

CORPORATE GOVERNANCE, COMPLIANCE, AND RISK MANAGEMENT

The Group considers the enhancement of corporate governance to be one of its most important management focus points. The Group believes that working to increase management quality and enhance the transparency of decision-making is indispensable, and accordingly, continually strives to strengthen corporate governance. This ensures that the Group continues to fulfill its founding mission as stated in its corporate philosophy: “Serving Society with Superior Quality.”

Based on this approach, in accordance with the responsibility and authority delineated in the Administrative Authority Rules, and in line with the Policy Management Rules, the Company is committed to developing, communicating, and abiding by fair, transparent decision-making and management policies.

As one facet of initiatives to strengthen its corporate governance system, to achieve both further strengthening of its internal control system and heightened speed in execution, the Company transitioned to the “Company with Nominating Committee, etc.” model of corporate governance in March 2016. The Group will continue striving to further strengthen both the efficiency and the effectiveness of management and execution.

Overview of Corporate Governance System

The Company has transitioned to the “Company with Nominating Committee, etc.” model and has a system that enhances the separation of management and operational responsibilities and allows the directors and the Board of Directors to focus more effectively on overseeing the execution of business operations. At the Annual Shareholders’ Meeting held on March 24, 2017, 11 directors were elected, including seven outside directors. The Chairman of the Board, who is selected from among the directors in accordance with the Articles of Incorporation and the Board of Directors’ Rules, serves as the chairperson of both Board of Directors’ meetings and General Meeting of Shareholders.

In addition, items related to decisions on basic management policies, important business execution matters, and other matters that must be determined by the Board of Directors are stipulated in the Articles of Incorporation, the Board of Directors’ Rules, and Administrative

Authority Rules. These matters are determined after careful deliberations by the Board of Directors.

The Company has established and maintains a corporate governance system that functions through appropriate, active performance of duties by the Nominating Committee, the Audit Committee, and the Compensation Committee, in conjunction with oversight of the executive officers and directors by the Board of Directors. The Nominating Committee has four members, all of whom are outside directors. This committee deliberates on such matters as standards and policies for the fair, transparent appointment and dismissal of directors. The Audit Committee has five members, consisting of three outside directors and two internal directors. This committee conducts audits regarding the business execution of executive officers and directors. The two internal directors on the Audit Committee are full-time members of the Audit Committee. The Compensation Committee has four members, all of whom are outside directors. This committee deliberates on such matters as the details of compensation for directors and executive officers.

In addition, to further increase the transparency of corporate governance, the Governance Committee and the Compliance Committee have been established as advisory committees to the Board of Directors. These committees deliberate on the corporate governance system and related matters and on compliance activities as a whole and submit reports to the Board of Directors. Both of the committees are composed of seven outside directors, and one or more internal directors who are members of the Audit Committee participate as observers.

Regarding the management system, the CEO and Representative Executive Officer (CEO) and the COO and Representative Executive Officer (COO) are the leaders of the operating divisions. The CEO is principally in charge of overall management and strategy, and the COO is principally in charge of operations. At the same time, these two officers implement a system of mutual checks. The Company is further strengthening its corporate governance system by separating and clarifying the respective roles and authority of the CEO and the COO, advancing the sharing of information, and increasing the transparency of decision-making processes. Further, under the CEO and COO, respective executive officers are responsible

for decision-making and business execution in relation to matters delegated to them by the Board of Directors. In addition, following deliberations by the Officer Nomination and Compensation Meeting, which is an advisory body to the CEO and COO, full-time corporate officers, who are elected by the CEO, are responsible for business execution under the direction of the executive officers.

In business execution, specific matters pursuant to Company policy as well as other important matters are deliberated and reported at the Global EXCO, which was established in 2013 as a body responsible for groupwide global business execution; the Executive Operational Committee; and other policy management meetings. In addition to key executive officers, such as the CEO and COO, full-time corporate officers also participate in the Global EXCO, the Executive Operational Committee, and other policy management meetings.

Status of Internal Control Systems

Regarding internal control systems that are necessary to ensure the propriety of business operations, the Company is advancing the development of such systems as the compliance promotion system and the risk management system based on a policy adopted at a meeting of the Board of Directors.

Status of Audit Committee Audits, Internal Audits, and Accounting Audits

The Company implements audits through cooperation among the Audit Committee, the Internal Auditing Office, and the independent auditors.

In accordance with audit policies determined by the Audit Committee, the Committee works in cooperation with the Internal Auditing Office and other bodies to audit the execution of business duties by executive officers and directors. These auditing activities include attendance at important meetings, such as the Global EXCO and the Executive Operational Committee; interviews to ascertain the status of operations; reviews of important business documents; and on-site audits of

business offices. Moreover, information and opinions are exchanged with the representative executive officers, and meetings are held with such persons as the corporate auditors of major subsidiaries in Japan. In addition, the Company has assigned a corporate officer with full-time responsibility for auditing to assist the operations of the Audit Committee. Under the supervision of this corporate officer, dedicated staff have been assigned to assist with audits by the Committee. The selection and replacement of this corporate officer are decided through the agreement of the Audit Committee.

