

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

In March 2016, the Company 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 22, 2019, 11 directors (nine male and two female) were elected, including eight outside directors (six male and two female). 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 the 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 three 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 six members, consisting of five outside directors and one internal director. This committee conducts audits regarding the business execution of executive officers and directors. The internal director on the Audit Committee is a full-time member of the Audit Committee. The Compensation Committee has three 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 eight outside directors, and one internal director, who is a member of the Audit Committee, participates as an observer.

The various operating divisions—consisting of eight executive officers, including three representative executive officers—make decisions on the execution of operations delegated by the Board of Directors and assume responsibility for the execution of those decisions. In addition, these divisions have adopted a system in which members are collectively responsible for management. Moreover, the CEO and COO have been placed in charge of each unit of the SBUs, which comprise domestic and overseas Group companies as well as internal companies, and employ a system of mutual checks. These executive officers, as well as persons responsible for major business entities, comprise the Global EXCO, which has been established as

an organizational body for top executive management. This committee serves to strengthen the checks and balances capabilities of the Group by debating and discussing management strategy and issues from a global perspective, which improves transparency of the decision-making process.

In addition, each operating division maintains a reporting system to the appropriate representative executive officer of that division regarding the execution of duties. This information is also regularly and promptly reported to the Board of Directors in order to aid in their deliberations, and these actions ensure that the Group maintains an effective supervisory function.

– Basic Policy for Establishing Internal Control Systems

The mission of the Company is stated in its corporate philosophy: “Serving Society with Superior Quality.” Guided by this mission, the Company will continue to pursue management reforms that aim to realize the ultimate business goals of becoming a truly global company and achieving “Dan-Totsu” in each industry in which the Company competes.

As part of this pursuit, the Company will maintain its basic policy of separating the roles of business execution and oversight, overseeing business execution via the Board of Directors, and realizing appropriate and efficient business execution. The Company will also take another step forward in establishing internal control systems.

With a recognition of the above efforts, the Company’s Board of Directors has established a basic policy for establishing internal control systems.

Based on this policy, the Company’s Board of Directors will realize the further enhancement of internal controls and accelerate the pace of business execution. To aim for even higher levels in terms of the efficiency and effectiveness of its business execution and oversight, the Board of Directors has, in accordance with the basic policy, transferred the authority for establishing internal control systems to the representative executive officers and will oversee the execution of this task by such officers.

– 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 22, 2019, the Internal Auditing Office employs 27 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 2018 comprised three certified public accountants who performed accounting audits; 11 certified public accountants who assisted in the performance of accounting audits; two associate members of the Japan Institute of Certified Public Accountants; and 11 other staff members.

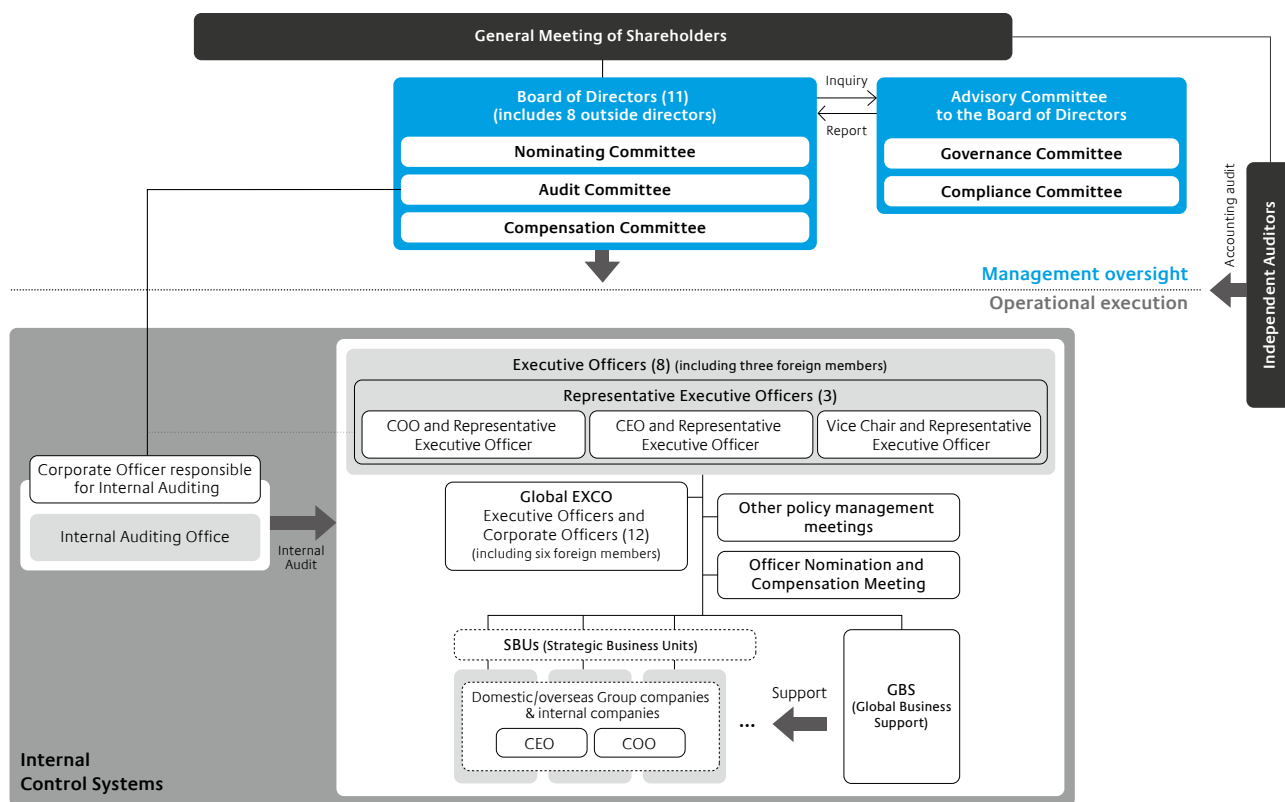
The Audit Committee, the Internal Auditing Office, and the independent auditors exchange information and opinions as necessary and generally maintain close contact, thereby working to further increase audit efficiency and effectiveness.

— Outside Directors

As of March 22, 2019, the Company has eight outside directors.

In regard to discussions about measures at meetings of the Board of Directors, the Company believes that the outside directors contribute to the strengthening of corporate governance, including maintaining fair 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 diverse backgrounds and fields of specialization.

Through initiatives 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.



For information regarding the report on the “Corporate Governance Code”, please refer to the following URL.

Corporate Governance Code Report

https://www.bridgestone.com/corporate/library/corporate_governance/index.html