

## On the Release of Bridgestone's Corporate Governance Code Report

The Bridgestone Corporation, as part of its efforts in working towards the achievement of its ultimate goal of “becoming a truly global company” and of being “*Dan-Totsu*” in all aspects of its business, is in the process of further enhancing its corporate governance.

This process of enhancement and reform has been implemented on an ongoing basis since the company was first established in order to respond over time to the changing conditions and issues deemed important, and in order to ensure that the quality of management and the transparency of decision making processes was constantly improved.

It is our intention to fully employ our governance structure in order to further strengthen internal controls, promote timely decision making, and continue to realize the ever more effective and efficient planning and execution of our business activities.

Since our first report in 2016, Bridgestone has been using the Corporate Governance Code as a tool for evaluating our governance policies and systems and continuously communicating our approach and progress in their achievement to our stakeholders.

On behalf of everyone here at Bridgestone, I thank you for your ongoing support and understanding and look forward to hearing your response to this report and your evaluation of our efforts to date as we strive to create a company that we can all be proud of.

May 2019



Masaaki Tsuya  
Chairman of the Board  
CEO and Representative Executive Officer  
Bridgestone Corporation

## 2019 Report on the Corporate Governance Code

### 1. Changes in Corporate Governance and Our Governance Structure (As of May 2019)

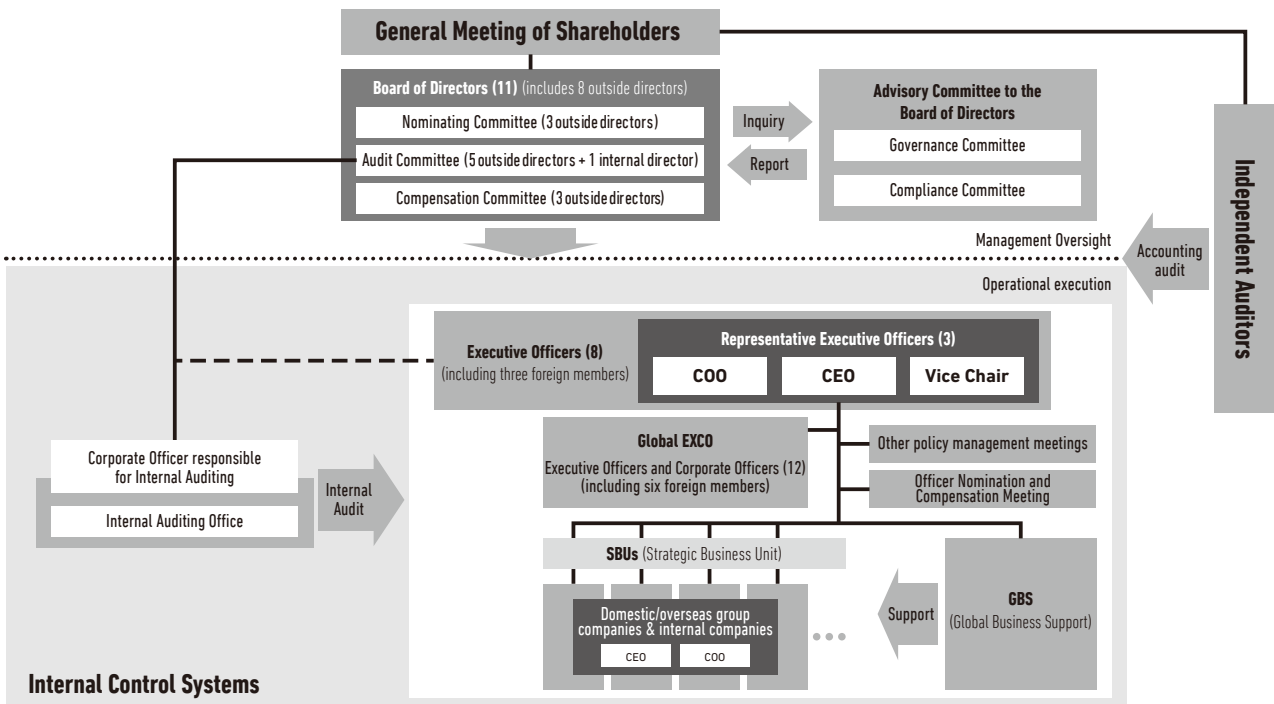
An overview of the development and current structure of Bridgestone's corporate governance are shown diagrammatically here in (1) our changes in the corporate governance system and (2) corporate governance structure diagram.

