocation of management resources, they are reported to the Board after being discussed by the Management Council. Also, for these matters, clear procedures are in place by developing quantitative decision-making standards for each item such as acquisition of property, plant and equipment.

[Supplementary Principle 4-1-3 Plan for Successor to Director and CEO]

To secure the transparency and objectivity of the Director and CEO’s succession to a successor, in a plan for successor to the Director and CEO, a policy and a plan to develop a successor and the progress thereof shall be reported to the Nomination and Remuneration Committee which in turn discusses these matters. The Director and CEO proposes the most qualified person as a candidate for successor when appointing a new director and CEO. The Committee deliberates on the candidate and reports its results to the Board of Directors.

[Principle 4-8 Effective Use of Independent Outside Directors]

The Company appointed four out of eleven directors as independent outside directors.

Independent outside directors fulfill their management oversight and checking functions from an independent perspective at the meetings of the Board of Directors or the Nomination and Remuneration Committee, by drawing on their abundant experience and deep insight in their fields of expertise or corporate management.

[Principle 4-9 Independence Standards and Qualification for Independent Outside Directors]

The Independence Standards for Outside Officers of the Company are shown below.

Standards for Independence of Outside Officers

1. He or she is not a party whose major client or supplier (Note) is the Company or an executive thereof

(Note) A party whose major client or supplier is the Company is a business entity whose transactions with the Company in each target fiscal year (previous fiscal year and last three fiscal years) account for 2% or more of its net sales in principle.

2. He or she is not a major client or supplier (Note) of the Company or an executive thereof

(Note) A major client or supplier of the Company is a business entity whose transactions with the Company in each target fiscal year (previous fiscal year and last three fiscal years) account for 2% or more of the net sales of the Company in principle.

3. He or she is not a consultant, an accountant or a legal professional who receives a large amount of monetary consideration or other property (Note) from the Company besides compensation as a director/audit & supervisory board member (when a party that receives such property is an organization such as a corporation or an association, a person who belongs to such organization)

(Note) A large amount of monetary consideration or other property is defined as those whose total value is 10 million yen or more in a given fiscal year in principle.

4. He or she was not recently applicable to any of (1) through (4) below

(1) A party set forth in 1, 2 or 3

(2) Executive or a non-executive director of the parent company of the Company

(3) Audit & supervisory board member of the parent company of the Company (only when appointing an outside audit & supervisory board member as independent officer)

(4) Executive of a fellow subsidiary company of the Company

5. He or she is not a close relative (Note) of a party applicable to any of (1) through (8) below (except for a party who is not important (Note)).

(1) A party set forth in 1 through 4 above

(2) An accounting advisor of the Company (when the accounting advisor is a corporation, including an employee who performs that duty; the same applies hereafter) (only when appointing an outside audit & supervisory board member as independent officer)

(3) Executive of a subsidiary of the Company

(4) Non-executive director or an accounting advisor of a subsidiary of the Company (only when appointing an outside audit & supervisory board member as independent officer)

(5) Executive or a non-executive director of the parent company of the Company

(6) Audit & supervisory board member of the parent company of the Company (only when appointing an outside audit & supervisory board member as independent officer)

(7) Executive of a fellow subsidiary company of the Company

(8) A party that recently served as (3), (4) above or executive of a listed company (including non-executive director when appointing an outside audit & supervisory board member as independent officer)

(Note) An “important” party is an officer or a manager of each company/supplier in the case of the executive in 1. or 2. and a certified public accountant affiliated with each auditing firm or a lawyer affiliated with each law firm (including so-called associate) in the case of a person who belongs to an organization in 3. Close relative means relatives within the second degree of kinship.

[Supplementary Principle 4-11-1 Views of the Board as a whole on Balance of Knowledge/Experience/Capability, Diversity and Size]

The Board of Directors of the Company works to improve the efficiency of business management and secure the legality and adequacy of business execution by making important decisions for business execution and supervising the performance of duties by directors. To do that, the Company believes the Board of Directors consisting of an appropriate number of diverse personnel is required to have active discussions and perform swift decision-making. Executive directors should have abundant experience and knowledge of their respective field of expertise and have a sense of balance as well as leadership to execute business from the perspective of total optimization. On the other hand, we believe outside officers can hold discussions which contribute to the sustainable growth of the Company and medium- and long-term improvement of corporate value by offering useful advice and opinions from an independent perspective based on abundant experience and knowledge of the respective field of expertise (outside directors) and from a professional standpoint and abundant experience and knowledge of corporate management (outside audit & supervisory board members).

[Supplementary Principle 4-11-2 Status of Concurrent Posts Held by Directors and Audit & Supervisory Board Members]

When outside directors or outside audit & supervisory board members serve as an officer of any other listed company, the Company ensures that they would spend the time and energy required to fulfill their roles and responsibilities the Company expects them to perform. The Company checks and adjusts in advance a schedule of meetings of the Board of Directors and the Audit & Supervisory Board to increase the attendance rate. The Company discloses the status of important concurrent posts in its business report, reference documents for shareholders meetings and securities reports. Directors that are not outside directors and audit & supervisory board members that are not outside audit & supervisory board members do not hold any important concurrent post.

[Supplementary Principle 4-11-3 Analysis/Evaluation of Effectiveness of the Board, Disclosure of Summary of Results Thereof]

The Company evaluates the effectiveness of the Board of Directors annually based on the self-evaluation of each director and audit & supervisory board member to secure the efficacy and effectiveness of the Board.

Each director and audit & supervisory board member performs a self-evaluation based on the "Self-Evaluation Sheet," and the results are analyzed and evaluated by the Board of Directors after being discussed by Representative Directors and outside officers.

The summary results of this analysis and evaluation are shown below, and we believe the efficacy and effectiveness of the entire Board of Directors is secured. Given the results, the Company will work to further improve the supervisory and decision-making function of the Board.

・ As a result of promoting more in-depth discussions at the meetings of the Management Council and the Internal Control Committee, which are organized under the Board of Directors, as well as enhanced internal controls, it was confirmed that the appropriate development of highly effective oversight and risk management systems, which is one of the responsibilities of the Board of Directors, has been conducted on a continuous basis.

・ It was confirmed that active discussions and full and multifaceted reviews were conducted at the Board of Directors, showing that the Board was vitalized. In addition, there was an opinion that we should deepen more multilateral discussions to further enhance debates about the direction of medium and long-term management.

[Supplementary Principle 4-14-2 Policy for Training of Directors and Audit & Supervisory Board Members]

The Company believes that matters required of directors and audit & supervisory board members mainly consist of matters unique to the Company such as required knowledge of the businesses, finance and organization of the Company and general matters such as the roles required of directors and audit & supervisory board members and responsibilities including legal ones.

Executive directors, through discussions at the Management Issue Review Committee, work to gain a better understanding of general matters such as the businesses, finance and organization of the Company every year. Executive directors and audit & supervisory board members that are not outside audit & supervisory board members work to understand the roles and responsibilities required of directors and audit & supervisory board members by participating in training by outside experts.

