

CORPORATE GOVERNANCE

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.

Overview of Corporate Governance System

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. This structure allows for greater separation between management and execution, and establishes a system that allows directors and the Board to supervise business execution with greater clarity.

At the Annual Shareholders’ Meeting held on March 24, 2020, 13 directors (11 men and two women) were elected, including eight outside directors (six men and two women). The Chairman of the Board, selected from the group of directors in accordance with the Articles of Incorporation and the Board of Directors’ Rules, serves as the chairperson of both the Board of Directors’ meetings and the Shareholders’ General Meeting.

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 determines standards and policies for the fair and transparent appointment and dismissal of directors and makes appropriate proposals to the Board of Directors for the appointment and dismissal of the representative executive officers under a fair and transparent succession plan. The Audit Committee has seven members, consisting of five outside directors and two internal non-executive directors. This committee conducts audits regarding the business execution of executive officers and directors. The two internal non-executive directors on the Audit Committee are full-time members 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 committees are composed of eight outside directors, two internal non-executive directors, who are members of the Audit Committee, who participate as observers.

The various operating divisions involved in business execution—consisting of six 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 senior management. This committee aims to strengthen the checks and balances capabilities of the Group by debating and discussing management strategy and issues from a global perspective (including sustainability as it pertains to climate change and other factors), which improves transparency of the decision-making process.

In addition, each operating division involved in business

execution 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 Company's mission 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 Outside Directors

As of March 24, 2020, the Company has eight outside directors.

The Company believes that 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, review of the policy governing internal control systems, and

reporting on operational status based on this policy, the outside directors directly and indirectly receive reports from internal control departments and implement effective oversight of the executive officers and directors.

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

Status of Audit Committee audits

The Audit Committee consists of five outside directors and one full-time Audit Committee member for a total of six members.

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. Moreover, the evaluation of this corporate officer is also determined based on the evaluation of the Audit Committee.

The Audit Committee met a total of 15 times during the fiscal year under review.

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

The Audit Committee audits the execution of duties by directors and corporate officers as well as the internal control systems. These duties are performed under the auditing policy and audit plans determined by the Audit Committee, and, among other actions, involve inquiry into the status of business execution (including risk management), reviewing reports from the Internal Auditing Office and the full-time member of the Audit Committee, engaging in opinion exchanges with corporate officers, attending meetings of the Global EXCO and other important meetings, holding on-site visits at major Group companies and business locations in Japan and overseas, and conducting interviews with members of the respective audit committees and corporate auditors at these sites. The Audit Committee also receives reports and explanations on audit plans, audit methods, and results from the accounting auditor, and then verifies the results.

In addition to the duties above, the full-time member of the Audit Committee engages in daily information gathering in cooperation with the Internal Audit Department in order to improve audit effectiveness. Other members of the committee also attend Global EXCO and other meetings, and conduct audits at major domestic and Group companies.

Status of the Internal Auditing Office

The Internal Auditing Office and internal auditing departments within the Company's operating divisions and major Group companies conduct internal audits of the Company and Group companies. The Internal Auditing Office receives direction and reports directly to the Audit Committee, independent of any operating divisions involved in business execution, from the perspective of ensuring effective auditing function.

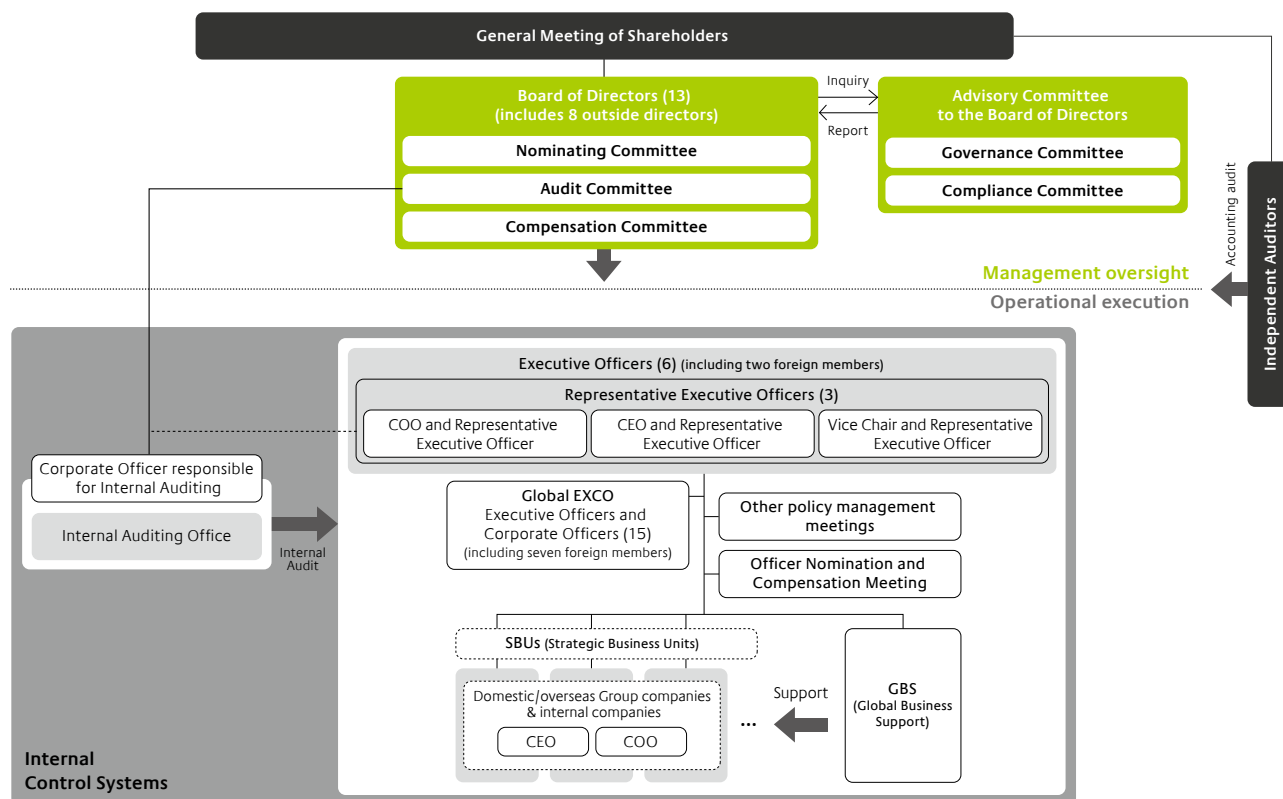
The Internal Auditing Office formulates an annual audit plan which it reports to the Audit Committee, evaluates the effectiveness and efficiency of internal control systems, and conducts internal audits of each function, operating division, and Group companies in Japan and overseas. In addition, the Internal Auditing Office works with the internal audit departments at each operating division and at major Group companies on activities toward establishing an optimal internal Group audit system. As of March 24, 2020, the Internal Auditing Office had 28 employees (excluding those working concurrently in other positions).

The Audit Committee, the Internal Audit Department

(comprising the Internal Auditing Office and internal auditing departments within the Company's operating divisions and major subsidiaries), and accounting auditors exchange information and opinions as necessary and generally maintain close contact, thereby working to further increase audit efficiency and effectiveness. Each department in charge of internal control provides regular reports to the Audit Committee concerning the status of the development and operational status of their assigned internal control system.

Status of accounting audits

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 2019 was comprised of four certified public accountants who performed accounting audits; ten certified public accountants who assisted in the performance of accounting audits; four associate members of the Japan Institute of Certified Public Accountants; and seven other staff members.



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