

### Measures to Implement Aggressive Governance

From FY2017, the Company introduced a new stock compensation system for the Company's Directors, etc. (excluding Outside Directors) to share interests with the Company's shareholders, to promote the sustainable growth of the Group, and to increase their motivation to enhance corporate value over the medium to long term, and it shall be introduced from a perspective of implementing aggressive governance.

Specifically, the proportion of monetary compensation was decreased within the range of the previous framework for officers' compensation and the proportion of stock compensation was increased, while the fixed proportion of compensation was reduced within monetary compensation, with a higher degree of variability. For stock compensation, the "stock compensation-type stock option system" was revised, and through use of a trust, two types of systems were introduced, including one where the granting or payment of Company shares and cash in the amount equivalent to the conversion value of Company shares are made to the Company's Directors, etc. after retirement according to job position, and one where the granting or payment of Company shares and cash in the amount equivalent to the conversion value of Company shares are made after the end of the Medium-term Management Plan depending on the extent to which the performance targets of the Management Plan have been fulfilled.

Compensation linked to performance targets of the Medium-term Management Plan is evaluated by the Compensation & Nomination Committee, comprised of Outside Directors.

### The Company's Organizations

The Company has adopted a system of a company with Audit & Supervisory Board, and main business management organizations regarding decision-making, execution of business, and supervision in management are as follows.

#### A. Directors and the Board of Directors

The Board of Directors determines the range of issues on which it will deliberate based on regulations such as the Regulations on Board of Directors. By making explicit the range of entrustment for organizations such as the Management Conference and the management team, the Board of Directors conducts decision-making on important issues e.g. corporate policies for the Group, which include management plans, matters related to governance, and basic policies regarding risk and compliance. This allows the Board of Directors to fulfill its supervisory function on management with high effectiveness.

From the viewpoint of exhibiting its functions with the highest effectiveness and efficiency while aiming to invigorate the Board of Directors, the Articles of Incorporation stipulate that there shall be no more than 10 Directors, and in combination with Internal Directors who are well-versed in the

Group's business and several Outside Directors who possess a wealth of experience and knowledge in external fields, the Board of Directors shall be composed of Directors with diverse backgrounds with specialized knowledge and experience, enabling the overall Board of Directors to have a composition that is balanced in knowledge, experience, and ability. Currently, of the seven Directors (seven males), there are three independent Outside Directors.

#### B. Audit & Supervisory Board Members and the Audit & Supervisory Board

Based on audit policies and audit plans defined in the Audit & Supervisory Board, Audit & Supervisory Board Members attend important meetings such as Board of Directors meetings, evaluate the status of operations and assets, and view documents relating to important management decisions. Additionally, Audit & Supervisory Board Members implement audits on the legal compliance and appropriate execution of business by Directors through communication with organizations such as internal audit department and the Group companies, as well as through information exchange with parties such as the Accounting Auditors. From the viewpoint of securing effectiveness of audits, the Articles of Incorporation stipulate that there shall be no more than five Audit & Supervisory Board Members, and that at least half must be Outside Audit & Supervisory Board Members. Currently, of the five Audit & Supervisory Board Members (four males, one female), there are four independent Audit & Supervisory Board Members.

#### C. Management Conference

Beneath the Board of Directors, the Company has established the Management Conference, composed of Representative Directors and Directors, etc.

Based on basic policies and management plans determined by the Board of Directors, the Management Conference deliberates on and makes decisions on issues such as significant matters relating to business execution and strategies to enable the Group to execute business flexibly. Additionally, as required, it also engages in actions such as supplemental deliberations on matters resolved by the Board of Directors.

#### D. Compensation & Nomination Committee

With the intent of securing fairness and objectivity for compensation and personnel matters for Directors and Executive Officers, the Company has established a voluntary Compensation & Nomination Committee, comprised only of Outside Directors. This committee deliberates on compensation and personnel matters for Directors and Executive Officers.

#### E. Internal Audit Department

The Board of Directors has established an Audit Department as an organization independent from executive divisions, tasked with auditing the effectiveness and appropriateness of internal management systems and internal controls. The Company's Audit Department works to strengthen internal auditing functions by evaluating the internal audit status of the Group companies while also put a structure in place to ensure uniform internal audits across the overall group.

#### Basic Views on Internal Control Systems

To execute business suitably and ensure that actions comply with laws and regulations and the Articles of Incorporation within the Group, the Company has established and operates Internal Control Systems as follows, and works to improve its effectiveness through continuous evaluation and implementing improvement measures as required.

- A. Systems to ensure that execution of duties by directors and employees comply with laws and regulations and the Articles of Incorporation
  - a The Board of Directors shall formulate "Basic Regulations on Compliance" that define Basic Policy on Compliance for the Group and ensure thorough compliance with laws and regulations from all executives and employees of the Group in areas such as customer protection, protection of personal information, and ending relationships with antisocial forces.
  - b The Board of Directors shall establish "Compliance Conference (Management Conference)," and as a plan outlining specific measures to realize compliance in the Group, formulate on an annual basis "Compliance Program" based on the basic policy. The Board of Directors shall also increase effectiveness through monitoring the status of progress in the Compliance Program and the status of compliance across the overall Group.
  - c The Board of Directors shall establish a division to control Group compliance, and the compliance control division shall manage and direct compliance operations uniformly across the Group.
  - d The Board of Directors shall develop a system to allow for direct reporting to the Company's compliance control division by all executives and employees of the Group regarding compliance issues. If a report is received, the compliance control division shall swiftly provide instructions for improvement, while also implementing measures for correction and improvement.
  - e The Board of Directors shall work to maintain and improve its supervisory functions from an external viewpoint by selecting several Outside Directors who have a standpoint independent from the Group.

f The Board of Directors shall establish internal audit division as an organization independent from executive divisions, and the internal audit division shall audit the effectiveness and appropriateness of matters such as the compliance system.

