

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 and the accounting auditors.

As part of these efforts, for the purpose of further advancing corporate governance, the Company decided on the transition of its organizational design to a company with a nominating committee, etc. effective June 2020.

With the transition to a company with a nominating committee, etc. as a turning point, the Group will work to further 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 continue taking a range of measures including speeding up management decision-making, strengthening management oversight mechanisms and enhancing internal control systems.

2. “Our Philosophy” 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 credo “Our philosophy,” which is the *raison d’être* of the Isetan Mitsukoshi Group and the way we want to be.

The Group utilizes its in-house media, such as company newsletters and intranet, to disseminate within the Group the meaning of “Our philosophy” and expected behaviors, while holding lectures as part of the training

session for new hires with the aim of creating an ever-evolving corporate culture.

We strive to thoroughly familiarize the entire Group with the credo such as by having all of our officers attend the annually held “Our philosophy” Promotion Meetings to introduce initiatives including best dialogue-based practices contributing to changes in corporate culture.

In addition, the Company has established the “Isetan Mitsukoshi Group Standards of Corporate Ethical Behavior” as the foundation for putting “Our philosophy” into practice, and demonstrates to all of its employees including officers its approach to stakeholders along with the group-wide ethics and guidelines for daily conducts of the group employees.

Our philosophy

Connecting people and bridging times

Strive to change.

1. Observe and study your surrounding facts
for constant growth.
2. Innovate and stay ahead of times.
3. Respect others.
Be inspired by diverse views and ideas.

be a new one.

The Isetan Mitsukoshi Group

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)]

Under the Group's "Basic Policy on Sustainability," the Company will fulfill its corporate social responsibility by addressing various social issues from ESG and SDGs perspectives and contributing to solving them through its corporate activities, and play its role in realizing both prosperous future for all the surrounding people and a sustainable society.

We have designated priority sustainability 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 based on the group governance and communication. Going forward, we will decide and promote specific initiatives by "connecting people and local communities," "connecting sustainable societies and times," and "improving the satisfaction of employees" 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 will 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 and is working to disseminate 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, prohibition of

disadvantageous treatment, obligation of confidentiality of persons in charge, and thoroughgoing measures to prevent information leakage.

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 (2), (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 by avoiding peak days and through other measures, 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 and on the Company website 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

The basic policy of the Group is to not acquire or hold cross-shareholdings in principle, except when cross-shareholdings are deemed conducive to sustainable growth and enhancement of corporate value of the Group over the medium- to long- term. With regard to the cross-shareholdings the Company currently holds, every year at the Board of Directors, the Company comprehensively verifies whether it is rational to continue holding such cross-shareholdings from quantitative and qualitative aspects including the purpose of holding, transaction status, and dividend earnings. Regardless, the Company will proceed with phased sales in consideration of factors such as the market environment and status of shares held with the aim of reducing cross-shareholdings.

(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's Board of Directors will prepare a position statement to express the Company's position. The Company will 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, 4-3]

Regulations on officers 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 officers themselves such as Directors and Executive Officers or their specified family members and the Company, or between a company or organization where officers themselves or their specified family members hold a position as officers 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)]

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 Executive Officers and other Executive Officers.
- 3) The Audit Committee receives explanations from the accounting auditors on their audit plan and audit results and holds periodical meetings to ensure adequate cooperation. In addition, the Internal Audit Division carries out audits in cooperation with the accounting auditors by sharing audit plans, audit results, and risk information.
- 4) If the accounting auditors submit a report on misconduct regarding execution of duties by Executive Officers or Directors, or on 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 Committee and necessary and timely measures will be taken such as reporting to the Board of Directors or providing advice or recommendations to Executive Officers.

Also, the Audit Committee has adopted a system where the Audit Committee understands the status of audits of accounting auditors through their audit reports and periodical meetings with them, and periodically evaluates their audit activities, to decide their reappointment for each term based on the results of such evaluations, etc.

Chapter 5 Responsibilities and Structures of the Board of Directors, etc.

