(Translation)

# Corporate Governance



Latest revision: June 23, 2020

**KATITAS Co., Ltd.**
President and CEO, Katsutoshi Arai
Inquiries: 03-5542-3882
Securities code: 8919
https://www.katitas.jp/

**The status of the Company's corporate governance is as follows.**

## I. Basic Approaches on Corporate Governance, Capital Structure, Company Attributes, and Other Basic Information

### 1. Basic Approaches

Under the management philosophy, "Opening doors to the future. Contributing to communities and customers by adding value to homes", the Company is always working to accelerate and streamline management decision-making by quickly identifying changes in the ever-evolving business environment. To that end, we recognize that corporate governance is important as the foundation for improving the soundness and transparency of our management, living up to the social trust of our stakeholders, and steadily increasing our corporate value. We are striving to build and strengthen an effective corporate governance system based on a corporate auditing system consisting of a Board of Directors, which decides and supervises the execution of important business operations concerning the entire Group, as well as corporate auditors and a Board of Corporate Auditors which are independent of the Board of Directors and monitor the directors' execution of their duties.

### Reasons for Not Implementing Each of the Principles of the Corporate Governance Code update

**Supplementary Principle 1-2-4: Establishing an Environment for the Electronic Exercise of Voting Rights**
The Company posts convocation notices on its website in both Japanese and English, however the Company will continue to consider the electronic exercise of voting rights, taking into account the ratio of domestic and foreign institutional investors, as well as the costs and benefits of introducing such a system.

**Supplementary Principle 4-8-1: Effective Use of Independent Outside Directors**
The Company has appointed two independent outside directors, who actively contribute to discussions at Board of Directors meetings, but the Company does not hold formal, regular information liaison meetings, etc., consisting solely of independent parties outside of the Company. In the future, we will consider the necessity of creating opportunities for information exchange and sharing of ideas based on objective viewpoints, and respond accordingly.

**Supplementary Principle 4-8-2: Effective Use of Independent Outside Directors**
Communication and coordination between the Company's independent outside directors and the management team, as well as cooperation with the Company's corporate auditors or the Board of Corporate Auditors, are conducted appropriately through the responsible departments, directors in charge, and full-time corporate auditors, and at present we see no need to appoint a head independent outside director.

**Principle 4-11: Preconditions for Ensuring the Effectiveness of the Board of Directors and Board of Corporate Auditors**
Although none of the Company's corporate auditors has specialized in the areas of finance and accounting, the Company believes that they have a broad range of knowledge of the operations of the management department and that they have the appropriate practical experience and expertise in the areas of finance and accounting. In addition, we believe that their expertise will be complemented by cooperation with the General Manager of the Internal Audit Office and the accounting auditor, who have specialized in the areas of finance and accounting.

**Supplementary Principle 4-14-2: Training of Directors and Corporate Auditors**
We do not plan to establish a training policy for directors and corporate auditors, as we believe that there is no need to provide them with regular training, because each director and corporate auditor is nominated after determining that their abilities, experience and knowledge are appropriate for performing their duties, and each of them has been approved by the general meeting of shareholders.

### Disclosure Based on the Principles of the Corporate Governance Code update

**Principle 1-4: Cross-Shareholding Policy**
The Company does not currently have cross-shareholdings.
However, we will consider whether to allow cross-shareholdings, comprehensively taking into account the execution of business strategies, relationships with business partners, and the enhancement of corporate value over the medium to long term.

**Principle 1-7: Transactions between Affiliated Parties**
In the case of transactions between affiliated parties, the Company requires the approval of the Board of Directors, taking into consideration the rationality of the transaction in question, the appropriateness of the transaction terms, and other factors affecting the interests of the Company and its shareholders. In addition, we will disclose transactions with affiliated parties based on a determination of materiality according to provisions of the Corporate Accounting Rules and Rules For Consolidated Financial Statements.

**Principle 2-6: Fulfillment of the Role of Corporate Pension Plan Asset Owner**
Because the Company does not have a corporate pension plan, it is not an owner of corporate pension plan assets.

**Principle 3-1: Enhancement of Information Disclosure**
(1) Please refer to the Company's website for information on its management philosophy, strategies, and plans.
Management philosophy: https://katitas.jp/information/representative.html
Management strategy and plans: http://katitas.jp/plan/
(2) For the Company's basic approaches and policies on corporate governance, please refer to "1.1. Basic Approaches" in this document.
(3) For the Board of Directors' policies and procedures for determining the remuneration of senior management and directors, please refer to 2.1. Director Remuneration Related.
(4) When appointing senior management and nominating candidates as Directors and Corporate Auditors, the Board of Directors comprehensively considers the candidates' relevant experience and capabilities.
(5) With regard to the individual appointment and nomination of candidates as Directors and Corporate Auditors, in addition to being disclosed in the notice of convocation of the Regular General Meeting of Shareholders, the reasons for the appointment of outside directors and outside corporate auditors are stated in "2.1. Director Related - Relationship with the Company (2)" and "2.1. Corporate Auditor Related - Relationship with the Company (2)".

**Supplementary Principle 4-1-1: Board of Director Roles and Responsibilities**
The Company stipulates matters required by law to be resolved by the Board of Directors and important management decisions in the Board of Directors Regulations and in the attached table, Board of Directors Resolutions. In addition, under the convocation of the Representative Director, a Management Council consisting of general managers, department heads, office managers, full-time corporate auditors, etc., deliberates important management policies, reports on the status of execution of business strategies, and discusses important matters related to all of these in order to ensure smooth and prompt business operations, in addition to matters on the board of directors agenda.