The Company provides an explanation of matters such as the businesses, finance and organization of the Company to outside directors and outside audit & supervisory board members when they assume their posts and as required, to facilitate acquisition of knowledge required of the Company's outside directors and outside audit & supervisory board members. As such, the Company develops an environment for them to fulfill their roles.

The Company provides opportunities and services and pays necessary expenses to acquire and properly update the knowledge required of each director and audit & supervisory board member. The Board of Directors regularly checks the progress of training of executive directors.

[Principle 5-1 Policy for Constructive Dialogue with Shareholders]

The Company works to secure an opportunity to give explanations to the stock market and have constructive dialogue with shareholders to facilitate understanding of the Company's management. The Company continues to share information obtained through such dialogue within the Company and reflect it as required.

(i) Appointment of Management and Directors Who Supervise Matters to Be Included in (ii) Through (v) Below for Overall Dialogue with Shareholders and Ensure Constructive Dialogue Is Held

The President and Executive Officer supervises the dialogue with shareholders, and the Chief Executive Officer of the Corporate Operations Headquarters serves as the person in charge of handling information. The Manager of the Corporate Communication Department serves as the person in charge of timely information disclosure while the Manager of the Accounting & Finance Department serves as the person in charge of securities report, etc. (see the "Schematic Diagram of the Overview of System for Timely Disclosure" at the end of the Report).

(ii) Measures for Organic Collaboration of Departments in Charge of IR, Corporate Planning, General Affairs, Finance, Accounting and Legal That Assist Dialogue

All these departments belong either to the Global Business Planning Headquarters or the Corporate Operations Headquarters and share information and issues on a daily basis at regular meetings and on other occasions to collaborate and ensure proper operations.

(iii) Initiatives for Strengthening of Means of Dialogue Other Than Individual Interview (e.g. Investor briefings and IR activities)

In addition to a financial results briefing held twice a year, the Company plans and holds dialogue such as investor briefings as appropriate. The Company also participates in an external event for investors.

(iv) Measures for Proper and Effective Feedback of Opinions and Concerns of Shareholders Collected from Dialogue to Management and the Board of Directors

Directors and executives directly obtain information by attending investor briefings and circulating analyst reports and also receive reports from departments in charge on a regular basis and as required.

(v) Measures for Management of Insider Information for Dialogue

The Company, from the perspective of preventing insider trading, ensures full compliance with the "Rules for Management of Insider Trading" which stipulate matters concerning the Financial Instruments and Exchange Act and other laws and management of internal information. In having dialogue, the Company carefully manages information so that others will not suspect it of communicating insider information, and discloses information in a non-selective and fair manner. The Company designates the period from the day following the last day of an accounting period (quarterly/full year) to the date of announcement of financial results as a "quiet period." The Company provides training to acquire and update knowledge of prevention of insider training.

2. Capital Structure

Foreign Shareholding Ratio	From 10% to less than 20%

[Status of Major Shareholders]

Name/Company Name	Number of Shares Owned	Percentage (%)
Nippon Life Insurance Company	4,560,540	6.49
The Dai-ichi Life Insurance Company, Limited	4,231,587	6.02
Japan Trustee Services Bank, Ltd. (Trust Account)	3,561,600	5.07
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,354,300	4.77
Takasago Thermal Engineering Employee Shareholding Association	3,247,394	4.62
Takasago Kyoeikai	2,627,071	3.74
MUFG Bank, Ltd.	1,892,246	2.69
STATE STREET BANK AND TRUST COMPANY 505001	1,366,864	1.94
JP MORGAN CHASE BANK 385151	1,307,439	1.86
Mizuho Bank, Ltd.	1,210,092	1.72

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

Supplementary Explanation

(Note) The shareholding ratio is calculated net of treasury stock (9,534 thousand shares).

3. Corporate Profile

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Construction
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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5. Other Special Circumstances Which May Have Material Impact on Corporate Governance

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II Business Management Organization and Other Corporate Governance Systems Regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board Members

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	12
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Chairman (except interlocking President)
Number of Directors	11
Appointment of Outside Directors	Appointed
Number of Outside Directors	4
Number of Outside Directors appointed as Independent Officers	4

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*									
		a	b	c	d	e	f	g	h	i	j	k
Kazuo Matsunaga	Other											○
Mitoji Yabunaka	Other											○
Kiyoshi Fujimura	From another company								△			
Yoko Seki	Lawyer											○

* Categories for "Relationship with the Company"

* ○: the director presently falls or has recently fallen under the category, △: the director fell under the category in the past.

* ●: a close relative of the director presently falls or has recently fallen under the category, ▲: a close relative of the director fell under the category in the past.

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the Company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/an audit & supervisory board member
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
i. Executive of a company for which outside directors/audit & supervisory board members of the Company are appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Other

Outside Directors' Relationship with the Company (2)

Name	Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Kazuo Matsunaga	○	Outside Director Kazuo Matsunaga served as part-time adviser from July 2012 to June 2013 when he was appointed outside director of the Company at an ordinary general meeting of shareholders on the condition that he would serve as outside director of the Company. The duty of adviser was to offer advice as an independent outsider and the fee was not substantial (less than 10 million yen). Hence, the effect on the judgment of shareholders and investors is considered minimal, so the Company omits a description of these transactions.	Outside Director Kazuo Matsunaga has abundant experience and knowledge of public administration and economy, and we believe he can supervise and check business management from an independent perspective based on such experience and knowledge. While he was not involved in corporate management by any other method than serving as outside officer, we believe he can adequately perform his duty as outside director given the reason mentioned above such as offering advice and opinions useful to business management of the Company. In addition, as he is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in terms of independence. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.
Mitoji Yabunaka	○	Outside Director Mitoji Yabunaka served as part-time adviser from April 2012 to June 2014 when he was appointed outside director of the Company at an ordinary general meeting of shareholders on the condition that he would serve as outside director of the Company. The duty of adviser was to offer advice as an independent outsider and the fee was not substantial (less than 10 million yen). Hence, the effect on the judgment of shareholders and investors is considered minimal, so the Company omits a description of these transactions.	Outside Director Mitoji Yabunaka has abundant experience and knowledge of foreign diplomacy and public administration, and we believe he can supervise and check business management from an independent perspective based on such experience and knowledge. While he was not involved in corporate management by any other method than serving as outside officer, we believe he can adequately perform his duty as outside director given the reason mentioned above such as offering advice and opinions useful to business management of the Company. In addition, as he is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in terms of independence. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.
Kiyoshi Fujimura	○	Outside Director Kiyoshi Fujimura is from Mitsubishi Corporation, and the Company maintains a regular business relationship with Mitsubishi such as contracts for construction work and purchase of equipment. As the ratio of these transactions to the Company's sales is 0.02% (rounded off to the nearest hundredth) and their effect on the judgment of shareholders and investors is considered minimal, the Company omits a description of these transactions.	Outside Director Kiyoshi Fujimura has abundant experience and knowledge as director and CIO of Mitsubishi Corporation. We believe he can supervise and check business management from an independent perspective based on such experience and knowledge, and he can adequately perform his duty as outside director given the reason mentioned above such as offering advice and opinions useful to business management of the Company. In addition, as he is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in terms of independence. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.
Yoko Seki	○	--------	Yoko Seki has abundant experience and knowledge as a lawyer and a certified public accountant, and we believe she can supervise and check business management from an independent perspective based on such experience and knowledge. While she was not involved in corporate management by any other method than serving as outside officer, we believe she can adequately perform her duty as outside director given the reason mentioned above such as offering advice and opinions useful to business management of the Company. In addition, as she is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in terms of independence. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed her as independent officer.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established