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

In light of the Company's fiduciary responsibilities and accountability to shareholders, with the aim of promoting the Group's sustainable growth and the enhancement of corporate value over mid- to long-term and further advancing corporate governance, the Company made a transition from a company with the Audit & Supervisory Board to a company with a nominating committee, etc. in June 2020.

The Company will clearly separate the roles between "execution" and "oversight" by the transition of its organizational design, whereby the Board of Directors' roles are focused on the establishment of general direction of the Group and the oversight/monitoring of business execution, in order to enhance the oversight function of the Board of Directors. To this end, the Company will create a framework suited to monitoring "execution" and "oversight" through such measures as having Outside Directors comprise a majority of the Board of Directors. The Company will also clearly set forth in 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, and delegate authority to Executive Officers in order to enhance the agility of management.

Furthermore, the Company will establish the statutory Nominating Committee, Compensation Committee and Audit Committee in order to implement important governance measures such as selection and dismissal of top management in a highly objective and transparent manner under the leadership of Outside Directors.

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

The Company's Articles of Incorporation stipulates that the number of Directors shall not exceed 15, of which Outside Directors are in the majority in order to strengthen corporate governance. Furthermore, the policy of the Company for the Board of Directors is to appoint a diverse range of people with broad and highly specialized knowledge and skills, as well as high ethical standards. For Outside Directors in particular, the Company invites people from different fields and industries, primarily those with practical business-world experience, in order to actively take in a wide range of opinions from objective and specialist perspectives and ensure well-balanced management. All Outside Directors satisfy the Independence Standards of the Company. Furthermore, the Regulations of the Board of Directors set out that the Board of Directors shall be chaired by a non-executive Director.

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

3. Responsibilities and Composition of the Three Statutory Committees [Principles 4, 4-4, 4-4 (1), 4-10, 3-1]

(1) Nominating Committee

The Nominating Committee will engage in discussion and make decisions related to the “nomination” of officers with a high degree of objectivity and transparency, under the leadership of Outside Directors. In order to do so, the Nominating Committee will clarify officer selection standards and focus on enabling independent judgments by Outside Directors, by measures including the utilization of personnel evaluations and other objective indicators and increased contact with prospective nominees.

The Nominating Committee is comprised of a majority of Outside Directors and chaired by an Outside Director. The President and CEO (Representative Executive Officer), who is also one of the members to improve the effectiveness of the succession plan, shall leave the meeting as in the operations by the Nomination and Remuneration Committee when making a decision on reappointment of the current President and CEO (Representative Executive Officer), which is important in terms of corporate governance, in order to improve the effectiveness.

(2) Compensation Committee

Like the Nominating Committee, the Compensation Committee will engage in discussion and make decisions related to “remuneration” of officers and take steps to further enhance corporate governance, under the leadership of an Outside Director. The committee will discuss issues and policy related to officer remuneration plans, including the Company’s approach to incentives for officers to enhance corporate value, and it will utilize various objective indicators such as personnel evaluation, and participate in third-party surveys on remuneration to enable independent judgments by Outside Directors concerning the appropriateness of individual remuneration proposals.

The Compensation Committee is comprised of a majority of Outside Directors and chaired by an Outside Director. The President and CEO (Representative Executive Officer) shall not be included in the members to eliminate arbitrariness.

(3) Audit Committee

The Audit Committee will monitor the legality and appropriateness of the execution of duties by Executive Officers and Directors, and strengthen oversight functions through audits. In addition, the Audit Committee will work to enhance the audits of the Group as a whole by coordinating with the Internal Audit Division and Audit & Supervisory Board Members at each Group company, and further enhance the audit system encompassing the entire group with the organizational transition as a turning point

The Audit Committee is comprised of a majority of Outside Directors, and internal non-executive Directors serving as its full-time members.

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

In designating Outside Directors 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 principal lender of 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,” a “principal lender” in 4) above means “any lender from whom the Group’s balance of borrowings exceeds 2% of the consolidated total assets of the Company as of the end of the fiscal year,” 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. Systems to Enhance Governance Functions of the Company [Principles 4-10, 4-10 (1), 4-3, 4-3 (1), 4-7]

The Company made a transition to a company with a nominating committee, etc. in June 2020, and set up the Nominating Committee, the Compensation Committee, and the Audit Committee, three statutory committees that are comprised of a majority of Outside Directors.

