

## Corporate Governance Guidelines

### (Purpose)

These Guidelines stipulate basic views, framework and operational guidelines on corporate governance of Isetan Mitsukoshi Holdings Group (hereinafter referred to as the “Group”) with the intention of contributing to sustainable corporate growth and enhancement of corporate value over the mid- to long-term.

Please note that “Principle(s)” in brackets in these guidelines refer to the principles of Japan’s Corporate Governance Code.

### (Revisions)

These Guidelines shall be revised as necessary, in light of changes in business of and environment surrounding the Company.

## Chapter 1 General Provisions

### 1. Basic Views [Principle 3-1 (ii)]

In combination with measures to build excellent relationships with customers, employees, shareholders, business partners and local communities—our stakeholders—the Group is overhauling its corporate governance structure, along with management reform. This entails the establishment and strengthening of legal frameworks for the general meeting of shareholders, the Board of Directors, the Audit & Supervisory Board and the accounting auditors. To ensure fulfilment of the Company’s social responsibilities, we are also working to increase the transparency of our corporate activities and ensure thorough compliance in our management, while taking measures to create and deliver value in various forms for all stakeholders associated with the Group. Aiming to become a corporate Group that is deeply trusted by all of its various stakeholders, the Group will take a range of ongoing measures including speeding up management decision-making, strengthening management oversight mechanisms and enhancing internal control systems.

### 2. “The Isetan Mitsukoshi Way” at Isetan Mitsukoshi Holdings [Principles 2-1, 2-2, 2-2 (1), 3-1 (i)]

To achieve sustainable growth as a company in an age of rapid change, the Group will seek to continue a drastic reform of the entire Group. In 2018, we compiled a new credo “The Isetan Mitsukoshi Way,” which is the *raison d’être* of the Isetan Mitsukoshi Group and the way we want to be.

“The Way” refers to the way of Isetan Mitsukoshi Group and the way of everyone working here.

“The Isetan Mitsukoshi Way” is a behavioral guideline that we should bear in mind at any time and shows how each and every employee should change oneself. By carrying out “The Isetan Mitsukoshi Way,”

we will offer enriched life and sense of affluence to our stakeholders.

We strive to thoroughly familiarize the entire Group with the credo such as by having our executives attend the annually held “The Isetan Mitsukoshi Way” Promotion Meetings to introduce initiatives including best dialogue-based practices contributing to changes in corporate culture.

## 私たちの考え方

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人と時代をつなぐ  
三越伊勢丹グループ

変化せよ。

1. データが自分をつくる。
2. 時代より先に変わろう。
3. 他者が私を新しくする。

**be a new one.**

## Chapter 2 Proper Cooperation with Stakeholders

### 1. Proper Cooperation with Stakeholders

[Principles 2, 2-3, 2-3 (1), 2-4]

Toward the enhancement of corporate value over the mid-to long-term, the Group respects its various

stakeholders including customers, employees, shareholders, business partners and local communities, and works to maintain excellent and smooth relationships with them.

The Group also strives to cultivate a corporate culture that seeks diversity and appreciates sound business ethics through efforts to address social and environmental issues and other challenges related to sustainability properly, and promote diversity including the career advancement of women.

## 2. Challenges related to Sustainability [Principles 2-3, 2-3 (1)]

Regarding sustainability from ESG and SDGs perspectives, the Company aims to contribute to solving social issues through corporate activities so as to create an affluent future for stakeholders and realize a sustainable society.

We have designated priority ESG efforts by identifying social issues and environmental changes that would influence the Group's challenge towards sustainable growth and classifying initiatives that are most important in terms of risk and opportunity into three groups. Going forward, we will decide and promote specific initiatives by "connecting people," "connecting sustainable societies," and "bridging local communities and times" as a corporate group that connects people and bridges times.

## 3. Ensuring Diversity [Principle 2-4]

The Group believes that incorporating various perspectives and values inside the organization can be an advantage in securing sustainable growth of a company. Based on this recognition, the Group works to construct a foundation on which all employees can be active, and creates an environment where various human resources can fully demonstrate their capabilities regardless of gender or employment arrangements.

Through continuing aggressive efforts to ensure diversity including promoting the career advancement of women, we strive to cultivate a corporate culture that values sound business ethics.