Committee's Name, Composition, and Attributes of Chairperson (Chair)

	Committee's Name	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Outside Experts	Other	Chairperson (Chair)
Committee Corresponding to Nomination Committee	Nomination and Remuneration Committee	7	0	3	4	0	0	Other
Committee Corresponding to Remuneration Committee	Nomination and Remuneration Committee	7	0	3	4	0	0	Other

Supplementary Explanation

The Company, as an optional advisory body for nomination of and remuneration for officers including subsidiaries, established the Nomination and Remuneration Committee which consists of Representative Directors, the Chairman and Director, the President and Director, the Director and Executive Vice President, and outside directors. After discussions at the Committee, the Company determines, based on a resolution of the Board of Directors, nomination of candidates for directors and audit & supervisory board members and remuneration of directors. The Chairman is appointed by a mutual vote of members. Outside directors who are members of the Committee are expected to provide useful advice and opinions from an independent perspective and enhance the objectivity and transparency. The Committee holds at least one meeting in a fiscal year.

[*Audit & Supervisory Board Members*]

Establishment of Audit & Supervisory Board	Established
Maximum Number of *Audit & Supervisory Board Members* Stipulated in Articles of Incorporation	5
Number of *Audit & Supervisory Board Members*	5

Cooperation among *Audit & Supervisory Board Members*, Accounting Auditors and Internal Audit Departments

Audit & supervisory board members discuss an audit system/plan at the beginning of a year, regularly receive a report from KPMG AZSA LLC (accounting auditor) on the status and results of audits and observe an audit conducted by accounting auditors as required. By collaborating with accounting auditors by exchanging information and opinions, audit & supervisory board members improve the effectiveness of audits. They facilitate mutual collaboration through sharing of information and improve the effectiveness of audits while receiving a report from the Internal Audit Office on the status and results of audits regularly and as appropriate.

Appointment of Outside *Audit & Supervisory Board Members*	Appointed
Number of Outside *Audit & Supervisory Board Members*	3
Number of Outside *Audit & Supervisory Board Members* appointed as Independent Officers	3

Outside Audit & Supervisory Board Member's Relationship with the Company (*)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Tetsuo Ito	Lawyer													○
Masahiro Seyama	From another company										△			
Makio Fujiwara	From another company										△			

* Categories for "Relationship with the Company"

* ○: the director presently falls or has recently fallen under the category, △: the director fell under the category in the past.

* ●: a close relative of the director presently falls or has recently fallen under the category, ▲: a close relative of the director fell under the category in the past.

a. Executive of the Company or its subsidiaries
b. Non-executive director or accounting advisor of the Company or its subsidiaries
c. Non-executive director or executive of a parent company of the Company
d. Audit & supervisory board member of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company
f. A party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/an audit & supervisory board member
i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the audit & supervisory board member himself/herself only)
k. Executive of a company for which outside directors/audit & supervisory board members of the Company are appointed (the audit & supervisory board members himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the audit & supervisory board members himself/herself only)
m. Other

Outside Audit & Supervisory Board Member's Relationship with the Company (2)

Name	Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Tetsuo Ito	○	--------	We believe Outside Audit & Supervisory Board Member Tetsuo Ito is capable of conducting a proper audit from a professional perspective nurtured through his long years of experience as a prosecutor and a lawyer. As a result, we believe he can adequately perform his duty as an outside audit & supervisory board member. In addition, as he is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in terms of independence. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.
Masahiro Seyama	○	Outside Audit & Supervisory Board Member Masahiro Seyama is from Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation), and the Company maintains a regular business relationship with Panasonic such as contracts for construction work and purchase of equipment. As the ratio of these transactions to the Company's sales is 1.09% (rounded off to the nearest hundredth) and their effect on the judgment of shareholders and investors is considered minimal, the Company omits a description of these transactions.	We believe Masahiro Seyama has abundant experience and knowledge as president and corporate auditor of overseas affiliates of Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation) and is capable of conducting a proper audit based on such experience and knowledge. In addition, as he is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in terms of independence. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.
Makio Fujiwara	○	Outside Audit & Supervisory Board Member Makio Fujiwara is from Tokyo Electric Power Co., Inc. (currently Tokyo Electric Power Company Holdings, Incorporated), and the Company maintains a regular business relationship with Tokyo Electric such as contracts for construction work and use of electricity. As the ratio of these transactions to the Company's sales is 0.02% (rounded off to the nearest hundredth) and their effect on the judgment of shareholders and investors is considered minimal, the Company omits a description of these transactions.	We believe Makio Fujiwara has abundant experience and knowledge as director and corporate auditor of Tokyo Electric Power Co., Inc. (currently Tokyo Electric Power Company Holdings, Incorporated) as well as outside corporate auditor of Kandenko and is capable of conducting a proper audit based on such experience and knowledge. In addition, as he is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in terms of independence. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.

[Independent Officers]

Number of Independent Officers	7

Matters relating to Independent Officers

The Company appoints all outside directors and outside audit & supervisory board members who satisfy the requirements for independent officers as such.

For standards and a policy for independence from the Company in appointing outside directors and outside audit & supervisory board members, the Company refers to the standard for judgment of the independence of independent officers as stipulated by the guideline on listing management of TSE. The standard for judgment of independence of outside officers is described in [Principle 4-9 Independence Standards and Qualification for Independent Outside Directors].

[Incentives]

Incentive Policies for Directors	Other

Supplementary Explanation for Applicable Item

For the purpose of clarifying the link between directors' remuneration and financial performance/stock value of the Company and further motivating directors to contribute to medium- and long-term improvement of performance and corporate value, the Company, upon approval of the 138th general shareholder meeting held on June 26, 2018, passed a resolution to introduce trust-type stock compensation plan for directors except for outside directors to replace the existing stock option.

The new compensation covers three consecutive fiscal years and directors of the Company (except for outside directors and expats), executive officers the Company signed an engagement agreement with (except for expats), deputy executive officers the Company signed an engagement agreement with (except for expats) and directors of three consolidated subsidiaries of the Company (except for outside directors and expats). The Company contributes up to 550 million yen for the three fiscal years to directors. Points are granted to each director/officer based on their title, and the Company's stock will be granted to them according to their cumulative points when retiring.