The Nominating Committee and the Compensation Committee strive to enable independent judgments by Outside Directors concerning discussions and decision-making related to the “nomination” and “remuneration.” To this end, the committees will take various measures, such as increasing contact with prospective nominees and utilizing personnel evaluations and other objective indicators. The Audit Committee will endeavor to build and operate a system that ensures both the effectiveness and independence so as to sufficiently exercise its audit functions.

6. Policy on “Nomination” of Executives [3-1 (iv), (v), 4-1 (3), 4-3 (1), (2), (3), 4-11]

As a policy of selection and dismissal of senior management Executive Officers, including Representative Executive Officers, the Company stipulates the maximum age and the maximum reappointment term of officers for each position in the Regulations of Age Limits of Executive Officers in Office to promote appropriate rotation. Given this, selection of Executive Officers, including Representative Executive Officers

and Executive Officers with special titles, and their reappointment after the expiration of the one-year term of the appointment contract shall be determined by the Nominating Committee by appropriately evaluating quantitative results of respective Executive Officers during their term of appointment contract, along with qualitative aspects, such as contributions in materializing the Group's "Our philosophy." As such, the fairness and transparency of the selection and dismissal of management executives is secured.

(1) Decision on selection and reappointment of the CEO

Before the transition to a company with a nominating committee, etc., the Company worked on the following measures to ensure transparency and fairness in deciding on selection and reappointment of the CEO.

(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.

(ii) Succession plan of the CEO

The Company actively created opportunities where Outside Directors can monitor candidates after the following contents were 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, with regard to the development of candidates, the Company has created 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 assumption of office as executive officer.

As described above, the Company has worked on the decision on reappointment of CEO and the succession plan while ensuring transparency and fairness. After the transition to a company with a nominating committee, etc., the Company will position the decision on selection and reappointment

of CEO as one of the most important tasks of the Nominating Committee, and the Committee will actively discuss its approach to the matter in order to further enhance the initiatives that have been implemented.

(2) Policy on nomination of candidates for Director

With regard to nomination of candidates for Director, the policy of the Company is to look for candidates from a diverse range of people with broad and highly specialized knowledge and skills, as well as high ethical standards.

For Outside Directors in particular, the Company invites people from different fields and industries, primarily those with practical business-world experience, in order to actively take in a wide range of opinions from objective and specialist perspectives and ensure well-balanced management.

Candidates for Director are determined at the Nominating Committee, which is comprised of a majority of Outside Directors and chaired by one of them, and the proposal is submitted to the general meeting of shareholders.

Regarding senior management Executive Officers, the Board of Directors shall determine candidates after the deliberation by the Nominating Committee.

The reasons for nomination of each candidate for Director are described in the “Notice of the Convocation of the Ordinary General Meeting of Shareholders” (Reference Documents for the General Meeting of Shareholders).

As described above, Outside Directors lead the deliberation and decision-making regarding the nomination, which is important in terms of corporate governance, in order to improve the objectivity and transparency. The Nominating Committee will work to further clarify the officer selection standards of the Company.

<https://www.imhds.co.jp/en/ir/stockholder/meeting.html>: Section titled 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 the Compensation Committee’s decisions concerning remuneration of senior management executives and Directors are as follows.

(1) Policy regarding the remuneration, etc. of officers

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 officers
- (2) Expansion of incentive effects to improve financial results and shareholder value
- (3) Provision of remuneration at a level by no means inferior to the standards of overall industry (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.” Based on these basic principles, the Nomination and Remuneration Committee, a voluntary advisory body, has actively discussed ways for linking to the short-term performance and the medium- to long-term performance in the entire remuneration and approach to the share-based remuneration

system. After the transition to a company with a nominating committee, etc., the Compensation Committee, comprising a majority of Outside Directors, will be led by Outside Directors in discussing and deciding on the policy of remuneration and individual amounts of remuneration, and continue its deliberations and initiatives so that the executive remuneration system functions better as a healthy incentive towards the sustainable growth 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 Compensation Committee, a statutory committee that is comprised of a majority of Outside Directors and chaired by one of them.