**Principle 4-9: Criteria for Determining the Independence and Qualifications of Independent Outside Directors**
When appointing independent outside directors, the Company makes judgments based on the candidates' backgrounds and relationships with the Company, referring to the criteria for determining the independence of independent directors set forth by the Tokyo Stock Exchange, Inc. and based on ensuring sufficient independence to enable them to perform their duties as outside directors. In addition to the above-mentioned criteria for independence, the Company strives to select persons who can engage in discussions from the perspective of general shareholders, based on interviews with the CEO.

**Supplementary Principle 4-11-1: Preconditions for Ensuring the Effectiveness of the Board of Directors and Board of Corporate Auditors**
The appointment of four out of nine Directors and two out of three Corporate Auditors from outside the Company enables the Board of Directors to adopt an objective viewpoint independent of management, and strengthens its monitoring and supervisory functions to ensure a high level of transparency in management. In order to ensure that the Board of Directors is able to function as the highest authority for business execution and supervision, the Company limits the number of Directors to the maximum number that allows substantive discussions, selecting board members so that it consists of the most qualified persons in terms of their balance of knowledge, experience, and abilities, as well as diversity and appropriate scale.

**Supplementary Principle 4-11-2: Preconditions for Ensuring the Effectiveness of the Board of Directors and Board of Corporate Auditors**
For outside directors, the Company limits the number of their assignments as officers of other listed companies to reasonable range, so that they are able to devote the time and effort necessary to properly fulfill their roles and responsibilities. Important concurrent positions held by directors are disclosed in the notice of convocation of the General Meeting of Shareholders and in financial statements, etc.

**Supplementary Principle 4-11-3: Preconditions for Ensuring the Effectiveness of the Board of Directors and Board of Corporate Auditors**
The Company's Board of Directors conducted a questionnaire survey of all directors and corporate auditors to evaluate the overall effectiveness of the Board of Directors. The following is a summary of the evaluation.
(1) Time-line of the evaluation
- February - March 2020: Questionnaire distribution and collection
- April 2020: Report on the results of the evaluation of the effectiveness of the Board of Directors
(2) Evaluation process
- Respondents: all directors and all corporate auditors
- Response method: Anonymous (multiple-choice questions with a 5-point scale, and open-ended responses to each question)
- Evaluation period: FY2019 (42nd term) Board of Directors Meeting
- Main evaluation items:
  1) Operation of the Board of Directors (review period, meeting times, frequency, etc.)
  2) Content of discussion at Board meetings (preparation of materials for resolutions and reports, etc.)
  3) Composition of the Board of Directors (number of members, specialties, diversity, etc.)
  4) Communication at Board meetings (environment, atmosphere, status of discussions, efforts to address issues and homework, etc.)

(3) Summary of Evaluation Results
Based on the questionnaire results, all items received positive evaluations overall, with few negative evaluations throughout the responses, resulting in a high grade overall. In particular, there were comments mentioning that, "there is sufficient analysis of business performance," "homework presented at board meetings is addressed in the following month," and "there are active discussions during deliberations". On the other hand, some directors pointed out the "amount of time for consideration between the distribution of materials on matters for resolution and Board of Directors meetings," and suggested that "more discussions should be held on achieving the medium-term management plan". We will continue to address the issues raised in the evaluation process to further improve the effectiveness of the Board of Directors.

**Principle 5-1: Policy on Constructive Dialog with Shareholders**
The Company will respond positively to requests from shareholders for constructive dialog within reason, in order to contribute to sustainable growth and enhance corporate value over the medium to long term. Policies for this purpose are as follows.
(1) Designation of directors for overall dialog with shareholders, and measures to encourage organic cooperation among internal departments
To promote constructive dialog with shareholders, we will appoint a person within the Corporate Planning Division to be in charge of investor relations, and will share information appropriately with related departments.
(2) Measures to enhance means of communication other than individual meetings
We will enhance methods of dialog other than individual meetings by continuing to hold financial results briefings, etc.
(3) Measures to provide feedback to senior management regarding the opinions and concerns of shareholders
The content of dialog with shareholders, including their opinions and concerns, will be reported to senior management in a timely manner through various reporting channels, including the Management Council.
(4) Measures related to the management of insider information
The Company has established and thoroughly enforces its Rules for Prevention of Insider Trading, which apply to all employees of the consolidated group. When engaging in dialog with shareholders, we will comply with these regulations and rules on timely disclosure, and manage information appropriately to prevent the dissemination of insider information.

## 2. Capital Structure

| | |
|---|---|
| Foreign shareholding ratio | 30% or higher |

### Status of Major Shareholders update

| Name or identifier | No. of shares owned | Ratio (%) |
|---|---|---|
| Nitori Holdings Co., Ltd. | 13,356,210 | 35.09 |
| Japan Trustee Services Bank, Ltd. (trust account) | 2,783,800 | 7.23 |
| BBH FOR MATTHEWS ASIA DIVIDEND FUND | 2,105,400 | 5.49 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 1,596,600 | 4.16 |
| NORTHERN TRUST CO.(AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT | 1,102,500 | 2.87 |
| STATE STREET BANK AND TRUST COMPANY 505001 | 552,410 | 1.44 |
| The Dai-ichi Life Insurance Company, Limited | 535,200 | 1.40 |
| BNYM AS AGT/CLTS 10 PERCENT | 521,738 | 1.36 |
| Japan Trustee Services Bank, Ltd. (trust account 5) | 497,100 | 1.30 |
| The Nomura Trust and Banking Co., Ltd. (investment trust account) | 493,100 | 1.29 |

| | |
|---|---|
| Controlling shareholders (excluding the parent company) | --- |
| Parent company | No |

Supplementary explanation update

1. In May 2017, the Company entered into a capital and business alliance agreement with Nitori Holdings Co., Ltd. and became its equity method affiliate.