## 4. Establishment of an Internal Hotline System [Principles 2-5, 2-5 (1)]

In the case that the Company or the Group commits an act of wrongdoing, for confirmation of the nature of the situation in a timely manner and self-betterment, the Company established the "Isetan Mitsukoshi Group Hotline" that includes major overseas Group companies as a point of contact for internal reports from employees. To ensure that whistle-blowers are not subject to any disadvantages, we established an external contact point for consultation with a law firm independent from the Company, in addition to the internal hotline, and thus adequate systems for internal reporting are in place. Also, the "Group Hotline Rules" clearly ensure the secrecy of whistle-blowers and prohibition of disadvantageous treatment.

## 5. Functional Roles as Corporate Pension Fund Asset Owners [Principle 2-6]

The Company's retirement pension plan has transitioned to a defined contribution corporate pension plan. Although the defined benefit corporate pension plan is still available for some retired employees, its influence on the Company's financial position is extremely limited. For pension investment management, qualified persons suitable for such duties are placed in relevant departments, and we receive periodic reports on investment status from financial institutions for monitoring.



## Chapter 3 Securing the Rights and Equal Treatment of Shareholders

### 1. Securing the Rights and Equal Treatment of Shareholders [Principles 1, 1-1, 1-1 (3)]

In the conviction that shareholders, as providers of capital, are stakeholders of crucial importance, and in light of their fundamental role in corporate governance regimes, we take appropriate measures to enable substantive protection of shareholder rights including those of minority shareholders, and create an environment enabling due exercise of rights by all shareholders.

### 2. Exercise of Rights at General Meeting of Shareholders [Principles 1-1, 1-1 (1), 1-2, 1-2 (1), (2), (3), (4), (5)]

Based on the recognition that the general meeting of shareholders is a platform for constructive dialogue with shareholders, the Company shall duly set a date for the general meeting of shareholders, promptly send out convocation notices that include information contributing to appropriate decisions by shareholders, post notices on our website, and take other measures to ensure creation of an appropriate environment for exercise of rights at the general meeting of shareholders as follows.

- (1) The Company sends notices of convocation three weeks before the date of the general meeting of shareholders. They are also disclosed on the Company website and the Tokyo Stock Exchange's TDnet before dispatch. Also, the date of the general meeting of shareholders is set on non-peak days, thereby ensuring that shareholders can secure sufficient time for reviewing the meeting agendas.
- (2) The Company participates in the electronic voting platform and discloses English-language notices of convocation on the platform so as to create an adequate environment where institutional investors and overseas investors can exercise their voting rights with ease.
- (3) In order to prepare for cases where institutional investors, etc. (substantial shareholders), who hold shares in the name of a trust bank, etc., express in advance interest such as in exercising their voting rights at the general meeting of shareholders, the Company will work with the trust bank, etc., to discuss and consider ways to certify a substantial shareholder, prove the proxy, confirm identification, handle voting rights exercised, among other matters.
- (4) The Company reviews results of the general meeting of shareholders at the Board of Directors held after the conclusion of the general meeting of shareholders (the following month, in principle), where proposals that had considerable number of opposing votes are investigated and analyzed to examine the reasons behind the opposition. The obtained results are then incorporated into management and reflected in dialogue with shareholders and others.

### 3. Cross-shareholdings [Principles 1-4, 1-4 (1), (2)]

#### (1) Policy on cross-shareholdings

To ensure effective corporate governance, and to contribute to sustainable growth and enhancement of corporate value of the Group over the mid- to long-term, the Company may enter into cross-shareholding arrangements with companies as deemed necessary, with the purpose of safeguarding and strengthening product supplies, capital procurement and other trading relationships.

Every year at the Board of Directors, the Company comprehensively verifies factors including the purpose of holding individual cross-shareholdings, transaction status, and dividend earnings. The Company works to reduce cross-shareholdings by selling shares which possession is deemed no longer reasonable.

(2) Standards for exercising voting rights in relation to cross-shareholdings

Regarding the exercise of voting rights for cross-shareholdings, an overall judgment is made as to whether or not exercise of such rights would spur sustainable corporate value of said company or contribute to sustainable growth and enhancement of corporate value of the Group over the mid- to long-term. Such voting rights are duly exercised for each agenda item.

(3) Policy in the case that cross-shareholders indicate their intention to sell shares

When shareholders who hold the Company's shares for the purpose of cross-shareholding (cross-shareholders) indicate their intention to sell their shares, the Company will not hinder the sale of the shares by, for instance, implying a possible reduction of business transactions.