(3) Types of remuneration, etc. of officers 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 “share-based remuneration” which are paid or granted annually. For Executive Officers, including the President and CEO (Representative Executive Officer), 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. (Bonuses shall not be paid to internal Directors except for those who concurrently serve as Executive Officer, and Outside Directors.)

Meanwhile, share-based remuneration shall account for 15% of the total annual remuneration for each individual, with a view toward promoting common interests between officers and shareholders. In this context, the Company introduced a Restricted Share-based Remuneration System linked to share price performance in FY2020 for better incentive effect, aimed at enhancing the Group’s medium- to long-term performance and our corporate value.

<Bonuses>

For Executive Officers including President and CEO (Representative Executive Officer), performance-linked bonus as described hereunder has been introduced as a strong motivation towards the achievement of goals based on the Director Remuneration Principles.

Base amount of bonus = Basic remuneration x 5 (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 officers 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 five-grade evaluation (between 0.50 (50%) at minimum and 1.50 (150%) at maximum) by President and CEO (Representative Executive Officer) 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 (Representative Executive Officer) 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.

<Restricted Share-based Remuneration System>

With regard to share-based remuneration, the Company had granted Directors (excluding Outside Directors) remuneration-type stock options whose exercise price was set at one yen up until FY2019.

In FY2020, we implemented a share-based remuneration system with restriction of transfer, with a view to further enhancing the awareness of the Company's Directors, including Outside Directors, and Executive Officers towards improving shareholder value.

Since this system is aimed at strengthening incentives for Directors, excluding non-executive Directors such as Outside Directors, and Executive Officers to enhance the Group's medium- to long-term performance and our corporate value, the restriction of transfer is lifted at a rate determined on the basis of the Company's share prices in a given period.

1) Amount of monetary remuneration receivable under the Restricted Share-based Remuneration System

For Executive Officers (including those concurrently serving as Director): Basic monthly remuneration x 3 (months) x 150% (*)

For non-executive Directors: Basic monthly remuneration x 1 (month)

*The maximum payout ratio of 150% shall apply to Executive Officers, who are to be affected by the share price performance conditions.

2) Determination of the number of shares allotted

Individual monetary remuneration receivable / Reference share price (*) (Figures under one hundred shares are to be disregarded.)

*Reference share price: the final closing price of the Company's share at Tokyo Stock Exchange on one business day prior to resolution on allotment (or, if no closing price is quoted on such day, the final closing price of the immediately preceding business day)

3) Period during which the transfer of shares is restricted and conditions under which the restriction is

lifted

Period during which the transfer of shares is restricted: 30 years

If an officer resigns from all of his or her posts of the Group during such period, all of the restricted shares held by the officer shall be acquired by the Company with no charge. However, the restriction on such shares shall be lifted immediately after the resignation, upon the approval of the Board of Directors of the Company.

4) Method for determining a rate at which the restriction is lifted (not applicable to non-executive Directors)

(1) Appraisal period: a three-year period from the relevant FY

(2) Range of lifting rates applied: 33.3%–100% (*)

* The range has been set in a way that the restriction is lifted within a range of 50%–150% in accordance with the Ratio to TOPIX Growth (as defined in (3) below), supposing that the number of allotted shares for which the restriction is lifted represents 100% when the Ratio to TOPIX Growth is 100%.

(3) Method for determining a rate at which the restriction is lifted:

The restriction lifting rate is determined as follows, based on the value (“Ratio to TOPIX Growth”) obtained by dividing the total shareholder return (hereinafter referred to as “TSR”), calculated from the Company’s share price and dividend for the appraisal period, by the growth rate of Tokyo Stock Price Index (TOPIX):

(i) If the Ratio to TOPIX Growth is over 150%: 100% across the board

(ii) If the Ratio to TOPIX Growth is under 50%: 33.3% across the board

(iii) If the Ratio to TOPIX Growth is between 50% and 150%:

$$\text{Restriction lifting rate (\%)} = \text{Ratio to TOPIX Growth} \times \frac{2}{3} \times 100\%$$

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

The Company will work on the following initiatives so as to activate deliberations at the Board of Directors.