#### <Changes in Corporate Governance>

Year	Management Oversight	Mission & Foundation Framework	Operational execution	Reports the Changes Reflected
2006			Strategic Business Unit (SBU) organization structure (Followed by a progressive, continuous review of the operational structure)	
2010	Independent Non-Executive members of the Board of Directors	The Bridgestone Essence	Two officers (CEO, COO) system in Bridgestone Americas Introduction of Executive Committees	
2011		Environmental Mission Statement		
2012		Safety Mission Statement	Two officers (CEO, COO) system in Bridgestone Corp.	
2013	Discretionary board advisory committee (Governance / Nomination / Compensation)		Introduction of Global Executive Committee	
2014	Compliance Committee	Quality Mission Statement	Restructure SBUs: BSCAP China + Asia Pacific BSEMEA Europe + ME, Africa, Turkey, & Russia	
2016	Adoption of new corporate structure: "Company with Nominating Committee, etc."	Global CSR Commitment "Our Way to Serve"	Establishment of Global Mining & Agricultural Solution Company	2016 Report
2017			Global CSR Commitment "Our Way to Serve" Refining Mid-term Management Plan formulating process	2017 Report May 2018 Report
2018	Restructuring of the Board's authority (Authority delegation)		Establishment of Global Sustainable Procurement Policy, Global Human Rights Policy and Code of Conduct Integrating Olympic and Paralympic related business related with the sports and cycle business	Dec 2018 Report

**Continuous discussions to advance corporate governance system further**

#### <Corporate Governance Structure>



## 2. About This Year's Report

This year's report (released in May 2019) discusses the status of enhancement and improvement efforts implemented since the previous revisions announced by the Company in December 2018. The key enhancements are listed as follows:

Our main improvements since previous report	Principles of Japan's Corporate Governance Code
(1) Restructuring the framework of policies and policy management	2.2 Code of Conduct 4.1 Roles and Responsibilities of the Board 5.2 Establishing and Disclosing Business Strategies and Business Plans
(2) Enhancing communication with suppliers related to Global Sustainable Procurement Policy	2.3.1 Sustainability Issues, Including Social and Environmental Matters
(3) Promoting the BridgeLine (channels for whistleblowers)	2.5 Whistleblowing
(4) Enhancing disclosure for shareholders	3.1.2 Full Disclosure 5.1 Policy for Constructive Dialogue with Shareholders
(5) Result of the Board effectiveness evaluation in 2018	4.11.3 Preconditions for Board and Audit Committee Effectiveness

## 3. Current Status of Our Enhancement and Improvement Efforts Reported in Accordance with Japan's Corporate Governance Code

### Section 1: Securing the Rights and Equal Treatment of Shareholders

#### General Principle 1

Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively.

In addition, companies should secure effective equal treatment of shareholders.

Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.

The Company recognizes that it is essential for the sustainable development of the business to collaborate with various stakeholders and that our shareholders constitute our primary stakeholder. Based on this understanding, the Company strives to develop an environment wherein shareholders can adequately exercise their rights by providing them with a wide variety of information and opportunities to exercise their rights.

Moreover, the Company endeavors to secure the rights of minority and foreign shareholders and thereby seeks to secure the substantive equality of the rights of all shareholders.

### **Principle 1.1 Securing the Rights of Shareholders**

Companies should take appropriate measures to fully secure shareholder rights, including voting rights at the general shareholder meeting.

The Company endeavors to ensure the rights of shareholders by managing operations in order to ensure timely disclosure of not only statutory disclosure documents but also of other information in both Japanese and English, by conducting the Annual General Shareholders' Meeting in a manner such that the voting rights of all shareholders can be exercised effectively, and by ensuring adequate time and opportunity for dialogue between management and shareholders.

#### **Supplementary Principle 1.1.1**

When the board recognizes that a considerable number of votes have been cast against a proposal by the company and the proposal was approved, it should analyze the reasons behind opposing votes and why many shareholders opposed, and should consider the need for shareholder dialogue and other measures.

Based upon the understanding that the Annual General Shareholders' Meeting is the Company's highest decision-making body, the Company takes the results of shareholders' execution of their voting rights as an important indication of their intent. The Board of Directors therefore formally analyses the reasons and causes for proposals where the total votes in opposition exceed 20%.