4. Anti-takeover Measures [Principles 1-5, 1-5 (1)]

The Company does not implement anti-takeover measures. In the case that an acquisition of a large volume of shares may be conducted, the Company will take action through appropriate procedures by examining its necessity and rationale. Also, in the case of a tender offer of the Company's shares, the Company will express its position and not take unreasonable measures to prevent shareholders from accepting a tender offer.

5. Capital Policy that May Harm Shareholder Interests [Principle 1-6]

When implementing a capital policy that results in the change of control or in significant dilution, the Company will thoroughly discuss the matter at the Board of Directors and disclose the information to shareholders lawfully and appropriately.

6. Transactions between Related Parties [Principles 1-7]

Regulations on executives including the Regulations of the Board of Directors and Regulations of Executive Officers stipulate that, in the event that a conflict of interest transaction or competitive transaction is entered into between executives themselves such as Directors and Executive Officers or their specified family members and the Company, or between a company or organization where executives themselves or their specified family members hold a position as executives and the Company, the important facts of such transactions are to be disclosed to the Board of Directors in advance for its approval. This rule is disseminated throughout the Company. The Board of Directors reaches a decision on approval after due deliberation of the transaction.

## Chapter 4 Ensuring Appropriate Information Disclosure and Transparency

### 1. Enhancing Information Disclosure [Principles 3, 3-1, 3-1 (2)]

The Company ensures appropriate disclosure based on laws and regulations with regard to both financial information, such as financial condition and operating results, and non-financial information, such as business strategies and business issues, and information on ESG efforts including basic views on corporate governance and risks. Also, in the interests of upholding transparency and fairness of decision-making at the Company and ensuring effective corporate governance, an IR Policy has been compiled containing full descriptions of information for disclosure, disclosure methods and enhancement of communication with shareholders and investors, etc. Based on this Policy, we aim to make ourselves fully worthy of the trust and sympathy of all shareholders and investors.

The Company prepares English versions of notices of convocation of the general meeting of shareholders, financial reporting materials, integrated reports, corporate governance reports, and other materials and discloses them on its website, etc.

### 2. Accounting Auditors [Principle 3-2, 3-2 (1), (2)]

The Company has entered into an audit contract with Ernst & Young ShinNihon LLC, which conducts the accounting audits pursuant to the provisions of applicable laws.

Recognizing that accounting auditors assume accountability to shareholders and investors, the Company takes appropriate measures to ensure appropriate audits. Specifically, the following structures are set in place so as to ensure effectiveness of audits by accounting auditors.

- 1) The Company understands the status of audit implementations by accounting auditors and confirms the validity of labor allocation in consideration of the audit scope and maintenance of quality.
- 2) The Company holds periodical discussions between accounting auditors and the Representative Director and major executive officers.
- 3) Accounting auditors ensure adequate cooperation by reporting audit results to the Audit & Supervisory Board and holding periodical meetings. They also carry out audits in cooperation with the internal audit department by sharing audit plans, audit results, and risk information.
- 4) If the accounting auditors submit a report on misconduct regarding execution of duties by Directors or material facts regarding laws and regulations or the Articles of Incorporation (including facts that may impact ensuring adequacy of documents on financial calculation), a necessary investigation will be made after deliberation at the Audit & Supervisory Board and necessary and timely measures will be taken such as reporting to the Board of Directors or providing advice or recommendations to Directors.

Also, the Audit & Supervisory Board has adopted a system where Audit & Supervisory Board Members evaluate audit activities by accounting auditors periodically over an annual period by understanding audit activities through audit reports from accounting auditors and periodical meetings, and based on the results of such evaluations, etc., decides their reappointment for each term.

## Chapter 5 Responsibilities and Structures of the Board of Directors, the Audit & Supervisory Board, etc.

### 1. Responsibilities of the Board of Directors [Principles 4, 4-1, 4-1 (1), (2), 4-5]

The Company makes efforts to create an environment where the Board of Directors can fulfil its roles and responsibilities in a highly effective manner to promote the Group's sustainable growth and the enhancement of corporate value over mid- to long-term and sufficiently fulfil its fiduciary responsibility to shareholders. As a part of these efforts, the Company promotes separation of "execution" and "oversight" while selecting a company with the Audit & Supervisory Board as a form of corporate organization and works to strengthen decision-making functions and oversight functions to be fulfilled by the Board of Directors.