Recipients of Stock Options	

Supplementary Explanation for Applicable Item

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[Director Remuneration]

Disclosure (of Individual Directors' Remuneration)	No Individual Disclosure

Supplementary Explanation for Applicable Item

FY2019: From April 1, 2019 to March 31, 2020
Total remuneration by officer category, total amount of each type of remuneration and number of eligible officers

Category	Total remuneration (million yen)	Total amount of each type of remuneration (million yen)			Number of eligible officers
		Basic remuneration	Bonus	Stock compensation	
Director (except for outside director)	348	225	60	62	9
Outside director	45	45	-	-	4
Audit & supervisory board member (except for outside audit & supervisory board member)	53	53	-	-	2
Outside audit & supervisory board member	47	47	-	-	3
Total	493	371	60	62	18

(Notes)
1 The number of directors and audit & supervisory board members who received remuneration includes two directors (except for outside directors) who retired as of the end of the 139th ordinary general meeting of shareholders held on June 26, 2019.
2 The stock compensation is the amount recorded as a provision of allowance for share-based remuneration during the fiscal year under review under the BIP (Board Incentive Plan) trust.
3 The BIP trust is separately established from the remuneration limit of 550 million yen determined by the resolution of the 130th ordinary general meeting of shareholders.

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The Company determines, based on a resolution of a shareholder meeting, the maximum limit of total remuneration of each director and audit & supervisory board member.

The Company, as an optional advisory body to the Board of Directors, established the Nomination and Remuneration Committee which consists of Representative Directors, the Chairman and Director, the President and Director, the Director and Executive Vice President, and outside directors. After discussions at the Committee, the Company determines, based on a resolution of the Board of Directors, remuneration of directors.

Remuneration of directors of the Company consists of basic remuneration, bonus and trust-type stock compensation.

Remuneration of audit & supervisory board members only consists of basic remuneration whose amount is determined through discussions by audit & supervisory board members by considering the details, volume and difficulty of duties of each audit & supervisory board members and the extent of responsibilities in a comprehensive manner. No bonus or stock-related remuneration such as trust-type stock compensation is provided to audit & supervisory board members in light of their duties.

For details, see [Principle 3-1 Full Disclosure] (iii) "Policy and Procedures for Board of Directors to Determine Remuneration of Executives and Directors" above.

[Supporting System for Outside Directors and/or *Audit & Supervisory Board Members*]

Outside directors receive information as appropriate mainly from the persons in charge at the Global Business Planning Headquarters or at the Corporate Operations Headquarters, and are briefed in advance on agendas when a board meeting is held. In addition, outside audit & supervisory board members directly receive information from a person in charge at each department and are also briefed in advance on agendas mainly by full-time audit & supervisory board members when a meeting of the Audit & Supervisory Board is held (usually held prior to a board meeting).

[Status of Person(s) Who Retired from the Position of President and Representative Director]

Name and Other Information of Senior Adviser(s) or Adviser(s) Who Is Former President and Representative Director, etc.

Name	Title/Position	Duty	Work Arrangements/Terms (Full-time/Part-time, Remuneration, etc.)	Date of Retirement as President, etc.	Term of Office
-----	-----	-----	-----	-----	-----

Total Number of Senior Advisers or Advisers Who Are Former President and Representative Director, etc.	0

Other matters

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2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) Update

The Company has a "Board of Directors" and "Audit & Supervisory Board" in place. The Company also has a system of executive officers in place to clarify the function of making a decision and supervising business management and the function of executing business, and to promote agile and efficient business management while keeping an adequate number of directors and shortening their term of office.

The Board of Directors currently consists of 11 members (of those, four are outside directors) and holds a meeting each month in principle and as required. The Board of Directors passes a resolution for important matters based on the Rules for the Board of Directors as well as matters stipulated by laws and the Articles of Incorporation, and supervises the directors' performance of their duties.

The term of directors is one year with specified management responsibility. Outside directors provide useful advice and opinions from an independent perspective while outside audit & supervisory board members provide useful advice and opinions from an objective and professional perspective by attending board meetings. As such, they try to fulfill the roles expected of outside officers.

The Board of Directors improves the efficiency of business management and secures the legality and validity of business execution by making important decisions on business execution and supervising the performance of duties by directors.

The Company signed a limited liability agreement for liability stipulated by Paragraph 1, Article 423 of the Companies Act with four outside directors which limits liability for damages to the total amount stipulated by each item of Paragraph 1, Article 425 of the Act when they perform their duties in good faith and free of gross negligence.

The Audit & Supervisory Board currently consists of five members (of those, three are outside audit & supervisory board members) and holds a meeting each month in principle and on an ad hoc basis. The Audit & Supervisory Board supervises the directors' execution of their duties by reporting audit results to the Board of Directors.

In addition, to have full discussions on important matters for business management and expedite decision-making on allocation of management resources, the Company has established the Management Council which consists of the President and Director, the Director and Executive Vice President, Chief Executive Officers of Headquarters, and directors excluding outside directors. In addition, to promote development and management of the internal control system of the Company and the Group in a cross-sectoral manner, the Company established the Internal Control Committee which consists of the Chairman and Director, the President and Director, the Director and Executive Vice President, Officer in Charge of Compliance, Chief Executive Officers of Headquarters and the relevant General Managers. The Committee discusses development of an internal control system of the Group and revision/abolition of the basic policy for internal control system based on the status of its development, passes a resolution for revision/abolition of the rules for escalation to the Board of Directors, for the Internal Control Committee as well as organizations for compliance promotion and risk management of the Group and for compliance and risk management of the Company, passes a resolution for annual activities for compliance and risk management of the Company and reports to the Board of Directors.

As an optional advisory body to the Board of Directors, the Company established the Nomination and Remuneration Committee which consists of Representative Directors, the Chairman and Director, the President and Director, the Director and Executive Vice President, and outside directors. The Committee discusses appointment, reappointment and dismissal of directors, audit & supervisory board members, and executive officers of the Company and its subsidiaries, recommendations to the Board of Directors (however, appointment and reappointment of audit & supervisory board members requires approval of the Audit & Supervisory Board) and remuneration of directors and executive officers of the Company and its subsidiaries, and reviews the policy and the progress of the plan for successor of the Director and CEO formulated by Director and CEO.

Furthermore, as an optional advisory body to the Board of Directors, the Company established the Advisory Council which consists of Representative Directors, outside directors and outside audit & supervisory board members. The Council contributes to vitalization of the Board of Directors by reviewing the compositional balance of the overall Board of Directors, analyzing and evaluating the effectiveness and checking the policy for training of directors/audit & supervisory board members as well as provision of information.

Names of the members of the organizations above are listed in the following table.

Title	Name	Board of Directors	Management Council	Audit & Supervisory Board	Nomination and Remuneration Committee*	Internal Control Committee	Advisory Council
Chairman and Representative Director, CEO	Atsushi Ouchi	◉	○		○	○	◉
President and Representative Director, COO	Kazuhito Kojima	○	◉		○	◉	○
Director and Executive Vice President	Choichi Takahara	○	○		○	○	○
Director and Senior Managing Executive Officer, CFO	Yoshiyuki Hara	○	○			○	
Director and Managing Executive Officer	Hiroshi Yamawake	○	○			○	
Director and Managing Executive Officer	Tadashi Kamiya	○	○			○	
Director and Managing Executive Officer	Toshikazu Yokote	○	○			○	
Outside Director	Kazuo Matsunaga	○			○		○
Outside Director	Mitoji Yabunaka	○			○		○
Outside Director	Kiyoshi Fujimura	○			○		○
Outside Director	Yoko Seki	○			○		○
Full-time Audit & Supervisory Board Member	Yukitoshi Yamamoto			◉			
Full-time Audit & Supervisory Board Member	Kunihiro Kondo			○			
Outside Audit & Supervisory Board Member	Tetsuo Ito			○			○
Outside Audit & Supervisory Board Member	Masahiro Seyama			○			○
Outside Audit & Supervisory Board Member	Makio Fujiwara			○			○

○: Member of the organization, ◉: Head of the organization * The head is elected by mutual vote

In addition, audit & supervisory board members, accounting auditors and the Internal Audit Office work together to enhance corporate governance by conducting an effective audit.