2. In addition to the above, there are 971,786 shares of treasury stock. The above ratios are calculated after deducting treasury stock.

3. The report on large shareholders dated January 21, 2020 and available for public inspection states that Coupland Cardiff Asset Management LLP held shares as of January 16, 2020, however the Company is unable to confirm the actual number of shares held as of March 31, 2020; therefore Coupland Cardiff Asset Management LLP is not included in the above list of major shareholders.

4. The report on large shareholders dated February 20, 2020 and available for public inspection states that Sumitomo Mitsui Trust Bank, Ltd. and its joint holder Nikko Asset Management Co., Ltd. each held shares as of February 14, 2020, however the Company is unable to confirm the actual number of shares held as of March 31, 2020; therefore, they are not included in the above list of major shareholders.

## 3. Company attributes

| | |
|---|---|
| Stock exchange listing and market classification | Tokyo First Section |
| Fiscal term | March |
| Industry | Real estate business |
| Number of employees at the end of the most recent fiscal year (consolidated) | 500 and more to less than 1,000 employees |
| Net sales for the most recent fiscal year (consolidated) | 10 billion and more to less than 100 billion yen |
| Number of consolidated subsidiaries at the end of the most recent fiscal year | Less than 10 subsidiaries |

## 4. Guidelines on measures to protect minority shareholders when conducting transactions with controlling shareholders

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## 5. Other special circumstances that may significantly impact corporate governance

Although one outside director (Toshiyuki Shirai) and one outside corporate auditor (Nobu Fukuda) have been appointed from Nitori Holdings Co., Ltd., which owns 33.96% of the Company's issued shares, Nitori Holdings does not impose any restrictions on the Company's business activities or management decisions, and we believe that a certain level of independence is secured as the number of directors does not constitute a majority of the Board of Directors.

## II Status of Management Control Structures and Other Corporate Governance Systems Related to Administrative Decision-Making, Execution, and Supervision

### 1. Matters concerning organizational structure and operations, etc.

| | |
|---|---|
| Organizational form | Company with corporate auditors |

### Director Related

| | |
|---|---|
| Number of directors stipulated in the articles of incorporation | 10 people |
| Term of office of directors stipulated in the articles of incorporation | 1 year |
| Chairman of the Board of Directors | President and CEO |
| Number of directors update | 8 people |
| Status of appointment of outside directors | Appointed |
| Number of outside directors update | 3 people |
| Number of outside directors designated as independent directors | 2 people |

Relationship with the Company (1) update

| Name | Attributes | Relationship with the Company (*) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k |
| Seiichi Kumagai | Person from another company | | | | | | | | | | | ○ |
| Toshiyuki Shirai | Person from another company | | | | | | | ○ | | | | |
| Hideaki Tsukuda | Person from another company | | | | | | | | | | | ○ |

*** Selected items regarding the relationship with the Company**
*** ○indicates that the item applies to the person in question "currently or recently", and △ indicates that it applied in the past**
*** ● indicates that the item applies to people who are closely related to the person in question "currently or recently", and ▲ indicates that it applied in the past**
a. An executive of the listed company or its subsidiary
b. An executive or non-executive director of a parent company of the listed company
c. A person who executes business on behalf of a fellow subsidiary of the listed company
d. A person who has a major business relationship with a listed company or one of its executives
e. A major business partner of the listed company or one of its executives
f. Consultants, accounting experts, or legal experts who receive significant sums of money or other assets from the listed company other than remuneration for their services
g. Major shareholders of the listed company (if the major shareholder is a corporation, an executive of the corporation)
h. An executive (the individual only) of a business partner of a listed company (not falling under any of d, e, or f)
i. An executive (the individual only) of a company with which the outside director has a relationship of mutual appointment
j. An executive (the individual only) of a company to which the listed company has made a donation
k. Other

Relationship with the Company (2) update

| Name | Independent director | Supplemental explanation of applicable items | Reason for appointment |
|---|---|---|---|
| Seiichi Kumagai | ○ | — | He has been appointed as an outside director in order to utilize the extensive knowledge and experience in general management he has cultivated as President and Representative Director of Nihon Printing Co., Ltd. for the management of the Company.<br>In addition, he has been designated as an independent director because he has no special interest in the Company, and there is no risk of conflicts of interest with general shareholders. |
| Toshiyuki Shirai | | — | He has been appointed as an outside director in order to utilize the abundant management knowledge, experience, etc. that he has cultivated as the Representative Director and President of Nitori Holdings Co., Ltd. in the management of the Company. |
| Hideaki Tsukuda | ○ | — | He has been appointed as an outside director in order to utilize the abundant knowledge, experience, etc. in management and finance that he has cultivated as a member of MUFG Bank, Ltd. and the current President and Representative Director of Board Advisors Japan, Inc. in the management of the Company. In addition, he has no special interest in the Company, and there is no risk of conflicts of interest with general shareholders.<br>He has been designated as an independent director. |

| | |
|---|---|
| A voluntary committee equivalent to a nominating committee or compensation committee | Established |

### Status of establishment of a voluntary committee, composition of members, and committee chairperson attributes

| | Committee name | All committee members | Full-time committee | Internal director | Outside director | Outside expert | Other | Committee Chairperson |
|---|---|---|---|---|---|---|---|---|
| A voluntary committee equivalent to a nominating committee | Nomination and Remuneration Advisory Committee | 3 | 0 | 1 | 2 | 0 | 0 | No Committee Chairperson |
| A voluntary committee equivalent to a compensation committee | Nomination and Remuneration Advisory Committee | 3 | 0 | 1 | 2 | 0 | 0 | No Committee Chairperson |

### Supplementary explanation

The Nomination and Remuneration Advisory Committee has been established as a voluntary advisory body for the nomination of candidates for directors and the determination of director compensation.
A majority of members are outside directors, and the committee strives to improve the objectivity and transparency of nomination procedures and compensation decisions.