Specifically, the Company has clearly set forth in internal regulations (such as the Regulations of the Board of Directors and Regulations of Decision Making Process for the Group) criteria for making proposals to be decided upon by the Board of Directors. At the same time, the Company revises the criteria for making proposals as necessary and delegates authority to the execution side within a range of a company with the Audit & Supervisory Board in order to enhance the agility of management. Also, to further clarify separation of "execution" and "oversight," the Chairman and Representative Director who is not an executive officer, instead of the President and CEO, serves as the Chairman of the Board of Directors.

Under this environment, in addition to resolutions necessary for procedures and reporting, the Company's Board of the Directors actively arranges opportunities where important managerial issues are discussed from a wide perspective. Those discussions are utilized for preparing the mid- to long-term management plan and the progress of the plan is reported to the Board of Directors in a timely manner so that it is reflected in plan revisions and establishment of the next management plan. Thus, the Company makes efforts to establish the management PDCA cycle with the Board of Directors as the starting point.

In addition, in order to fulfil adequate accountability, the Company discloses materials regarding management plans and progress to stakeholders, including shareholders and investors, at the general meetings of shareholders and semi-annual financial results briefings as well as on the Company's website, etc.

### 2. Composition of the Board of Directors [Principles 4-11, 4-11 (1), (2), 4-6, 4-7, 4-8]

The Company has a structure, where the Board of Directors maintains diversity in its composition and adequately fulfils its management oversight function, so that the Board of Directors can perform its roles and responsibilities in a highly effective manner. As a part of such structure, the Company has been inviting Outside Directors with different backgrounds from industries of various specialized fields since the Company's foundation in 2008, expecting that they not only oversee business execution but also provide supervision and advice on the appropriateness of management decision-making itself.

Currently, the Company has nine Directors including two women and four Outside Directors (two men and two women), among which three are Independent Outside Directors who satisfy the Independence

Standards of the Company.

The Company's views on the composition of the Board of Directors, important concurrent positions of the Directors and Audit & Supervisory Board Members, and their attendance at the Company's Board of Directors and Audit & Supervisory Board are described and disclosed in the "Notice of the Convocation of the Ordinary General Meeting of Shareholders."

### 3. Responsibilities and Composition of Audit & Supervisory Board Members and the Audit & Supervisory Board [Principles 4, 4-4, 4-4 (1)]

The Audit & Supervisory Board Members contribute to establishing a sound corporate governance structure that lives up to social credibility and which realizes the Group's sustainable growth and creation of mid- to long-term corporate value by auditing execution of Directors' duties as an independent body with a mandate from shareholders. Also, a structure is established to ensure effectiveness of audits, in which Audit & Supervisory Board Members share opinions with the Representative Director and external accounting auditors periodically and exchange information such as on audit results with the internal audit department.

The Company's Audit & Supervisory Board is composed of three Outside Audit & Supervisory Board Members and two full-time Audit & Supervisory Board Members from the Company. The Outside Audit & Supervisory Board Members express opinions candidly, recognizing that they are particularly expected to represent objective audit opinions from an independent and neutral position. The full-time Audit & Supervisory Board Members, considering their nature as full-time workers, actively make efforts to improve the audit environment and collect internal information as well as monitor and verify the status of establishment and operation of internal control systems on a daily basis. The Audit & Supervisory Board Members exchange opinions about important audit issues, etc., in addition to issues to be addressed by the Company and risks surrounding the Company by, for example, having meetings periodically with Outside Directors and sharing information and recognition with non-executive officers to deepen relationships of trust.

### 4. Independence Standards for Independent Outside Executives [Principle 4-9]

In designating Outside Directors and Outside Audit & Supervisory Board Members as independent officers, the Company has compiled its proprietary "Independence Standards for Independent Directors and Independent Auditors of Isetan Mitsukoshi Holdings Ltd.," for assessing their independence and outside officers who do not come under any of the following categories are nominated as independent officers.