#### **Supplementary Principle 1.1.2**

When proposing to shareholders that certain powers of the shareholders' meeting be delegated to the board, companies should consider whether the board is adequately constituted to fulfill its corporate governance roles and responsibilities. If a company determines that the board is indeed adequately constituted, then it should recognize that such delegation may be desirable from the perspectives of agile decision-making and expertise in business judgment.

In order to further promote the separation between the executive and supervisory functions and further strengthen the supervisory role of the board, the Company has adopted the "Company with Nominating Committee, etc." model of corporate governance. Moreover, in addition to establishing the committees legally required under this model, the Company has established a Governance Committee comprised entirely of Independent External Directors, all of whom meet the Company's benchmark for independence (hereinafter referred to as "Independent Directors"). The Governance Committee serves as an advisory body to the Board of Directors with the objective of ensuring that the Company maintains the structures and processes needed to ensure appropriate levels of governance.

The Articles of Incorporation currently stipulate that the Board of Directors is responsible for decisions such as determining the level of interim dividend payouts. In the event of further such delegations of authority by the General Shareholders' Meeting to the Board of Directors, the Company will continue to enhance its structures and procedures of governance in order to discharge these responsibilities while ensuring the necessary levels of expertise in, and timeliness of, its decision making.

### **Supplementary Principle 1.1.3**

Given the importance of shareholder rights, companies should ensure that the exercise of shareholder rights is not impeded. In particular, adequate consideration should be given to the special rights that are recognized for minority shareholders with respect to companies and their officers, including the right to seek an injunction against illegal activities or the right to file a shareholder lawsuit, since the exercise of these rights tend to be prone to issues and concerns.

The Company has established a "Share Handling Regulations" which formally stipulates procedures for the exercising of the rights of minority shareholders and any other procedures in relation to shares in order to ensure that shareholders are able to exercise their rights in full.

### **Principle 1.2 Exercise of Shareholder Rights at General Shareholder Meetings**

Companies should recognize that general shareholder meetings are an opportunity for constructive dialogue with shareholders, and should therefore take appropriate measures to ensure the exercise of shareholder rights at such meetings.

The Company has and will continue to make every effort to ensure that shareholders are provided with the services and support necessary to ensure that they are able to exercise their rights at the General Shareholders' Meeting including such measures as scheduling the Meeting to avoid clashing with the "peak period" for holding General Shareholders' Meetings in Japan, early dispatch of proxy statements, provision of an online voting platform, and provision of information in English.

### **Supplementary Principle 1.2.1**

Companies should provide accurate information to shareholders as necessary in order to facilitate appropriate decision-making at general shareholder meetings.

Taking the requests from shareholders into consideration, the Company attempts to provide clear and relevant information to shareholders in a manner intended to facilitate their decision making. This includes providing more comprehensive information regarding candidates for board membership and publishing the "Guidelines for Determining the Independence of Board Members," and including forecasts on earnings in the financial report.

### **Supplementary Principle 1.2.2**

While ensuring the accuracy of content, companies should strive to send convening notices for general shareholder meetings early enough to give shareholders sufficient time to consider the agenda. During the period between the board approval of convening the general shareholder meeting and sending the convening notice, information included in the convening notice should be disclosed by electronic means such as through TDnet<sup>1</sup> or on the company's website.

<sup>1</sup> TDnet: The Tokyo Stock Exchange operates a real-time internet service (Timely Disclosure network) which distributes the information provided by listed companies on a timely basis in accordance with its listing rules.

The Company strives to ensure adequate time for deliberation of Shareholders' meeting agenda items by sending convening notices as early as possible and in advance of the deadline prescribed by the Companies Act in Japan. In addition, in cases where board approval is made on proxy items before sending the convening notice, notification of such is made in advance at the time of the decision on the corporate website and through other digital methods.

### **Supplementary Principle 1.2.3**

The determination of the date of the general shareholder meeting and any associated dates should be made in consideration of facilitating sufficient constructive dialogue with shareholders and ensuring the accuracy of information necessary for such dialogue.

The Company strives to promote the accessibility of the General Shareholders' Meeting by measures including scheduling the Meeting to avoid clashing with the "peak period" for holding General Shareholders' Meetings in Japan.

### **Supplementary Principle 1.2.4**

Bearing in mind the number of institutional and foreign shareholders, companies should take steps for the creation of an infrastructure allowing electronic voting, including the use of the Electronic Voting Platform, and the provision of English translations of the convening notices of general shareholder meeting.