## Corporate Auditors Related

| | |
|---|---|
| Establishment of a board of corporate auditors | Established |
| Number of corporate auditors stipulated in the articles of incorporation | 4 people |
| Number of corporate auditors | 3 people |

### Status of coordination between corporate auditor, accounting auditor, and internal auditing department

The Board of Corporate Auditors meets at least once a month. In addition, there is a regular exchange of opinions and information with the internal audit office and the accounting auditor to collaborate to ensure the effectiveness of audits.

| | |
|---|---|
| Status of appointment of outside auditors | Appointed |
| Number of outside corporate auditors | 2 people |
| Number of outside corporate auditors designated as independent director | 1 person |

### Relationship with the Company (1)

| Name | Attributes | Relationship with the Company (*) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k | l | m |
| Yuki Ichikawa | Attorney | | | | | | | | | | | | | ○ |
| Nobu Fukuda | Person from another company | | | | | | | | | ○ | | | | |

* Selected items regarding the relationship with the Company
* ○ indicates that the item applies to the person in question "currently or recently", and △ indicates that it applied in the past
* ● indicates that the item applies to people who are closely related to the person in question "currently or recently", and ▲ indicates that it applied in the past

a. An executive of the listed company or its subsidiary
b. Non-executive director or accounting advisor of listed companies or their subsidiaries
c. Executive or non-executive director of the parent company of a listed company
d. Corporate auditor of the parent company of a listed company
e. Business executive of a fellow subsidiary of a listed company
f. A person who has a major business relationship with a listed company or one of its executives
g. A major business partner of the listed company or one of its executives
h. Consultants, accounting experts, or legal experts who receive significant sums of money or other assets from the listed company other than remuneration for their services
i. Major shareholders of the listed company (if the major shareholder is a corporation, an executive of the corporation)
j. An executive (the individual only) of a business partner of a listed company (not falling under any of f, g, or h)
k. An executive (the individual only) of a company with which the outside director has a relationship of mutual appointment
l. An executive (the individual only) of a company to which the listed company has made a donation
m. Other

Relationship with the Company (2)

| Name | Independent director | Supplemental explanation of applicable items | Reason for appointment |
|---|---|---|---|
| Yuki Ichikawa | ○ | – | He is an attorney whose main area of practice is corporate legal affairs, and was appointed in the expectation that he will express objective audit opinions regarding the Company's risks, corporate governance, compliance, etc. from his professional perspective. In addition, he has been designated as an independent director because he has no special interest in the Company, and there is no risk of conflicts of interest with general shareholders. |
| Nobu Fukuda | | – | Although he has no experience of direct involvement in corporate management, he has been appointed by the Company in the expectation that he will apply his expertise and experience in the fields of finance and management accounting to the Company's audits as an outside corporate auditor. |

## Independent Director Related

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|---|---|
| Number of independent directors | 3 people |

Other matters concerning independent directors

The Company has appointed two of its outside directors and one of its outside corporate auditors as independent directors, respectively, based on the criteria for determining the independence of independent directors and independent corporate auditors established by Tokyo Stock Exchange.

## Incentive Related

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|---|---|
| Status of implementation of measures concerning incentives for directors | Introduction of a stock option system |

Supplementary explanation of applicable items update

The Company has adopted a resolution at the General Meeting of Shareholders to issue stock options to internal directors, employees, etc., with or without compensation. The following is a list of stock options granted since the fiscal period ended March 2014.
**1st series of stock options (without compensation)**Resolved at the Extraordinary General Meeting of Shareholders held on July 26, 2013 33,796 units (3 internal directors, 32 employees, and 1 individual)
**2nd series of stock options (without compensation)**Resolved at the extraordinary general meeting of shareholders held on September 29, 2016 28,385 units (1 internal director, 32 employees, 1 director of a subsidiary, 46 employees of a subsidiary)
**3rd series of stock options (with compensation)**Resolved at the extraordinary general meeting of shareholders held on September 29, 2016 16,972 units (1 internal director, 1 individual)
**4th series of stock options (without compensation)**Resolved at the extraordinary general meeting of shareholders held on March 30, 2017 8,793 units (one internal director)
**5th series of stock options (without compensation)**Resolved at the extraordinary general meeting of shareholders held on March 30, 2017 3,000 units (one internal director)
**6th series of stock options (without compensation)**Resolved at the extraordinary general meeting of shareholders held on September 22, 2017 49,560 units (one internal director)
*1 In accordance with a resolution of the Board of Directors on August 22, 2017, the Company executed a stock split on September 22, 2017, at a ratio of 30 shares per share of common stock.
*2 In accordance with a resolution of the Board of Directors on March 13, 2020, the Company executed a stock split on April 1, 2020, at a ratio of 2 shares per share of common stock.

| | |
|---|---|
| Person eligible to receive stock options | Internal directors, internal corporate auditors, employees, directors of subsidiaries, employees of subsidiaries, others |

Supplementary explanation of applicable items

The Company has introduced a stock option plan for its directors and employees to motivate them to work diligently, so that the interests of the Company are aligned with the interests of its directors and employees.