- 1) Business executives of the Group
- 2) A person for whom the Group is a major business partner, or an executive director, executive or manager thereof
- 3) A major business partner of the Group, or an executive director, executive, manager or other employee thereof
- 4) An executive officer of a financial institution which has trading relations with the Group
- 5) A consultant or accounting or legal expert who has received financial or other economic benefits from

the Group exceeding a certain sum, other than remuneration of Directors or Audit & Supervisory Board Members

- 6) A shareholder or an executive officer thereof who holds at least 5% of the total issued shares of the Company
- 7) Any person who has come under categories 1) to 5) above in the last three years
- 8) Spouses or relatives within the second degree of kinship of anybody coming under categories 1) to 5) above

A “major business partner” in 2) and 3) above means “any business partner for whom the annual transaction amount with the Company, on a consolidated basis, exceeds 1% of the total annual transaction amount of either party, over the preceding three years, even if this occurs on only one occasion,” and a “certain sum” in 5) above means “a sum of at least 10 million yen in any of the preceding three fiscal years.”

#### 5. Nomination and Remuneration Committee (Optional Committee) [Principles 4-10, 4-10 (1), 4-3, 4-3 (1), 4-7]

The Company has established the Nomination and Remuneration Committee as an optional structure to act as an advisory body to the Board of Directors, and it deliberates on matters regarding “nomination,” including personnel plans and succession plans of the President and CEO, personnel plans for executives, and a candidate plan for the president of associated companies, and general matters on “remuneration,” including the Director remuneration system, a bonus plan for Directors and executive officers, and a remuneration portion plan for Directors and Audit & Supervisory Board Members, and findings are submitted to the Board of Directors.

The Committee is composed of five members, all of which are Outside Directors (three Independent Outside Directors and one Outside Director) excluding one President and CEO and its transparency and fairness is fully ensured with an Outside Director serving as chair.

The Nomination and Remuneration Committee is held 10 times or more every year and greatly contributes to improvement of governance functions that are pivotal for the Company’s governance.

#### 6. Policy on “Nomination” of Executives [3-1 (iv), (v), 4-1 (3), 4-3 (1), (2), (3)]

As a prerequisite regarding “nomination” of executives, the Company stipulates the maximum age and maximum term of executives for each position in the Regulations of Age Limits of Executives in Office to promote appropriate rotation.

Given this, assuming that “nomination” of executives including selection/dismissal of the CEO should be deliberated at the Nomination and Remuneration Committee to ensure transparency and fairness as described in “5. Nomination and Remuneration Committee (Optional Committee),” the Company specifically takes following actions.

- (1) Decision on selection and reappointment of the CEO

Decision on selection and reappointment of the CEO is positioned as the most important task and is addressed with priority at the Nomination and Remuneration Committee.

(i) Decision on reappointment of the current CEO

With respect to acceptance or non-acceptance of reappointment of the current CEO (reappointment after expiration of the term of the appointment contract), pursuant to the upper limit stipulated in the aforementioned “Regulations of Age Limits of Executives in Office,” the Nomination and Remuneration Committee undertakes the following.

- \* At the time of inauguration of the CEO, the CEO submits in person a commitment (goals to be achieved) for the estimated term of office, of which acceptance/non-acceptance is discussed.
- \* In the following and subsequent years, the CEO explains progress for the commitment, future earnings forecasts, etc., and after the CEO leaves the meeting, four Outside Directors who are members of the Committee deliberate on the acceptance/non-acceptance of reappointment of the CEO.

Decision on reappointment of the CEO for the following year is deliberated in the absence of the CEO. In this and other ways, the Company strives to improve its effectiveness and not reduce the process to formality.

(ii) Succession plan of the CEO

The Company actively creates opportunities where Outside Directors can monitor candidates after the following contents are periodically reported and shared at the Nomination and Remuneration Committee.

- \* Listing of candidates for a CEO successor (for emergencies, at the time of change before expiration of term, and the maximum term of office)
- \* Clarification of requirement for the CEO
- \* Training plans for each candidate and plans for relocation to sectors that each candidate should experience in the future

Furthermore, the Company creates a reserve group of candidates for the CEO successor by spending adequate time and resources by providing systematic education opportunities such as the “business leader program” which is a selective education program for managerial positions and the “business executive program” after appointment as executive officer.

(2) Policy on Nomination of Candidates for Director and Audit & Supervisory Board Member

With regard to nomination of candidates for Director and Audit & Supervisory Board Member, the policy of the Company is to look for candidates with broad insight, high ethical standards and extensive experience, in addition to meeting eligibility requirements under laws and regulations.