In order to better accommodate the needs of the increasing numbers of overseas investors holding shares, the Company has introduced an Electronic Voting Platform and provides convening notices in English on its corporate website, along with a wide range of other material and data for investors in English.

### **Supplementary Principle 1.2.5**

In order to prepare for cases where institutional investors who hold shares in street name express an interest in advance of the general shareholder meeting in attending the general shareholder meeting or exercising voting rights, companies should work with the trust bank (*shintaku ginko*) and/or custodial institutions to consider such possibility.

The Articles of Incorporation of the Company restricts the exercise of voting rights at Annual Shareholders' Meetings to nominee shareholders or their proxies.

In consultation with the trust bank which manages the shareholders' registry as the agent of the Company, and, taking into consideration both domestic and international implications, legal obligations, social trends and operational issues, the Company will continue to monitor the situation regarding the attendance of investors who are not registered on the shareholders' registry.

### **Principle 1.3 Basic Strategy for Capital Policy**

Because capital policy may have a significant effect on shareholder returns, companies should explain their basic strategy with respect to their capital policy.

The Company, in full recognition of the importance of the interests of shareholders, aims to strengthen the foundations of the business in order to promote future growth. As part of its basic policy for the enhancement of business performance the Company has set an annual ROE target of 12%.

While maintaining levels of internal reserves sufficient to enable future investments in order to maintain growth, the Company endeavors to balance the need to maintain a strong financial position with that of ensuring an appropriate level of return to its shareholders. In overall consideration of quarterly business performance, current financial position, mid-term profitability forecasts, investment plans and cash flow, the Company strives to meet shareholder expectations for returns by setting dividends in a stable and sustainable level within a consolidated payout ratio range of between 20% to 40%.

### **Principle 1.4 Cross-Shareholdings**

When companies hold shares of other listed companies as cross-shareholdings<sup>2</sup>, they should disclose their policy with respect to doing so, including their policies regarding the reduction of cross-shareholdings. In addition, the board should annually assess whether or not to hold each individual cross-shareholding, specifically examining whether the purpose is appropriate and whether the benefits and risks from each holding cover the company's cost of capital. The results of this assessment should be disclosed.

Companies should establish and disclose specific standards with respect to the voting rights as to their cross-shareholdings, and vote in accordance with the standards.

<sup>2</sup> Cross-shareholding: There are cases where listed companies hold the shares of other listed companies for reasons other than pure investment purposes, for example, to strengthen business relationships. Cross-shareholdings here include not only mutual shareholdings but also unilateral ones.

The Company maintains a policy whereby it will not hold shares in other companies other than those which are of strategic importance; that is, necessary to maintain or enhance business partnerships, or contribute to business profitability. The Company maintains a policy whereby it will not hold shares outside the scope of this definition. As part of this policy, the rationality of, and need to maintain, any such strategic holdings including stock brands, number of shares held, and the proportion of cross-shareholdings, and other related issues must be reviewed and reported to the Board of Directors on an annual basis.

In exercising its voting rights regarding cross-shareholdings, the Company will consider the content of proposals in terms of the investment strategy as approved by the Board in addition to their overall impact on enhancing profitability and sustainable business growth, corporate governance and shareholder return and then take proper action.

#### **Supplementary Principle 1.4.1**

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

When a publicly traded company that cross-holds Bridgestone shares (as cross-shareholdings) indicates an intention to divest itself of any such cross-held shares, the Company in no way hinders such companies from taking such action.

#### **Supplementary Principle 1.4.2**

Companies should not engage in transactions with cross-shareholders which may harm the interests of the companies or the common interests of their shareholders by, for instance, continuing the transactions without carefully examining the underlying economic rationale.

The Company engages in no transactions that harm or impair the interests of companies that cross-hold shares of the Company (cross-shareholders), nor does it engage in any transactions that harm or impair the common interests of the shareholders.

#### **Principle 1.5 Anti-Takeover Measures**

Anti-takeover measures must not have any objective associated with entrenchment of the management or the board. With respect to the adoption or implementation of anti-takeover measures, the board should carefully examine their necessity and rationale in light of their fiduciary responsibility to shareholders, ensure appropriate procedures, and provide sufficient explanation to shareholders.

The Company has no anti-takeover measures in place and currently has no plans to introduce any such measures. Shareholders will be fully informed in advance of the nature and reason for any such measures should they be deemed necessary in the future.