## Director Remuneration Related

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|---|---|
| Disclosure status (of compensation for individual directors) | Only some are disclosed individually |

### Supplementary explanation of applicable items update

Information on total remuneration for each category of the Company's directors, total remuneration, etc., by type and the number of eligible directors and corporate auditors for the fiscal period ended March 2019 is disclosed in the annual financial statements.
**Three internal directors:** Total of 126 million yen (basic remuneration: 63 million yen, stock options: 38 million yen, directors' retirement benefits: 24 million yen)
**Three outside directors:** Total of 10 million yen (basic remuneration: 10 million yen)
**One internal corporate auditor:** Total of 9 million yen (basic remuneration 9 million yen, retirement benefits: 0 million yen)
**One external corporate auditor:** Total of 4 million yen (basic remuneration 4 million yen)
The above figures do not include one unpaid director, one outside director, and two outside corporate auditors. Of the above, the directors with total remuneration of 100 million yen or more and their remuneration totals are as follows.
The total remuneration, etc. paid to Katsutoshi Arai (Director) is 108 million yen (basic remuneration: 60 million yen, stock options: 38 million yen, directors' retirement benefits: 9 million yen).

| A policy for determining remuneration or its calculation method | Established |
|---|---|

### Disclosure of the policy for determining the amount of remuneration or its calculation method

The amount of remuneration, etc. for each officer is be within the limit of the total remuneration resolved at the general meeting of shareholders, and is determined by the Nomination and Remuneration Advisory Committee in the case of directors, and in consultation with corporate auditors in the case of corporate auditors.
The maximum amount of remuneration for officers based on the resolution of the General Meeting of Shareholders is 300 million yen per year for directors (resolved at the Extraordinary General Meeting of Shareholders held on January 15, 2002), and 30 million yen for corporate auditors (resolved at the Extraordinary General Meeting of Shareholders on January 15, 2002).
In addition, the remuneration limit for directors has been separately resolved as follows.
- At the extraordinary general meeting of shareholders held on September 29, 2016, it was resolved that the annual stock option compensation for the third series of stock options is a maximum of 100 million yen
- At the extraordinary general meeting of shareholders held on March 30, 2017, it was resolved that the annual stock option compensation for the fourth and fifth series of stock options is a maximum of 300 million yen
- At the extraordinary general meeting of shareholders held on September 22, 2017, it was resolved that the annual stock option compensation for the sixth series of stock options is a maximum of 300 million yen

## Outside Director (Outside Corporate Auditor) Support System

Although the Company has not designated a department or person in charge of supporting the duties of outside directors and outside corporate auditors, the Company does have a system in place to provide necessary support, mainly through the Administrative Headquarters.
In addition, the Administrative Headquarters takes measures such as sharing necessary materials in advance when the Board of Directors meetings are held. Through these measures, they provide support to the Board of Directors, the Board of Corporate Auditors, in cooperation with internal audits, audits by corporate auditors, and accounting audits, so that sufficient deliberations can be made, and an environment can be created to enable them to effectively fulfill their supervisory roles.

## 2. Matters concerning functions such as business execution, auditing and supervision, nominations, and decisions on remuneration (outline of the current corporate governance system) update

**Board of Directors**
As a general rule, the Company holds regular meetings of the Board of Directors once a month, with extraordinary meetings of the Board of Directors held as needed to enable rapid management decision-making. In order to ensure the functioning of the Board of Directors, the Company limits the number of directors to the maximum number that allows for substantive discussions. The Board of Directors consists of 11 members: 8 directors, including 3 outside directors, and 3 corporate auditors, including 2 outside corporate auditors. In addition, the Company has invited presidents of listed companies and directors with a wide range of knowledge in business and legal affairs to serve as outside directors, in order to create a system that enables management decision-making based on a broader perspective, and management supervision from outside the Company.
**Board of Corporate Auditors**
The Company's Board of Corporate Auditors consists of three members, including two outside corporate auditors. As a general rule, regular meetings of the Board of Corporate Auditors are held once a month, and extraordinary meetings of the Board of Corporate Auditors are held as needed to audit the daily activities of the Directors, including the execution of their duties. Full-time corporate auditors attend general meetings of shareholders, meetings of the Board of Directors, meetings of the Management Council and other meetings as necessary to gain an understanding of management policies and other matters, and to communicate important matters discovered during corporate audits to ensure the effectiveness of corporate governance. In addition, each corporate auditor conducts audits in accordance with the audit plan and strives to strengthen the auditing function of the corporate auditors by sharing information regularly with the internal auditors and accounting auditors.
**Internal Audits**
The Company has established the Internal Audit Office as an organization under the direct control of the President and CEO, and has assigned two internal auditors. The Internal Audit Office and the Corporate Auditors cooperate to check the soundness of corporate management. The Internal Audit Office formulates internal audit plans in accordance with the "Internal Audit Implementation Regulations", and conducts audits with the approval of the President and CEO. The person in charge of internal auditing reports the results of the audit for the confirmation the President and CEO, and then reports the audit results to the person in charge of each department. After that, the person in charge of each department submits a follow-up policy, and after that, follow-up audits are conducted as necessary.
**Accounting Audits**
The Company has an auditing contract with Deloitte Touche Tohmatsu LLC. In addition to regular audits of financial statements, etc. by the auditing firm, the Company also receives surveys on the status of development and operation of systems and procedures related to internal controls and accounting records to the extent deemed necessary for the purpose of auditing, and receives feedback on the results.
**Management Council**
The Company's Management Council includes the President and CEO, the General Manager, department heads, office managers, full-time corporate auditors, etc. As a general rule, regular Management Council meetings are held once a month, and extraordinary Management Council meetings are held as needed. At the Management Council, decisions on important management policies are made, reports are given on the status of business strategy execution, and important matters concerning overall management are deliberated.