B. Systems for the storage and management of information on execution of duties by Directors

Information regarding the execution of duties by Directors, such as the minutes of each meeting and in other documents, shall be stored and managed pursuant to regulations. Furthermore, Directors and Audit & Supervisory Board Members may view these documents, etc. at any time.

C. Regulations and other systems for management of loss risk

a The Board of Directors shall systematically develop risk regulations centered on the “Basic Regulations on Risk Management” while also defining a risk control division across the Group and risk management divisions categorized by risk type, creating a system to appropriately manage risk including the spread and concentration of risk within the Group.

b Organizations such as the Board of Directors and Management Conference shall soundly and effectively implement risk management in the Group while also periodically and continuously reviewing policies and procedures on risk management in view of factors such as strategic goals and changes to the external environment of the Group. Furthermore, the “ALM/Risk Management Conference,” established as the Management Conference, shall ascertain various risk exposure for the Group in a unified group framework, and by utilizing the ascertainment of these risks to establish structures such as business execution and management systems at each Group company, increase the effectiveness of risk management.

c The Internal Audit Division shall audit the effectiveness and appropriateness of risk management systems, etc.

D. Systems to ensure effective execution of duties by Directors

The Board of Directors shall work to increase efficiency of the execution of duties by Directors by establishing the structures as follows.

a Establish the Management Conference comprised of Representative Directors and Directors, etc.

b Explicitly stating the range of entrustment through formulation of regulations regarding delegation of authority

c Formulation of corporate policies and management plans by the Board of Directors

d Appropriate group corporate management by the Board of Directors and the Management Conference through verification of progress in business results and other key issues

E. Systems to ensure appropriate financial reporting

To ensure appropriate financial reporting by the Group, the Board of Directors shall formulate “Basic Regulations on Internal Controls for Financial Reporting.”

F. Systems to ensure appropriate operations of the corporate group

- a By defining basic regulations regarding corporate management of the Group and regulations regarding deliberation and reporting and explicitly stating the roles and responsibilities of the Company and Group companies, the Board of Directors shall ensure appropriateness and efficiency in operations of the Group.
- b The Board of Directors shall work to optimize the distribution of management resources in the Group and establish systems for issues such as risk management and compliance at each Group company.
- c The Internal Audit Division shall supervise internal audits of the Group and report the results of internal audits of the Group to Directors and Audit & Supervisory Board Members.

G. Systems for employees requested by Audit & Supervisory Board Members to assist their duties, independence of such employees from directors, and ensuring effectiveness of directions given to such employees

- a An Office of Audit & Supervisory Board shall be established, and dedicated employees shall be assigned to assist in the audit operations of Audit & Supervisory Board Members.
- b Matters such as personnel transfers and personnel evaluations for employees belonging to the Office of Audit & Supervisory Board shall be reported in advance to Audit & Supervisory Board Members, and Audit & Supervisory Board Members may state their opinions.
- c Employees belonging to the Office of Audit & Supervisory Board shall execute their duties under direction from Audit & Supervisory Board Members.

H. Systems for reporting to Audit & Supervisory Board Members and the Audit & Supervisory Board by Directors and employees of the Company, as well as directors, audit & supervisory board members, and employees of subsidiaries, and other systems for reporting to Audit & Supervisory Board Members and the Audit & Supervisory Board

- a Within the Group, if Directors or employees discover facts that may have a significant damage on the Company, facts that show improper conduct, or material facts that violate the laws and regulations or the Articles of Incorporation, or if directors, audit & supervisory board members, or employees of a Group company discover such facts at their respective companies, such persons shall report said facts either directly or indirectly to the Audit & Supervisory Board or Audit & Supervisory Board Members of the Company.

- b Directors and employees of the Company, as well as directors, audit & supervisory board members, and employees of Group companies shall appropriately report to the Audit & Supervisory Board or Audit & Supervisory Board Members of the Company regarding matters such as the status of execution of business.
  - c The Group shall not treat disadvantageously in any way the persons who report to the Audit & Supervisory Board or Audit & Supervisory Board Members of the Company.
- I. Other systems to ensure effective audits by Audit & Supervisory Board Members
- a Other than attending Board of Directors meetings, Audit & Supervisory Board Members may attend conferences and committee meetings of organizations such as the Management Conference.
  - b Audit & Supervisory Board Members shall hold periodic meetings with Representative Directors to confirm management policies held by the Representative Directors, while also exchanging views on matters such as issues to be addressed, risks surrounding, the provision of environments for audits by Audit & Supervisory Board Members, and significant auditing issues within the Group. Audit & Supervisory Board Members shall also actively exchange views with the Accounting Auditors in the same fashion.
  - c While working closely with parties such as the Accounting Auditors, the Internal Audit Division, and Group companies' Audit & Supervisory Board Members, Audit & Supervisory Board Members shall conduct effective audits by holding periodic meetings with executives and employees of the Group.
  - d Pursuant to Article 388 of the Companies Act, the Company shall make payment for any fees incurred during audits, based on the demands of the Audit & Supervisory Board Members.