### **Supplementary Principle 1.5.1**

In case of a tender offer, companies should clearly explain the position of the board, including any counteroffers, and should not take measures that would frustrate shareholder rights to sell their shares in response to the tender offer.

In any instance where the shares of the Company are made the target of a tender offer bid the Board of Directors will clearly convey its position on such bid to its shareholders and will not act in such a manner as to interfere improperly with any shareholder in the exercising of their rights to accept any such offer.

### **Principle 1.6 Capital Policy that May Harm Shareholder Interests**

With respect to a company's capital policy that results in the change of control or in significant dilution, including share offerings and management buyouts, the board should, in order not to unfairly harm the existing shareholders' interests, carefully examine the necessity and rationale from the perspective of their fiduciary responsibility to shareholders, should ensure appropriate procedures, and provide sufficient explanation to shareholders.

After due consideration by the Board of Directors and in accordance with appropriate procedures, the Company will provide shareholders with explanations of the rationality and need for any changes in capital policies that would result either in changes of control or significant dilution.

### **Principle 1.7 Related Party Transactions**

When a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the interests of the company or the common interests of its shareholders and prevent any concerns with respect to such harm, the board should establish appropriate procedures beforehand in proportion to the importance and characteristics of the transaction. In addition to their use by the board in approving and monitoring such transactions, these procedures should be disclosed.

In accordance with its Regulations of the Board of Directors, the Company requires that any transactions between Directors and Executive Officers and the company or its subsidiaries, and any transactions with other corporations which may constitute a conflict of interest with the Company, must be authorized in advance and subsequently monitored by the Board of Directors.

The Regulations also stipulate that Directors obtain prior approval for any transactions with corporations that hold 5% or more of the Company's total shares. The Regulations further require that any such approved transactions be reported to the Board of Directors on an annual basis.

## Section 2: Appropriate Cooperation with Stakeholders Other Than Shareholders

### General Principle 2

Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought about as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders.

The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.

In order to ensure sustainable growth and corporate value creation over the mid to long term, in awareness of the necessity to maintain appropriate and favorable working relationships with important stakeholders other than shareholders, such as its various external partners and communities and other entities that constitute irreplaceable assets, the Company actively participates in group-wide CSR activities aimed at the promotion of sustainability and diversity.

Moreover, under the leadership of the Board and Corporate Management, each individual officer and employee of the Company is encouraged to act in accordance with the “Bridgestone Essence” [the statement of the Company Principles] in order to create a corporate culture in which the rights and interests of stakeholders are respected and the highest levels of business ethics are realized.

### Principle 2.1 Business Principles as the Foundation of Corporate Value Creation Over the Mid- to Long-Term

Guided by their position concerning social responsibility, companies should undertake their businesses in order to create value for all stakeholders while increasing corporate value over the mid- to long-term. To this end, companies should draft and maintain business principles that will become the basis for such activities.

The Company has encapsulated its corporate philosophy as the Bridgestone Essence which it takes as the foundation of all corporate activity. Taking the founder’s corporate creed of “Serving Society with Superior Quality” as its unchanging mission, all officers and employees of the Company are encouraged to embody the four corporate foundations encapsulated within the Essence: “*Seijitsu-Kyocho*” [Integrity and Teamwork], “*Shinshu-Dokuso*” [Creative Pioneering], “*Genbutsu-Genba*” [Decision-Making Based on Verified On-Site Observations] and “*Jukuryo-Danko*” [Decisive Action after Thorough Planning] in their everyday activities.

Moreover, in order to achieve value creation beneficial to all stakeholders and enhance the creation of corporate value on the long-term the Company has introduced a global CSR initiative known as “Our Way to Serve” which is based upon the Bridgestone Essence and incorporates the

Mission Statements on Safety, Quality and the Environment in order to serve as the foundation in the formulation and implementation of the Company's strategic mid-term business plans and as a guide to the ongoing enhancement of management structure and processes.

### **Principle 2.2 Code of Conduct**

Companies should draft and implement a code of conduct for employees in order to express their values with respect to appropriate cooperation with and serving the interests of stakeholders and carrying out sound and ethical business activities. The board should be responsible for drafting and revising the code of conduct, and should ensure its compliance broadly across the organization, including the front line of domestic and global operations.