**Compliance Committee**
The Company's Compliance Committee generally holds meetings once per month as a general rule, attended by the President and CEO, General Manager of the Sales Division, General Manager of the Administration Headquarters, full-time corporate auditors, outside corporate auditors, Manager of the Internal Audit Office, and the General Manager of the Administration Division.
The Committee reports information on compliance violations within the Company, harassment reports, and internal and external reports. The Committee also checks the content of complaint reports, develops systems to prevent compliance violations and litigation, and confirms whether there are important matters concerning overall compliance.
**Nomination and Remuneration Advisory Committee**
The Company's Nomination and Remuneration Advisory Committee is composed of consists of the President and CEO and two outside directors, and holds meetings as necessary.
The Nomination and Remuneration Advisory Committee nominates each director by taking into consideration their background, relationship with the Company, and ability to perform their duties, and determines the remuneration, etc. by taking into consideration their title, role, contribution degree, target achievement level, performance, etc.

### 3. Reasons for choosing the current corporate governance system

The Company has established the General Meeting of Shareholders, Board of Directors and Board of Corporate Auditors as entities in accordance with the Companies Act. In addition, the Company has established the Management Council and the Compliance Committee as its own management bodies, based on the recognition that prompt sharing of business and risk information for management decision-making and thorough compliance are essential for improving corporate value. In addition, the Company believes that the most appropriate management system places people who are familiar with the Company's operations in the positions of directors in charge of business execution, while at the same time, as board members, these directors mutually supervise each other's management decision-making and business execution, in order to achieve faster management decision-making, with auditing by the Board of Corporate Auditors.

## III Status of Measures concerning Shareholders and Other Interested Parties

### 1. Status of efforts to revitalize the General Meeting of Shareholders and facilitate the exercise of voting rights

| | Supplementary explanation |
|---|---|
| Provision of the convocation notices (summaries) in English | Notice of convocation of the General Meetings of Shareholders is posted in English on the Company's website. |

### 2. Status of IR Activities update

| | Supplementary explanation | Explanation by the representative |
|---|---|---|
| Regular briefings held for individual investors | Financial results briefings for individual investors are held at branches of securities companies, etc. (Results for the fiscal year ended March 2020: 1 time in total) | Yes |
| Regular briefings held for analysts and institutional investors | Briefings are held after the announcement of financial results at the end of the fiscal year and the end of the second quarter. | Yes |
| Regular briefings held for investors from overseas | The President and CEO travels to North America, Europe and Asia to carry out overseas IR activities and explain financial results and business strategies.<br>(North America: May 2019, Europe: November 2019, Asia (Hong Kong and Singapore): November 2019) | Yes |
| IR materials posted on website | - Notices of convocation and resolutions of general shareholder meetings, financial statements, briefing materials for financial results, annual securities reports, press releases, and other materials are posted on the Company's website in a timely manner.<br>- The Company discloses information to overseas investors by translating financial statements, briefing materials for financial results, limited notices of convocation of general shareholder meetings, and important timely disclosure materials in to English. | |
| Establishment of a department (person in charge) related to investor relations | The Corporate Planning Division has appointed a person in charge of investor relations and has established a dedicated contact point (e-mail). The Company actively meets and speaks with investors, conducting approximately 200 one-on-one interviews with investors between April 2019 and March 2020. | |
| Other | - The Company regularly conducts property tours, mainly for institutional investors, in order to promote understanding of the Group's business. (Results for the fiscal year ended March 2020: 6 times in total)<br>- The Company also participates in conferences for investors organized by securities companies. (Results for the fiscal year ended March 2020: 4 times in total) | |

### 3. Status of efforts related to respect for the positions of stakeholders update

| | Supplementary explanation |
|---|---|
| Provisions regarding respect for the positions of stakeholders through internal regulations, etc. | The Company has established its "Management Philosophy," "Value Provided," and "The Katitas Promise," and respects the positions of all stakeholders and aims to be a company that "adds value" for all stakeholders. |
| Implementation of environmental conservation and CSR (corporate social responsibility) activities, etc. | The Company's CSR, as stated in our Management Philosophy, is to contribute to the revitalization and development of local communities by "adding value to homes" that are underutilized and unnoticed in their area, and homes that are difficult to sell in the general used home market.<br>The Company recognizes that ESG-oriented management is a necessary part of corporate social responsibility, and that the role played by corporations in solving social issues, as represented by SDGs (Sustainable Development Goals), is becoming increasingly important.<br>We believe that the Group's business of refurbishing pre-owned homes contributes to environmental protection by significantly reducing CO2 emissions and the amount of lumber used in comparison to building new housing. It can also contribute to the government's efforts to solve the nationwide vacant house problem. |
| Formulation of policies for the provision of information to stakeholders | The Company will actively promote communication with our shareholders and investors through general shareholder meetings and IR activities, and strive to disclose necessary information to all stakeholders in a timely and appropriate manner. |
| Other | **Governance**<br>The Company believes that compliance is the most important factor in business growth. In order to ensure compliance, we have established three principles of reporting:<br>1. Report problems immediately<br>2. Report bad things first<br>3. We do not advocate lying.<br>In addition, events related to compliance, including the above three principles of reporting, as well as examples of failures that can be used to increase knowledge of our business, are shared every Thursday at TV morning meetings that connect all of our branches nationwide.<br><br>**Promotion of Diversity**<br>The Company is actively recruiting female employees who are interested in renovation and housing, and more than 40% of the new graduates who joined the Company in April 2020 were women.<br>As a result, as of April 1, 2020, the ratio of female employees was over 40%.<br>- 12 of the Company's top 20 sales employees are women.<br>- As of April 2020, the ratio of female managers was 17.4%. |