(1) Audit & Supervisory Board Members

There are currently five audit & supervisory board members at the Company (of those, three are outside audit & supervisory board members). They monitor the status of corporate governance, attend board meetings and other important meetings, review important requests for approval and visit offices according to an audit policy/plan determined by the Audit & Supervisory Board. They also collaborate with accounting auditors and the Internal Audit Department to audit the performance of duties by directors in an effective audit. For subsidiaries, they exchange information and cooperate with directors and audit & supervisory board members thereof at a meeting of the Group Management Council and the Group Audit & Supervisory Board. Outside audit & supervisory board members including one lawyer obtain and provide information and work to monitor operations from an independent perspective. On the other hand, full-time audit & supervisory board members monitor operations based on their abundant knowledge and experience at the Company and enhance the effectiveness of audits from their respective position.

The Company signed a limited liability agreement for liability stipulated by Paragraph 1, Article 423 of the Companies Act with three outside audit & supervisory board members which limits liability for damages to the total amount stipulated by each item of Paragraph 1, Article 425 of the Act when they perform duties in good faith and free of gross negligence.

(2) Internal Audit

For internal audits, the Company established the Internal Audit Office (six staff) under direct control of the President and it conducts an operational audit on the adequacy and efficiency of business operations based on a plan from an independent perspective according to the Rules for Internal Audit. For subsidiaries, the Office exchanges information as required. The Internal Audit Office checks the status of required measures and improvements while reporting audit results to President and Representative Director, COO. The Office evaluates the status of internal control over financial reporting of the Company and important consolidated subsidiaries. The Office also works with audit & supervisory board members and accounting auditors to ensure an effective internal audit is conducted.

(3) Accounting Auditors

The certified public accountants who are executing accounting audit work of the Company are Mr. Atsuki Kanezuka and Mr. Junichi Kimura and they are affiliated with KPMG AZSA LLC. The number of years of continuous auditing amount to three years for Mr. Kanezuka and four years for Mr. Kimura. In addition, they have six certified public accountants as their assistants plus six other assistants.

In selecting an audit firm, the Company considers a quality management system, independence and expertise as an accounting auditor in a comprehensive manner.

When it is considered difficult for the accounting auditor to conduct a proper audit, the Audit & Supervisory Board shall submit a proposal for dismissal or non-reappointment of the accounting auditor to a shareholders' meeting. When any of the reasons described in each item of Paragraph 1, Article 340 of the Companies Act applies to the accounting auditor, the Audit & Supervisory Board shall dismiss the accounting auditor with the consent of all audit & supervisory board members.

Furthermore, as part of the procedures to reappoint the accounting auditor, the Audit & Supervisory Board receives reports from KPMG AZSA LLC on its quality management system, audit plan and overview of audit status and interviews a department in charge on its assessment of the auditor to ensure that the firm properly conducts an audit.

3. Reasons for Adoption of Current Corporate Governance System

Currently, four out of eleven directors of the Company are outside directors. Based on their abundant experience and knowledge, the outside directors perform the function of offering advice and supervising business management from an independent and objective perspective. In addition, three out of five audit & supervisory board members are outside audit & supervisory board members. Each outside audit & supervisory board member conducts a highly effective audit from an independent and objective perspective. The Company believes the current function to monitor and supervise business management is fully performed by these outside directors and outside audit & supervisory board members.

III Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Ensure Smooth Exercise of Voting Rights

	Supplementary Explanation
Early Notification of General Shareholder Meeting	The Company tries to send a notice of a general shareholder meeting by four weeks prior to the date of such meeting or by the end of May. For the fiscal year ended March 2020, however, the Company sent out the notice on June 12, 2020 due to the delayed finalization of consolidated financial statements. (Held a general shareholder meeting on June 29.)
Other	Before sending a notice of a general shareholder meeting, the Company discloses such notice (including an English translation of a part thereof) and a notification of independent officers to the Tokyo Stock Exchange, and posts them on the Company website. The Company uses a voting platform for institutional investors while using an electronic voting system. June 12, 2020: Disclosed a notice of a general shareholder meeting (including an English translation of a part thereof) and a notification of independent officers to the Tokyo Stock Exchange and posted them on the Company website. June 12, 2020: Sent out a notice of a general shareholder meeting. June 29, 2020: Held a general shareholder meeting.

2. IR Activities

	Supplementary Explanation	Explanation by Representative
Preparation and Publication of Disclosure Policy	The Company discloses the "Disclosure Policy (Rules for Information Disclosure)" on its website.	
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds a briefing on financial highlights, the status of a management plan and future outlook twice a year (May and November). About 50 securities analysts and fund managers attend this briefing. For the fiscal year ended March 2020, the Company canceled the investor briefing, which was initially scheduled in May 2020, due to the novel coronavirus (COVID-19) pandemic.	Established
Posting of IR Materials on Website	The Company posts information such as a settlement of accounts, a securities report, timely disclosed materials, reference data on financial results and a medium-term management plan.	
Establishment of Department and/or Person in Charge of IR	Corporate Communication Division (Contact: General Manager of Corporate Communication Division)	
Other	The Company participates in an IR event for individual investors twice a year or so.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanation
Stipulation of Internal Rules for Respecting the Position of Stakeholders	The Company has rules for CSR in place.
Implementation of Environmental Activities and CSR Activities etc.	As part of promotion of CSR management, the Company developed the "CSR Activity Plan" in April 2012 based on the basic approach to CSR: "Position CSR management at the core of business management as part of business activities and work to improve corporate value and realize sustainable society while fulfilling social responsibility as a good corporate citizen." In addition, the Company formulated the "Basic Environmental Rules" in April 2012 and works on environmental conservation activities which promote effective utilization of energy/resources and development/use of technologies to reduce environmental impact. These activities are summarized in the CSR Report and released on the Company website. The CSR Report was reorganized as an "integrated report" in 2017. Since April 2020, the Company has engaged in strengthening its commitment to ESG, which is increasingly demanded by various stakeholders.
Development of Policies on Information Provision to Stakeholders	The Company discloses information while trying to secure timeliness, legality, accuracy and fairness according to the standard stipulated in the rules for listing of Tokyo Stock Exchange, Inc. The Company also proactively discloses information not covered by the standard if it is considered to help investors make a judgment.
Other	Currently, 11 directors and five audit & supervisory board members of the Company consist of 15 men and one woman. The Company will consider employing candidates regardless of their sex when they have appropriate qualities as director or audit & supervisory board member.