Of these, we select Outside Directors from different fields and industries, to ensure account is taken of a wide range of opinions from objective and specialist perspectives, and ensure well-balanced

management. Also, recruitment focuses mainly on candidates with practical business-world experience, expecting that Outside Directors not only oversee the execution of business operations, but also provide supervision and advice on the appropriateness of management decision-making itself.

Regarding Outside Audit & Supervisory Board Members, recruitment focuses mainly on candidates with a wealth of knowledge and experience in relevant fields, so as to ensure that audits are carried out from a neutral and objective standpoint including whether the processes and contents of management decision-making are appropriate from legal and accounting perspectives.

The reasons for nomination of each candidate for Directors (including executive officers concurrently serving as the Representative Director and Director) and Audit & Supervisory Board Members are described in the “Notice of the Convocation of the Ordinary General Meeting of Shareholders” (Reference Documents for the General Meeting of Shareholders).

#### 7. Remuneration of Senior Management Executives and Directors [Principles 3-1 (iii), 4-2, 4-2 (1)]

Policies and procedures with regard to Board of Directors’ decisions concerning remuneration of senior management executives and Directors are as follows.

##### (1) Policy regarding the remuneration, etc. of executives

The Company has established the following four basic principles regarding executive remuneration (excluding Outside Directors and Audit & Supervisory Board Members).

- (1) Promotion of common interests between shareholders and executives
- (2) Expansion of incentive effects to improve financial results and shareholder value
- (3) Provision of remuneration at a level by no means inferior to competing companies (upon achieving goals)
- (4) Ensuring objectivity and transparency in methods of evaluation and remuneration decision

These basic principles have been formulated as “Director Remuneration Principles” in the “Director Remuneration Guidelines” established by the resolution of the Board of Directors of the Company.

##### (2) Matters concerning the process for determining executive remuneration

Under the above Director Remuneration Principles, the objectivity and transparency of the entire process of determining executive remuneration are ensured through the effective deliberation at the Nomination and Remuneration Committee, an advisory body to the Board of Directors comprising five committee members, four of whom are Outside Directors, and chaired by an Outside Director.

##### (3) Types of remuneration, etc. of executives and the method by which they are determined

Under the Director remuneration system of the Company, executive remuneration is composed of three elements: monthly “basic remuneration” along with “bonuses” and “remuneration-type stock options” which are paid or granted annually. For Directors concurrently serving as executive officers, including the President & CEO, bonuses that are paid as a form of performance-linked remuneration shall account for 25% of the total annual remuneration for each individual, with the aim of clarifying their responsibilities for business execution.

Meanwhile, stock options shall also account for 25% of the total annual remuneration for each individual,

with a view toward promoting shareholdings by executives and their common interests with the shareholders. (Bonuses shall not be paid to the Chairman, Outside Directors or Audit & Supervisory Board Members, while stock options shall not be granted to Outside Directors or Audit & Supervisory Board Members.)

<Bonuses>

For Directors (excluding those who are not concurrently serving as executive officers), performance-linked bonus as described hereunder has been introduced as a strong motivation towards the achievement of goals based on the remuneration principles.

Base amount of bonus = Basic remuneration x 6 (months)

Amount of bonus to be paid = Base amount of bonus x [1] Payout ratio (degree of achievement against the corporate performance goal) x [3] Allocation ratio (weight) + Base amount of bonus x [2] Payout ratio (personal qualitative evaluation) x [3] Allocation ratio (weight)

[1] Payout ratio (degree of achievement against the corporate performance goal)

Since the Company's foundation in FY2008, the Group has adopted consolidated operating income as its indicator to strongly motivate executives to achieve annual goals, with a view toward quickly establishing a sound operational base for the Group and launching its management on a growth track into the future.

Specifically, the payout ratio shall be 1.00 (100%) upon the full achievement of the operating income goal, and designed to vary within the range between 0.00 (0%) at minimum and 2.00 (200%) at maximum, in proportion to the degree of achievement. The amounts of consolidated operating income corresponding to such minimum and maximum factors shall be determined for each fiscal year, based on the absolute standards of the targeted amount, with a view toward providing clear and effective incentives.

[2] Payout ratio (personal qualitative evaluation)

The payout ratio of qualitative evaluation shall be subject to a seven-grade evaluation (between 0.00 (0%) at minimum and 2.00 (200%) at maximum) by the President and CEO at the end of each fiscal year, based on the assessment of the degree of achievement of the qualitative goals established through the interview with the President and CEO at the beginning of each fiscal year.