## IV Matters Related to Internal Control Systems, Etc.

### 1. Basic Policy on Internal Control System and Its Development Status

In order to complete the development of "systems necessary to ensure that the execution of the duties by the directors complies with the laws and regulations and the articles of incorporation, and other systems prescribed by the applicable Ordinance of the Ministry of Justice as systems necessary to ensure the properness of operations of a Stock Company" as stipulated in Article 362, Paragraph 4, Item 6 of the Companies Act (internal control systems), the Company's Board of Directors passed a resolution on the "Basic Policy for the Development of Internal Control Systems". The following is an outline of the policy.

a. Systems to ensure that the execution of duties by directors and employees complies with laws and regulations and the Articles of Incorporation
(a) In order to ensure that the execution of duties by directors and employees complies with laws and regulations and the Articles of Incorporation, respect our corporate ideals, and fulfill our social responsibility, we have established the "Basic Philosophy" and made it fully known to all directors and employees.
(b) The Company has established the Compliance Committee, which is independent of the business execution departments, and regularly examines and analyzes the business activities of all branches, and reports the results to the Board of Directors as part of our efforts to maintain and improve our compliance system.
(c) We have established an Internal Reporting System to prevent violations of laws, the Articles of Incorporation, and internal regulations, or to detect and correct such violations at an early stage.
(d) This system enhances the functions of the Internal Audit Office, checks whether the execution of duties by directors and employees complies with laws, the Articles of Incorporation, and internal regulations, and monitors their enforcement. The results of internal audits are reported to the President and CEO and the Board of Corporate Auditors.

b. System for the storage and management of information concerning execution of duties by directors
In addition to appropriately storing and managing information based on internal regulations such as the "Document Management Regulations", the system enables directors and corporate auditors to view this information at any time.

c. Rules and other systems for managing the risk of losses
In order to avoid or minimize risks related to compliance, disasters, quality, information security, etc., the Compliance Committee manages and monitors the risk across the organization, while the Manager of the General Affairs Department establishes rules and guidelines, prepares manuals, etc., in cooperation with the directors in charge of each department as a company-wide measure.

d. System to ensure the efficient execution of duties by directors
(a) In addition to monthly meetings, the Board of Directors holds extraordinary meetings when necessary to make decisions flexibly and promptly, share information, and supervise the execution of duties by directors.
(b) The Board of Directors regularly reviews the progress of the budget and actual results for each period based on the performance of the business divisions, in order to improve business performance.

e. Matters concerning employees who are asked by corporate auditors to assist them in their duties
In the event that the Board of Corporate Auditors requests the appointment of employees to assist them in their duties, the Company will appoint suitable employees from within the Company as assistants after consultation with the Corporate Auditors. However, there are currently no requests from the corporate auditors for employees to assist them in their duties.

f. System for reporting to corporate auditors by directors and employees, and other matters related to reporting to corporate auditors
Directors and employees are required to report to the Board of Corporate Auditors all cases, not only of serious violations of laws and regulations and the Articles of Incorporation, but also matters that could significantly impact the Company's and the Group's operations or business performance, the implementation of internal audits, or internal reporting.

g. Other systems to ensure the effectiveness of audits by corporate auditors
(a) The Board of Corporate Auditors meets at least once a month.
(b) Regular discussion meetings are held between the Board of Corporate Auditors and the President and CEO.
(c) The Board of Corporate Auditors regularly exchanges opinions and information with the Internal Audit Office, the Accounting Auditors, and the Corporate Auditors of subsidiaries to collaborate to ensure the effectiveness of audits.
(d) Corporate Auditors attend the Board of Directors meetings, Compliance Committee meetings, and other important meetings, and when necessary, request explanations from directors or employees.

### 2. Basic policy and status of measures to exclude antisocial forces

The Company Group's basic policy is to avoid any relationship with antisocial forces, to fulfill its social responsibility as a company by complying with laws and regulations, to take a resolute stance against antisocial forces that pose a threat to the order and safety of civil society, and to resolutely reject any unreasonable demands from such forces. Therefore, the Company has established a system to exclude antisocial forces as follows.

(1) We hold training sessions on how to prevent transactions with antisocial forces as part of our Compliance Committee and study groups to ensure the full awareness of all employees.

(2) We have established the "Regulations for the Prevention of Transactions with Antisocial Forces", and in the event of unreasonable demands from antisocial forces, the Legal Department of the Administration Division, which is the department responsible, will centrally manage all information and take prompt action, including consultation with the relevant police department and legal counsel.

(3) When conducting transactions, we have a system in place to prevent transactions with antisocial forces, which includes obtaining and keeping a written pledge in accordance with the implementation of the ordinance to exclude organized crime groups, and confirming that the counterpart of the transaction is not an antisocial force.