The Internal Auditing Office and internal auditing departments within the Company's operating divisions and major subsidiaries conduct internal accounting and operational audits of the Company and Group companies. The Internal Auditing Office makes annual audit plans and conducts on-site audits of each function, operating division, and subsidiary. As of March 24, 2017, the Internal Auditing Office employs 29 people (excluding those working concurrently in other positions).

In cooperation with the Audit Committee, Deloitte Touche Tohmatsu LLC performs the accounting audit of the Company's financial statements. The accounting audit team in fiscal 2016 comprised three certified public accountants who performed accounting audits; nine certified public accountants who assisted in the performance of accounting audits; four associate members of the Japan Institute of Certified Public Accountants; and nine other staff members.

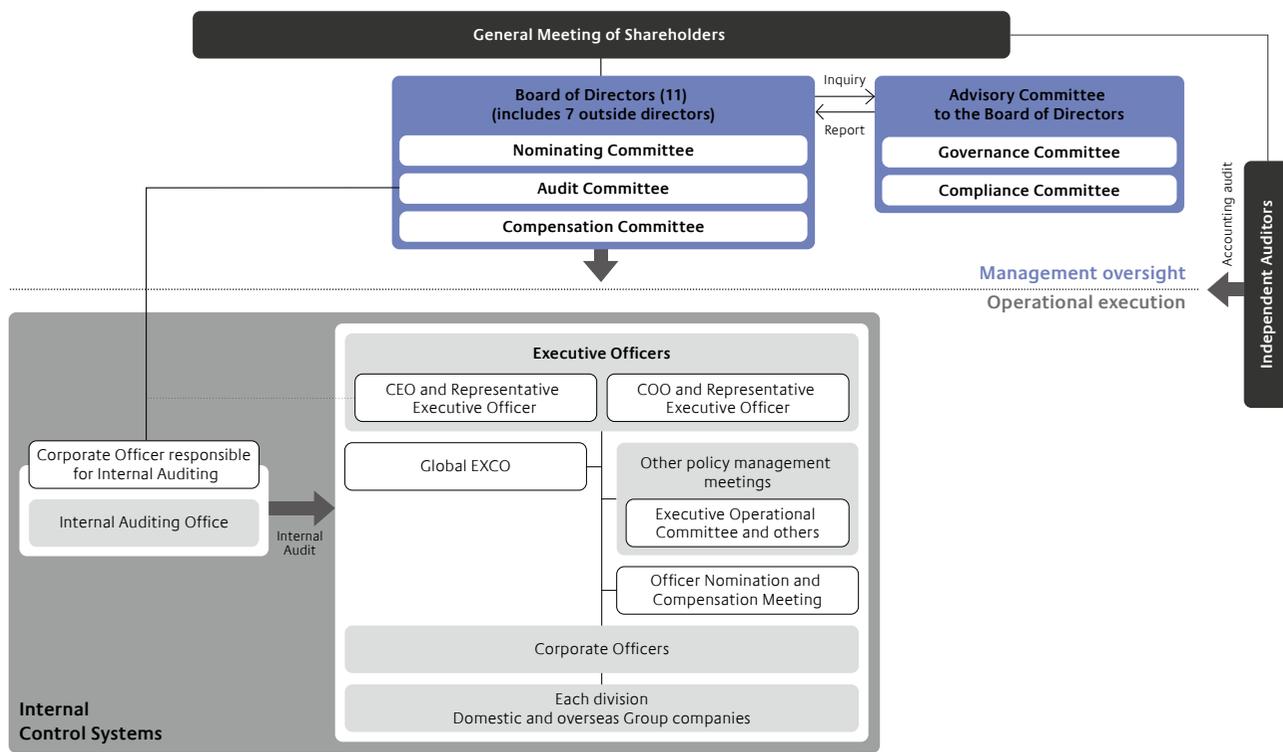
The Audit Committee, the Internal Auditing Office, and the independent auditors exchange information and opinions as necessary and generally maintain close contact, thereby working to further increase audit efficiency and effectiveness.

Outside Directors

As of March 24, 2017, the Company has seven outside directors.

In regard to measures and deliberations at meetings of the Board of Directors, the Company believes that the outside directors contribute to the strengthening of corporate governance, including appropriate decision-making at meetings of the Board of Directors. To that end, the outside directors provide independent opinions that reflect their sound judgment and extensive experience, which are based on their varying backgrounds and fields of specialization.

Through measures and deliberations at meetings of the Board of Directors, such as the reporting of financial results and the reevaluation of the policy governing internal control systems, the outside directors directly and indirectly receive reports from internal control departments and implement effective oversight of the executive officers and directors.



As of March 24, 2017