IV Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

For a "system to ensure adequacy of business" stipulated by the Companies Act and the Ordinance for Enforcement of the Companies Act, the board meeting held on April 17, 2015 passed a resolution. The system was subsequently reviewed as required, and its overview as of June 29, 2020 is as follows.

(1) System to Ensure That Duties of Directors and Employees Are Performed in Compliance with Laws and the Articles of Incorporation
[Overview of the System]
i) The Company establishes the Compliance Office, an organization dedicated to promotion of compliance, and properly manages the whistle-blower system including a hotline for consultation and report while appointing an Officer in Charge of Compliance. For important themes to promote, the Company develops compliance programs and performs PDCA management at the Compliance Committee. As such, the Company works to secure a system which contributes to enforcement and improvement of compliance.
ii) The Company establishes the Group Action Guidelines which specify basic rules of conduct for Group officers and employees and distributes to them. Also, the Company enforces full compliance through continuous training on compliance to all directors and employees depending on their level and duties.
iii) The Company elects outside directors who have abundant experience and knowledge in areas outside the Company's realm of expertise and strengthens guidance and supervision of execution of duties from various perspectives.

[Overview of the Activities in FY2019]
i) The Company held five meetings of the Compliance Committee to familiarize everyone with corporate ethics and developed/promoted a compliance system by providing information on compliance from the Compliance Office and keeping everyone informed about the hotline for consultation and report.
ii) The Company compiled and distributed a handbook on the Group Action Guidelines to officers and employees and ensured its dissemination and use by each individual and each office. The Company also made efforts to instill the Guidelines in officers and employees, by providing explanations linked to specific subjects from the Guidelines at various training and guidance sessions, including e-learning and onsite visits to branches. Particularly, to prevent violations of the Anti-Monopoly Act, the Company held e-learning training for all officers and employees for the purpose of ensuring the full implementation of preventive measures along with the Group Action Guidelines and preventing them from losing substance. The Company is also committed to enforcing compliance based on PDCA activities in daily operations, by continuously making known and facilitating the use of the whistle-blower system.
iii) In 13 board meetings held in the year, outside directors independent from the Company attended them and presented advice and opinions useful to the management of the Company from an independent perspective to ensure the legality and adequacy of performance of duties by directors. As such, the Company continues to strengthen the function to supervise and check business management.

(2) System on Storage and Management of Information on Performance of Duties by Directors
[Overview of the System]
The Company records data of important meetings such as board meetings, requests for approval and other information on performance of duties by directors in writing or in an electromagnetic medium, and stores and manages it in accordance with the internal rules for document management. The Company also works on thorough implementation of measures to prevent information leaks by establishing a basic policy for information security and familiarizing everyone with such policy.

[Overview of the Activities in FY2019]
The Company recorded data of important meetings such as board meetings, requests for approval and other information on performance of duties by directors in writing or in an electromagnetic medium, and stored and managed it. The Company also familiarizes everyone with the Information Security Policy, while ensuring the full implementation of preventive measures for information leaks by developing information control regulations.

(3) Rules and Other System for Management of the Risk of Loss
[Overview of the System]
i) The Company establishes the cross-sectional Risk Management Committee including administration, sales and technology departments to formulate rules for risk management and promote company-wide risk management. The Company also promotes activities to prevent and mitigate risks through identification/assessment of risks including major affiliated companies and implementation of measures to deal with material risks.
ii) The Company develops a system to accurately handle an unforeseen contingency by formulating Rules for Crisis Management and calling/holding a company-wide crisis management meeting which swiftly and properly handles material risks when they surface.
iii) The Company improves its capability to continue business in a state of emergency by developing a business continuity plan in case of a wide-scale disaster and reviewing and enhancing the effectiveness of the plan through a regular drill.
iv) For risks by function such as quality, safety, environment, compliance, information and profit/loss, the Company develops a proper risk management system by appointing departments in charge in identifying/assessing the risks mentioned above.

[Overview of the Activities in FY2019]
i) The Company held five meetings of the Risk Management Committee for risk screening in accordance with the Risk Management Rules and developed and operated a system to promote PDCA management of risk reduction measures that target risks based on the degree of risk and prevent them from actualizing.
ii) The Company developed the Rules for Crisis Management and developed and managed a system to accurately handle an unforeseen contingency.
iii) The Company reviewed business continuity plans (BCPs) on a regular basis through performing effective drills, in an effort to strengthen its capability to deal with disasters. In addition, as a response to prevent the spread of the novel coronavirus, the Company has established a task force for BCP operations in close coordination with branches.
iv) For risks by function, the Company worked to develop a proper risk management system by appointing departments in charge, evaluating the effect and the possibility of these risks from surfacing on a regular basis and planning a method to prevent and deal with them.

(4) System to Ensure that Duties of Directors Are Performed Effectively
[Overview of the System]
i) The Company clarifies the function to make a decision and supervise business management and the function to execute business, and promotes agile and efficient business management by placing the Management Council under the Board of Directors with the President as a chairman and introducing a system of executive officers.
ii) The Company develops and reviews as required Rules for Segregation of Duties, Rules for Administrative Authority and decision-making standards to expedite decision-making and improve the efficiency of business management such as performance of duty.

[Overview of the Activities in FY2019]
i) As part of a review of the operating structure of the Board of Directors, the Management Council, to which certain matters concerning minor assets and transfer in terms of financial value are delegated, facilitated swift and efficient execution with the participation of full-time audit & supervisory board members and reported important matters to the Board as appropriate. During the fiscal year under review, the Company expanded the range of matters delegated to the Management Council and enhanced management oversight functions in an effort to promote expedited and efficient management by balancing developments in both oversight and execution.
ii) The Company reviewed and revised as appropriate any change of the internal organization and rules and regulations such as Rules for Segregation of Duties and Rules for Administrative Authority and decision-making standards. The Company also developed and operated a system to ensure swift implementation of business strategies.

(5) System to Ensure the Adequacy of Operations of the Corporate Group Consisting of the Company and Subsidiaries Thereof

[Overview of the System]

i) For management of subsidiaries, the Company develops a system of business management by placing a department in charge of business management within the Company and stipulating rules for discussion and reports of important matters in the Rules for Management of Affiliates while respecting their autonomy. For certain important matters of subsidiaries, the Company approves them based on a prior discussion with subsidiaries. The Company also requires subsidiaries to report operating results, financial conditions and other important information. In addition, the Company holds a meeting on a regular basis attended by the management of the Company and presidents of subsidiaries to ensure appropriate operations. When risks surface, the Company requests subsidiaries to promptly report them to the contact department of the Company.

ii) The Company operates a compliance system appropriately including a risk management system, a crisis management system and a whistle-blower system as a corporate group to share a basic view with the Company by formulating the Group Action Guidelines which specify basic rules of conduct and developing internal rules for the respective subsidiary.

iii) The Company monitors adequate business execution of subsidiaries by conducting an audit by the Internal Audit Office and sending directors and audit & supervisory board members to these companies as required.

iv) Audit & supervisory board members regularly audit the status of performance of duty of subsidiaries.

v) The Company develops an internal control system required to secure the adequacy and credibility of financial reporting.