## V Other

### 1. Introduction of anti-takeover measures

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|---|---|
| Introduction of anti-takeover measures | No |

Supplementary explanation of applicable items

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### 2. Other matters related to the corporate governance system, etc.

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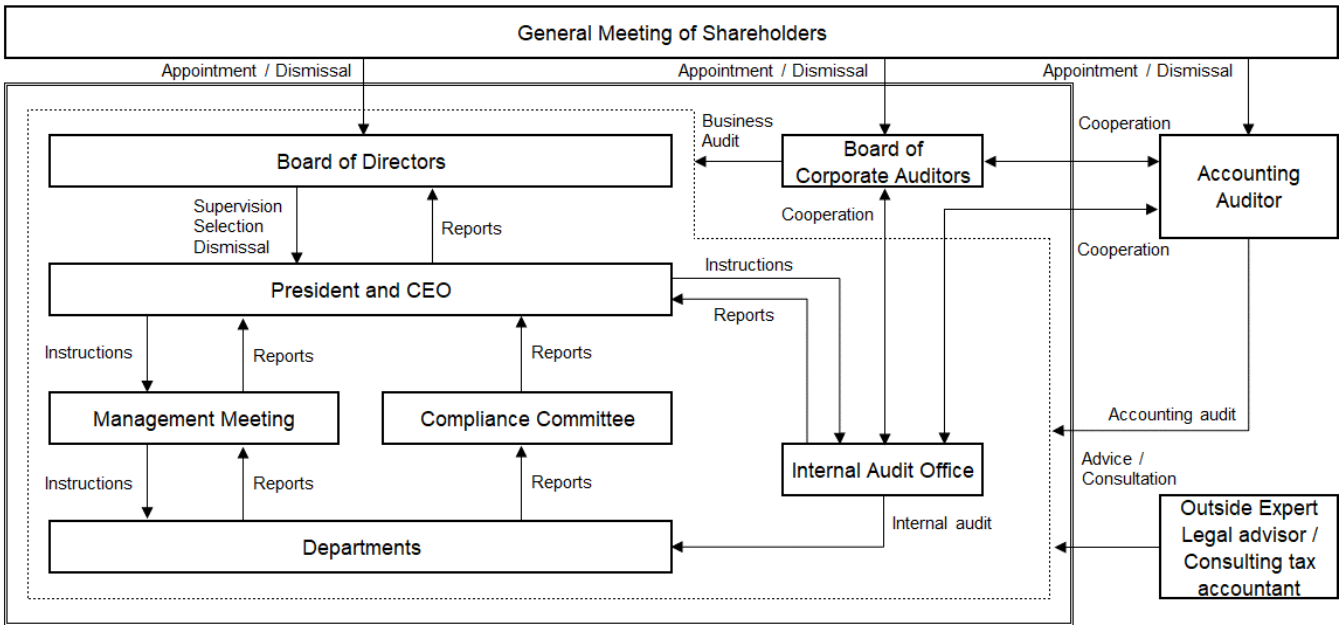
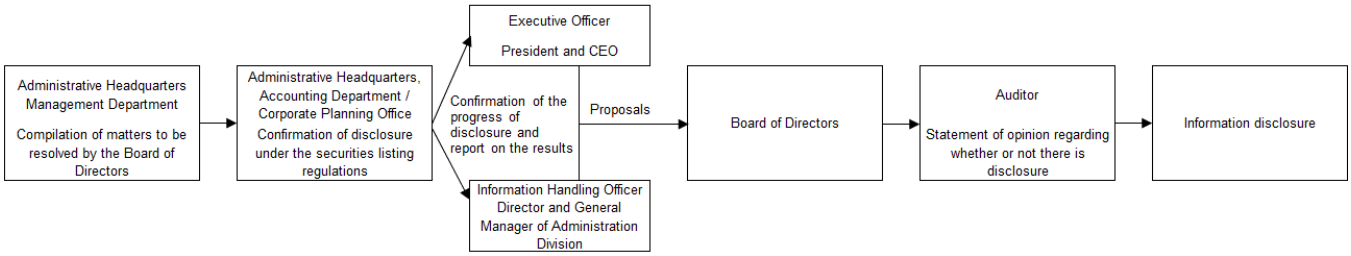
**Schematic diagram (reference)**

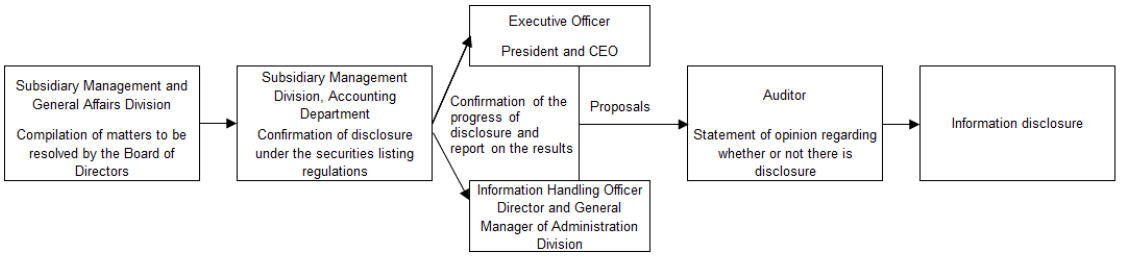


**Summary of the timely disclosure system (schematic diagram)**

Information on decisions and financial results related to the Company




Information on facts of decisions related to subsidiaries




Information on the facts of occurrence related to the Company