To fulfil its responsibilities to all its stakeholders, the Company has updated its Corporate Philosophy. The Company has revised its Corporate Philosophy to include its Mission Statements on Safety, Quality and the Environment and established a global corporate social responsibility (CSR) structure entitled "Our Way to Serve." The Corporate Philosophy and CSR structure form the core of business throughout the group, and are augmented by newly established global policies including the Global Sustainable Procurement Policy, the Global Human Rights Policy, and the Bridgestone Code of Conduct. The Company is currently actively promoting the dissemination and implementation of this Philosophy and CSR structure throughout its global operations.

As a management policy "Our Way to Serve" identifies three areas of Mobility, People and the Environment as well as six management fundamentals to be prioritized by the Company as it seeks to assume its responsibilities and, in close collaboration with its stakeholders, realize ever greater contributions to society and the world.

Using examples of ethical and compliance issues that could confront employees in the course of their actual jobs, the "Bridgestone Code of Conduct" (<https://www.bridgestone.com/responsibilities/code/>) explains in clear and easy to understand language how problematic situations should be approached and provides illustrations of specific actions that should be taken and those that would be inappropriate. The Company continues to rigorously promote the implementation of both "Our Way to Serve" and the "Bridgestone Code of Conduct" throughout its operations globally by such means as including CSR and compliance enhancements as goals in future mid-term business plans.

More information regarding CSR and Compliance is available on the corporate website: <https://www.bridgestone.com/responsibilities/index.html>

### **Supplementary Principle 2.2.1**

The board should review regularly (or where appropriate) whether or not the code of conduct is being widely implemented. The review should focus on the substantive assessment of whether the company's corporate culture truly embraces the intent and spirit of the code of conduct, and not solely on the form of implementation and compliance.

The Board of Directors is regularly apprised of the Company's CSR and compliance plans and their implementation and formally monitors and evaluates their progress.

### **Principle 2.3 Sustainability Issues, Including Social and Environmental Matters**

Companies should take appropriate measures to address sustainability issues, including social and environmental matters.

In accordance with its mission of "Serving Society with Superior Quality" the Company considers it important that it not only generates profits, but also contributes to society as a whole. As the global leader in the industry, the Company strives to achieve ongoing growth as a business while taking responsibility for the future and contributing to the development of a sustainable society. Based upon this approach, the Company seeks not only to act in compliance with the rules and social norms that form the basis of a corporation's foundation but by applying its strengths and distinctiveness as a group, and through the application of advanced technologies and innovation, also contribute to the enhancement of mobility, life, work and recreation.

More information regarding this approach to CSR is available on the corporate website: <https://www.bridgestone.com/responsibilities/index.html>

#### **Supplementary Principle 2.3.1**

With the recognition that dealing with sustainability issues is an important element of risk management, the board should take appropriate actions to this end. Given the increasing demand and interest with respect to sustainability issues in recent years, the board should consider addressing these matters positively and proactively.

The Company realizes that sustainability, including human rights, safety, and responsible procurement, are critical issues for its survival as a business. Having identified these issues as management fundamentals within its revised CSR policy, the Company has been actively engaged in their promotion on a global basis.

In February 2018 the Company instituted a "Global Sustainability Procurement Policy" (<https://www.bridgestone.com/responsibilities/procurement/index.html>) guided by the procurement management fundamental.

Existing CSR guidelines on procurement concern human rights, environment, and quality. These have been enhanced to include improving conservation and rights protection as well as traceability and resilience (the ability to adapt to change). This policy requires that sustainable procurement practices be followed in the purchase of all materials and services, and applies to suppliers globally. Since the establishment of this policy, the Company group has continued its efforts to communicate with suppliers around the world in order to promote a better understanding of the procurement policy.

More information regarding other specific actions and initiatives is available on the Company website: <https://www.bridgestone.com/responsibilities/index.html>

The Company intends to continue to engage in activities related to these core issues throughout its organization as it endeavors to respond to the expectations and demands of its stakeholders.

#### **Principle 2.4 Ensuring Diversity, Including Active Participation of Women**

Companies should recognize that the existence of diverse perspectives and values reflecting a variety of experiences, skills and characteristics is a strength that supports their sustainable growth. As such, companies should promote diversity of personnel, including the active participation of women.

In April 2018, the Company instituted the “Bridgestone Group Global Human Rights Policy” ([https://www.bridgestone.com/responsibilities/human\\_rights/index.html](https://www.bridgestone.com/responsibilities/human_rights/index.html)), one of the purposes of which is to provide a workplace environment wherein people expressing different values and individuality may work and grow. This policy puts a system in place in which the Company respects differences in cultures and customs, enables employees at different life stages to feel secure in their work, and nurtures and develops each individual's abilities.