[Overview of the Activities in FY2019]

i) The Group Management Council, attended by presidents of domestic group companies, held three meetings, and at such meetings, the Company received reports from group companies and Japanese Group Companies Management Division of the Company. For international businesses, the Company held the meeting of overseas group company presidents four times, which is attended by the presidents of overseas group companies, and received reports as appropriate from overseas group companies and the Company's International Business Headquarters. For important matters of Group companies in particular, while they were reported to the Company, they were approved based on the Rules for the Board of Directors, the Rules for the Management Council and other relevant rules of the Company.

ii) The Company (parent company) applied the basic action guidelines (rules) for Group officers and employees to subsidiaries at home and abroad by developing the Group Corporate Code of Ethics in the respective language and distributing it to employees to familiarize everyone with them. The Company also kept track of and managed the status of risk management and compliance at subsidiaries on a regular basis through the Risk Management Committee and the Compliance Committee. For a whistle-blower system, the Company not only developed such system at each subsidiary but secured and managed a direct hotline to the Company.

iii) The Internal Audit Office conducted an internal audit on overall operations in terms of legality, validity and efficiency.

The Company also sent its employees to the companies as officers to ensure proper operations.

iv) Audit & supervisory board members conducted a field audit on subsidiaries to review important documents and interview major officers and employees on the status of performance of duty. The Domestic Group Audit & Supervisory Board received reports from group companies' audit & supervisory board members on audit policies and audits performed to keep track of the status.

v) The Internal Audit Office, in collaboration with the Accounting & Finance Department, conducted an internal audit and developed an internal control system to guarantee the legality and credibility of financial reporting to Group companies.

(6) Matters Concerning Employees Who Assist Audit & Supervisory Board Members, Matters Concerning the Independence of Such Employees From Directors and Matters Concerning Securing of the Effectiveness of Instructions to Such Employees

[Overview of the System]

The Company establishes the Audit & Supervisory Board Member's Office which consists of dedicated employees independent from the function of performance of duty and assists duties of audit & supervisory board members. Audit & supervisory board members retain the right to lead and issue orders to employees engaged in duties of the Audit & Supervisory Board Member's Office.

Therefore, the Company manages HR matters for these employees including performance review, transfer and disciplinary action in accordance with the Company's rules and after consultation with audit & supervisory board members.

[Overview of the Activities in FY2019]

The Company established the Audit & Supervisory Board Member's Office and placed a full-time staff member in it to assist in the duties of audit & supervisory board members. This staff member performed his/her duty based on the orders and instructions of audit & supervisory board members. The Company managed HR matters for these employees including performance review, transfer and disciplinary action in accordance with the Company's rules and after consultation with audit & supervisory board members.

(7) System for Directors and Employees to Report to Audit & Supervisory Board Members and Other System on Reporting to Audit & Supervisory Board Members

[Overview of the System]

For matters to be reported to audit & supervisory board members by directors and employees, the Company formulates the Rules to Develop an Audit Environment for Audit & Supervisory Board Members and develops a system to report any event which causes significant damage, material misconduct such as an internal scandal or legal violation, results of an internal audit and status of whistle-blowing in addition to statutory matters at the Company and its subsidiaries. The Company develops a system which secures audit & supervisory board members' rights to attend important meetings such as meetings of the Board of Directors and thus allows them to keep track of the status of execution of duty.

[Overview of the Activities in FY2019]

The Company formulated the Rules to Develop an Audit Environment for Audit & Supervisory Board Members and developed and operated a system to report any event which causes significant damage, material misconduct such as internal scandal or legal violation, results of an internal audit and status of whistle-blowing in addition to statutory matters at the Company and its subsidiaries.

(8) System to Ensure That Anyone Who Reported to Audit & Supervisory Board Members Is Not Treated Unfairly on the Grounds of Such Reporting

[Overview of the System]

The Company clarifies a system in the Rules to Develop an Audit Environment for Audit & Supervisory Board Members to ensure that a person who made the report mentioned above to audit & supervisory board members is not treated unfairly on the grounds of such reporting.

[Overview of the Activities in FY2019]

The Company developed and operated a system as stipulated by relevant rules to ensure that a person who made a report to audit & supervisory board members is not treated unfairly on the grounds of such reporting.

(9) Expenses Incurred for Performance of Duties of Audit & Supervisory Board Members or Matters Concerning Policy for Settlement of Debts

[Overview of the System]

When audit & supervisory board members claim certain expenses and fulfillment of obligations in performing their duties, the Company pays them except when such expenses or obligations are considered not necessary for the duties of these audit & supervisory board members. The Company also secures a budget for various expenses of audits to ensure their effectiveness.

[Overview of the Activities in FY2019]

When audit & supervisory board members claimed certain expenses and fulfillment of obligations in performing their duties, the Company paid them except when such expenses or obligations were considered not necessary for duties of these audit & supervisory board members. The Company also secured a budget for various expenses of audits to ensure their effectiveness.

(10) Other System to Ensure Effective Audit Is Conducted by Audit & Supervisory Board Members

[Overview of the System]

i) Outside audit & supervisory board members account for the majority of the Audit & Supervisory Board.

ii) Audit & supervisory board members, based on an audit policy/plan determined by the Audit & Supervisory Board, monitor the status of governance, attend meetings of the Board/Management Council and other important meetings, review important requests for approval and visit offices. They also have communication with Representative Directors by regularly holding a meeting and exchanging opinions with them.

iii) Audit & supervisory board members, the Internal Audit Office and accounting auditors regularly discuss the status of audits, share information and collaborate with one another to conduct an effective and efficient audit.

[Overview of the Activities in FY2019]
i) There are currently five audit & supervisory board members and of those, three are outside audit & supervisory board members, securing the majority.
ii) Audit & supervisory board members, based on an audit policy/plan determined by the Audit & Supervisory Board, monitored the status of governance, attended meetings of the Board/Management Council and other important meetings, reviewed important requests for approval and visited offices. They also had communication with Representative Directors by regularly holding a meeting and exchanging opinions with them.
iii) Audit & supervisory board members, the Internal Audit Office and accounting auditors regularly reported the status of audits, shared information and collaborated with one another to conduct an effective and efficient audit.

2. Basic Views on Elimination of Anti-Social Forces and the Progress of System Development

[Overview of the System]
To cut off relations with anti-social forces and organizations, the Group Action Guidelines stipulate that we deal with anti-social forces and organizations in a resolute manner and have no relations with them. The Company also develops an internal system capable of conducting practical solutions such as making the Guidelines well known through education/training and cooperation with an external specialized agency.

[Overview of the Activities in FY2019]
The Group Action Guidelines stipulate that we deal with anti-social forces and organizations in a resolute manner and have no relations with them, and the Group ensured that everyone is familiar with the Guidelines. The Company also worked with an external specialized agency to have a system in place and operate it to enable these matters to be handled practically.

V Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	None

Supplementary Explanation for Applicable Item

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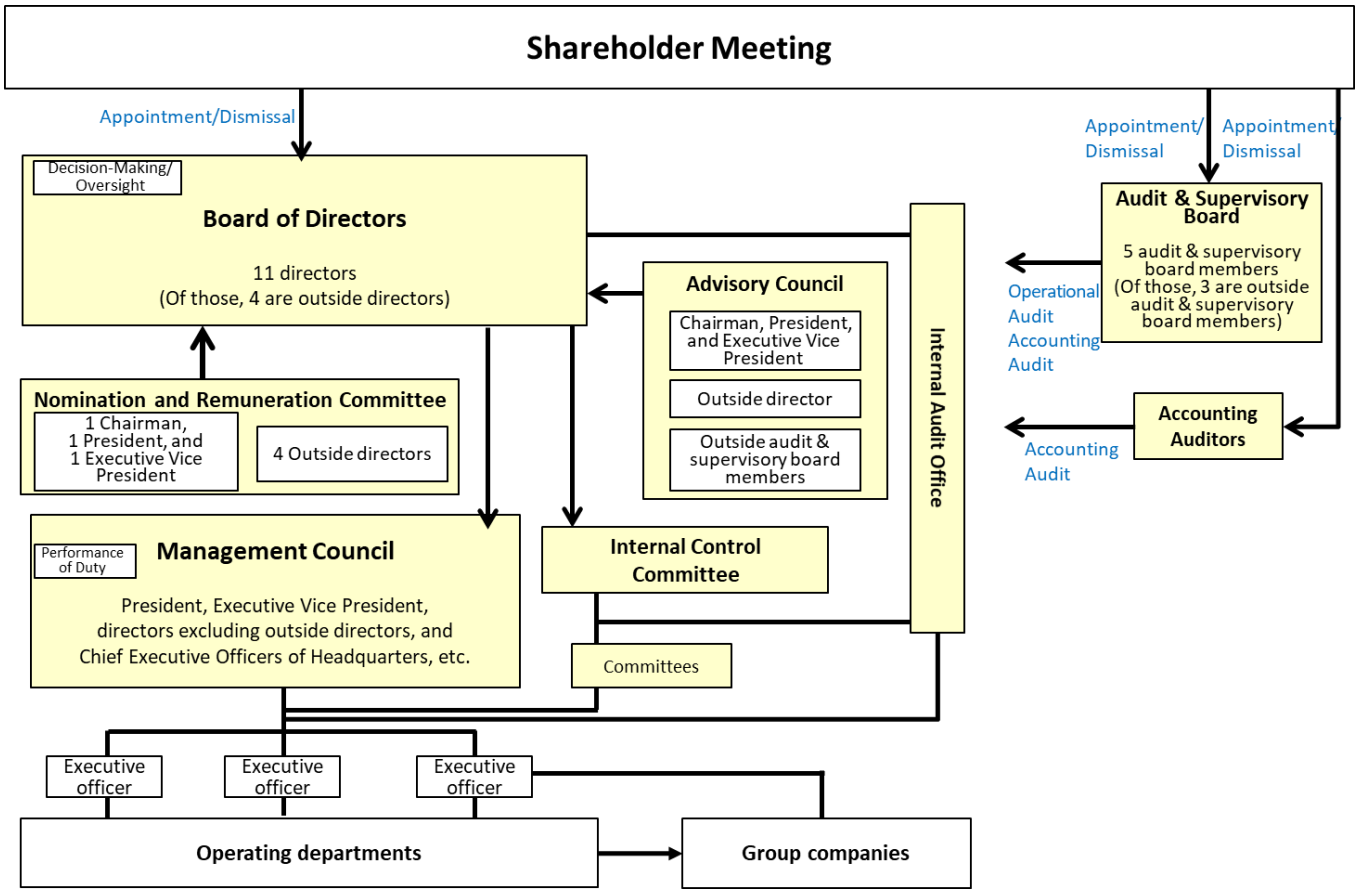
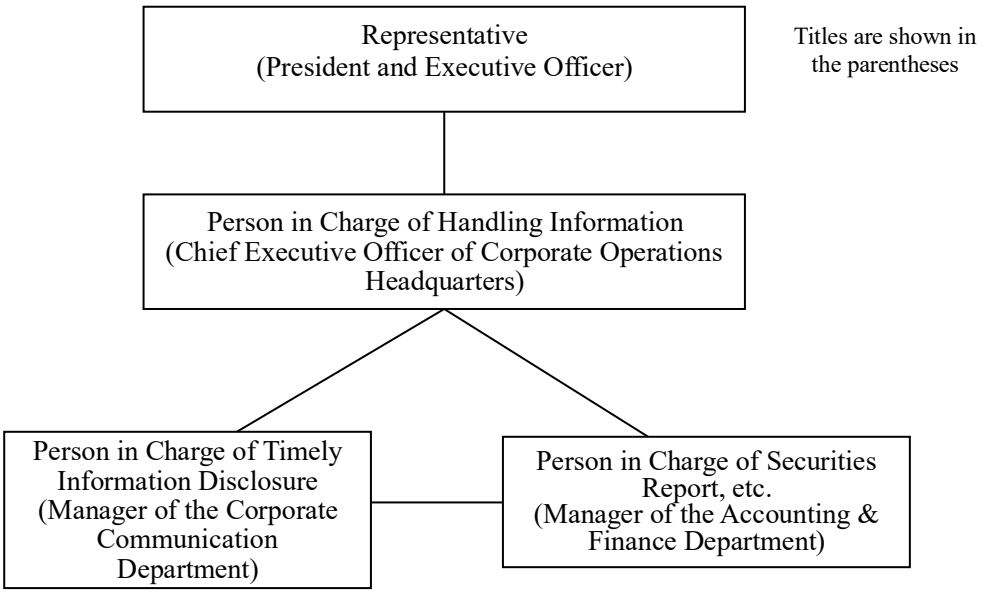
2. Other Matters Concerning Corporate Governance System Update

A schematic diagram of the corporate governance system and a schematic diagram of an overview of the system for timely disclosure are shown below.

[Schematic Diagram]



[Schematic Diagram of an Overview of System for Timely Disclosure]



Overview of the System for Timely Disclosure

The status of the internal system for timely disclosure of corporate information on the Company is shown below.

(1) The representative and the person in charge of handling information to ensure the timeliness, legality, accuracy and fairness of information to be disclosed. These matters are discussed at and reported to the Management Council and the Board of Directors as appropriate.

(2) The person in charge of timely information disclosure not only complies with the rules for timely disclosure and relevant laws and regulations but collects information from related departments in a swift and comprehensive manner to carry out his/her task. He or she also works on preparing proper disclosure materials and full disclosure by referring to other companies' examples of disclosure.

(3) The Company regularly receives advice and guidance from audit & supervisory board members and accounting auditors. The Company also obtains opinions of third party experts as required.

(4) While the Company has the "Rules for Management of Insider Trading," the "Disclosure Policy (Rules for Information Disclosure)" and the "Group Corporate Code of Ethics" that stipulates strict adherence thereto, it works on preventing insider trading including at our affiliates and compliance with the Fair Disclosure Rule.