[3] Allocation ratio (weight)

The allocation ratio (weight) between the degree of achievement against the corporate performance goal and the personal qualitative evaluation shall also be determined for each fiscal year following a review of its positioning.

< Remuneration-type Stock Options>

Stock options shall be granted to Directors (excluding Outside Directors) as follows, based on the remuneration-type stock options scheme involving an exercise price set at one yen, with a view toward promoting shareholdings by executives and enhancing awareness towards improving shareholder value over the long-term.

Maximum number of stock options to be granted (each stock option being equivalent to

100 shares of the Company) = Basic remuneration x 6 (months) / Reference price of a share of the Company (\*)

\* Reference share price = “Average price of share over the three months up to the month prior to the resolution on issuance” or “the price of a share on the day four days prior to the date of the resolution on issuance (if no closing price is quoted on such day, the closing price of the immediately preceding business day)” at the Tokyo Stock Exchange, whichever is higher.

#### 8. Active Deliberations at the Board of Directors [Principles 4-12, 4-12 (1)]

The Company provides prior explanations to all Outside Directors individually on each occasion so as to activate deliberations at the Board of Directors.

Furthermore, to ensure adequate time for discussion, the Company has set 2 hours and 30 minutes of meeting time for the Board of Directors, in principle. We facilitate free, open, and constructive exchanges of views concerning various agenda items such as the Group’s business issues, mid- to long-term direction, and progress of each major business, beyond resolution and reporting necessary for decision-making procedures.

#### 9. Measures for Internal Control of the Board of Directors and Risk Management Systems [Principle 4-3 (4)]

The Company established systems for internal control and risk management by defining the Basic Policy for Internal Control Systems, Basic Policy for Risk Management, and Basic Provisions on Risk Management. The Board of Directors conducts general oversight of the operational status of the “Group Hotline (whistle-blowing system),” the reporting line for incidents and accidents, and other systems through periodic reporting on their operational status.

#### 10. Effectiveness Evaluation of the Board of Directors [Principle 4-11 (3)]

The Company evaluates effectiveness of the Board of Directors by using objective and quantitative methods, including giving an individual questionnaire to all Directors and Audit & Supervisory Board Members inside and outside the Company. To confirm that effectiveness is properly maintained at the Board, various viewpoints are taken into account, including institutional design, nomination, and remuneration, in addition to the composition and operation of the Board of Directors. Meanwhile, the Company continues to develop and carry out improvement plans for issues concerning the Board of Directors.

Owing to this approach, specific positive results have been achieved, such as an increase in the number of Independent Outside Directors (from June 2018) and improvement of timely and effective agenda preparation. Furthermore, we believe that the transparency of the governance of the Company has been drastically enhanced through in-depth disclosure regarding the methods for implementing the selection/dismissal of the CEO and succession plans, as well as the policy for nominating executives. We shall pursue further enhancement of governance based on the results of the questionnaire.

## 11. Measures for Supporting Directors and Audit & Supervisory Board Members [Principles 4-8 (1), (2), 4-14, 4-14 (1), (2)]

The Company provides the following support for Directors and Audit & Supervisory Board Members inside and outside the Company such that they may sufficiently fulfil their roles.

### (1) Opinion Exchange Meeting for Directors and Audit & Supervisory Board Members

As a part of improvement of the effectiveness of the Board of Directors, the Company annually holds an “Opinion Exchange Meeting among Outside Executives and the Representative Director” in the first half and an “Opinion Exchange Meeting among Outside Directors and Audit & Supervisory Board Members” in the second half. Through these measures, outside executives (Directors and Audit & Supervisory Board Members) deepen their understanding on the Group while ensuring their independence, and a free and wide-ranging exchange of opinions is facilitated among executives inside and outside the Company.

### (2) Training Opportunities for Directors and Audit & Supervisory Board Members

The Company believes that it is important to provide opportunities to Outside Directors and Outside Audit & Supervisory Board Members where they can continue to understand the environment surrounding the Group and its business, financial position, and organizational structure, and update such information when assuming their position and during their service. This would help Outside Directors and Outside Audit & Supervisory Board Members fully recognize the Group's important management issues and make best decisions based on their beliefs at the Board of Directors, the Audit & Supervisory Board, and other meetings.