(i) The matters requiring a resolution by the Board of Directors will be limited to those set forth in laws and regulations, in principle, in order to secure time for the discussion on management, including management plans and strategic projects, from a wide perspective, and activate deliberations on these matters.

(ii) The Company will hold prior explanation sessions for Outside Directors several days before the Board of Directors meetings, where the division in charge of drafting matters to be discussed gives details of the matters, so as to activate deliberations at the Board of Directors.

(iii) The Company will evaluate the effectiveness of the Board of Directors and work to further improve its effectiveness by continued improvements based on the evaluation results.

9. Measures for Internal Control of the Board of Directors and Risk Management Systems [Principles 4-3, 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 has conducted the annual analysis and evaluation of the Board of Directors since FY2016. In FY2019, an individual questionnaire to all Directors and Audit & Supervisory Board Members inside and outside the Company was conducted, to evaluate the Board of Directors both from quantitative and qualitative aspects, such as the composition of the Board, details of deliberations, operations including support from the secretariat, and processes for determining the nomination and remuneration of officers.

Issues revealed as a result of evaluation of the effectiveness of the Board of Directors were reflected in the consideration of the transition to a company with a nominating committee, etc., which was undertaken simultaneously, and the Company will strive for fundamental improvements with the structural transition as a turning point.

11. Measures for Supporting Directors [Principles 4-8 (1), (2), 4-13 (1), (2), 4-14, 4-14 (1), (2)]

The Company provides the following support for Directors inside and outside the Company such that they may appropriately fulfil their roles and responsibilities.

(1) Information Provision and Opinion Exchange Meeting for Internal and Outside Directors

The Company has established a system to provide Outside Directors with prior explanation before the Board of Directors meetings so that they are able to ask for information as necessary, and the Company can additionally provide appropriate information where necessary. The Company periodically holds meetings for exchanging opinions between the Audit Committee and other Outside Directors, as well as between all Outside Directors and the President and CEO (Representative Executive Officer) and other management, as part of measures to increase opportunity for Outside Directors to obtain information about the Group and exchange opinions.

(2) Training Opportunities for Directors

The Company continuously provides to Outside Directors explanation on the environment surrounding the Group and its business, financial position, and organizational structure when assuming their position and during their service so that they are able to fully recognize the Group’s important management issues and make best decisions based on their beliefs at the Board of Directors and other committee meetings.

Meanwhile, for internal officers, on the assumption of giving them 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 and executive officers 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 officers and develop self-awareness as officers 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 officer, in the second year and onward. In addition, the Company arranges external seminars as needed.

(3) Expenses for Receiving Advice Deemed by Directors to Be Necessary

The Company has regulations in place stipulating that, if Directors deem it necessary to receive advice from consultants, lawyers and other external experts, they may do so at the expense of the Company, and established such system.

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 practices 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 provides opportunities for dialogue through interviews and briefing sessions, such as results briefings by top management, small meetings for analysts, face-to-face meetings for individual 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, 5-1 (1), (2)]

- 1) To promote constructive dialogue with shareholders, the President and CEO (Representative Executive Officer), Managing Executive Officer and CFO, Managing Executive Officer and General Manager of Group Corporate Strategy Office and other senior management cooperate to develop a platform, with Public Relations/Investor Relations Department of the Group Corporate Strategy Office serving as a liaison office.
- 2) The Group Corporate Strategy Office and 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 officers, 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 dialogues including dedicated meetings held by persons in charge of investor relations with institutional investors, securities analysts, etc.
- 4) Opinions provided by shareholders and investors are reflected in the improvement of corporate value

by broadly sharing such information in-house and providing feedback to the management.

5) Based on the IR Policy, the Company observes a “Quiet IR Period,” during which it desists from investor relations activities. During this period, officers 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 “Quiet IR 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. Over the medium to long term, the Company aims to stably increase dividends in line with profit growth. The Company also considers share buybacks in an ongoing and flexible manner, while putting its priority on growth investments.

5. Identification of Shareholder Ownership Structure [Principle 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.