Meanwhile, for internal executives, on the assumption of giving Directors and Audit & Supervisory Board Members options for updating their knowledge even during their services, the Company believes that the most important matter is to provide opportunities to develop self-awareness and recognition as leaders who steer management for executive officers and presidents of Group companies who will be candidates for Directors and top management in the future.

Based on these views, the Company offers opportunities to acquire knowledge necessary as executives and develop self-awareness as executives for new executive officers and presidents of Group companies when they are newly appointed and systematically carries out an annual “Business Executive Program,” which meets attributes of each target executive, in the second year and onward. In addition, the Company arranges external seminars as needed, where internal Directors and Audit & Supervisory Board Members can continue to update their knowledge, and continually provides explanations about the Group to Outside Directors and Outside Audit & Supervisory Board Members.

## Chapter 6 Dialogue with Shareholders and Investors

### 1. Policy for Dialogue with Shareholders and Investors [Principles 5, 5-1, 5-1 (1)]

The Company recognizes that dialogue with shareholders and investors is important for realizing sustainable growth and enhancing corporate value over mid- to long-term. We make efforts to improve information disclosure with regard to strengthening of corporate governance and progress of the mid- to

long-term strategies in order to promote constructive dialogue with shareholders.

The Company will practice timely and accurate disclosure by establishing Timely Disclosure Regulations and other regulations and policies about information disclosure. Furthermore, based on its IR Policy, the Company will hold meetings and results briefings for domestic and overseas institutional investors, in addition to the general meeting of shareholders, in a proactive and continuous manner to the extent reasonable. Opinions gathered from such activities will be reflected in management.

## 2. Specific Systems and Measures to Encourage Constructive Dialogue with Shareholders and Investors [Principles 5-1 (1), (2)]

- 1) To promote constructive dialogue with shareholders, the Company provides opportunities where senior management executives periodically discuss efforts to strengthen corporate governance and progress of the mid- to long-term plan with major shareholders and institutional investors. Also, a platform is in place, with the Chief Financial Officer (CFO) in charge of PR and IR Division, Group Corporate Strategy Office.
- 2) The Group Corporate Strategy Office and Group General Affairs Department cooperate organically as a platform for supporting constructive dialogue with shareholders to prepare disclosure materials and share information as well as provide information to responsible executives, etc.
- 3) The Company promptly provides information subject to disclosure to media organizations, and carries such information on its website. In addition, shareholder newsletters and other notifications are prepared using easy-to-understand terms. Furthermore, the Company organizes dedicated meetings with institutional investors, securities analysts, etc., results briefings and general corporate briefings.
- 4) Opinions and evaluation on disclosure provided by shareholders and investors as well as reports by securities analysts, etc. are reflected in the improvement of corporate value by broadly sharing such information in-house and having common understanding on the issues with the management through regular feedback.
- 5) Based on the IR Policy, the Company observes a “self-restraint period,” during which it desists from investor relations activities. During this period, executives and other employees of the Company desist from commenting to external parties on earnings results and targets, as well as other information relating to financial accounts. In addition to the “self-restraint period,” pursuant to the Insider Trading Regulations, the Company never refers to significant matters, etc., that have not yet been publicly disclosed.

## 3. Establishing and Disclosing Medium-term Management Plans with Capital Cost Taken into Account [Principle 5-2]

The Company calculates its capital cost on a regular basis. Specifically, the cost of shareholder’s equity is calculated using CAPM (capital asset pricing model) and the capital cost is obtained using WACC (weighted average cost of capital). Based on the accurate identification of these figures, the Company reviews its business portfolio as needed, prepares the management plan (three-year plan) or revises it if necessary, and discloses management strategies and business policies.

#### 4. Basic Policies for Capital Strategy [Principle 1-3]

The Company returns profits to shareholders while enhancing corporate value over the long-term. Our basic policy for dividends is to maintain a stable dividend level while comprehensively considering the business environment, earnings performance, and financial soundness.

With respect to internal reserves, the Company intends to use them mainly for investment in existing and new businesses to enhance corporate value.

#### 5. Identification of Shareholder Ownership Structure [5-1 (3)]

The Company identifies its shareholder ownership structure on a regular basis and utilizes it for effective dialogue with each shareholder and disclosure of information. In addition, based on the results of surveys on substantial shareholders, the Company periodically provides opportunities for dialogue with major shareholders regarding progress of the mid- to long-term plan and measures in corporate governance. Opinions of the shareholders are reflected in the Company's management.