As a concrete example of these efforts, the Company has introduced policies aimed at promoting career advancement and employment opportunities for women including childcare, nursing support and flexible working arrangements for employees whose partner has been relocated.

#### **Principle 2.5 Whistleblowing**

Companies should establish an appropriate framework for whistleblowing such that employees can report illegal or inappropriate behavior, disclosures, or any other serious concerns without fear of suffering from disadvantageous treatment. Also, the framework should allow for an objective assessment and appropriate response to the reported issues, and the board should be responsible for both establishing this framework, and ensuring and monitoring its enforcement.

The Company has established Compliance Hotlines (known as the “BridgeLine”) for all group companies and has established Cartel Related Activity Reporting Hotlines and Bribery and related Activity Reporting Hotlines for domestic group companies. The Company has promoted the usage of these Hotlines through awareness campaigns, both online using the corporate intranet and throughout facilities by informational posters. Hotline usage rates and the issues thereby identified are reported to the Board of Directors and the Audit Committee on a regular basis.

### **Supplementary Principle 2.5.1**

As a part of establishing a framework for whistleblowing, companies should establish a point of contact that is independent of the management (for example, a panel consisting of outside directors<sup>3</sup>).

In addition, rules should be established to secure the confidentiality of the information provider and prohibit any disadvantageous treatment.

<sup>3</sup> Outside director: A director who satisfies certain requirements such as not holding specific positions, including the position of executive director, in the company or its subsidiaries (Article 2, Paragraph 15 of the Companies Act). Furthermore, matters such as not holding a specific position in the parent company or other subsidiaries and not having specific kinship ties with controlling shareholders will be also required for outside directors after the 2014 amendments to the Companies Act.

The Company has established Compliance Hotlines (the “BridgeLine”) for all group companies, as well as Cartel Related Activity Reporting Hotlines and Bribery and related Activity Reporting Hotlines for domestic group companies, as a framework to enable whistleblowing. The Hotlines for Compliance, Cartel Related Activity Reporting and Bribery and related Activity Reporting operated independently of the Company by external lawyers. The Company has also created formal rules and guidelines to ensure the fair treatment and privacy protection of all employees using these hotlines or acting otherwise as whistleblowers.

### **Principle 2.6 Roles of Corporate Pension Funds as Asset Owners**

Because the management of corporate pension funds impacts stable asset formation for employees and companies' own financial standing, companies should take and disclose measures to improve human resources and operational practices, such as the recruitment or assignment of qualified persons, in order to increase the investment management expertise of corporate pension funds (including stewardship activities such as monitoring the asset managers of corporate pension funds), thus making sure that corporate pension funds perform their roles as asset owners. Companies should ensure that conflicts of interest which could arise between pension fund beneficiaries and companies are appropriately managed.

Bridgestone Corporate Pension Fund appoints fund management organizations based upon an evaluation of their stewardship record. The exercise of voting rights is left entirely to the discretion of the organization appointed to manage the Fund. The Company supports the Fund by appointing qualified personnel from either within or outside the Company to serve as officers of the Fund, and has established a Pension Fund Oversight Council staffed by appropriately qualified personnel to monitor the management of the Fund.

## Section 3: Ensuring Appropriate Information Disclosure and Transparency

### General Principle 3

Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk and governance.

The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.

The Company, in addition to making appropriate disclosures of financial information including financial standing and operating results and non-financial information including business strategies, issues, risk and corporate governance in compliance with relevant laws and regulations, in order to promote the transparency and impartiality of its decision making processes and effective corporate governance also strives to disclose information deemed appropriate even in the absence of legal obligations to do so.

The Company intends to continue to enhance the disclosure of information with the highest possible levels of accuracy and usability on its corporate website.

### Principle 3.1 Full Disclosure

In addition to making information disclosure in compliance with relevant laws and regulations, companies should disclose and proactively provide the information listed below (along with the disclosures specified by the principles of the Code) in order to enhance transparency and fairness in decision-making and ensure effective corporate governance:

- i) Company objectives (e.g., business principles), business strategies and business plans;
- ii) Basic views and guidelines on corporate governance based on each of the principles of the Code;
- iii) Board policies and procedures in determining the remuneration of the senior management and directors;
- iv) Board policies and procedures in the appointment/dismissal of the senior management and the nomination of directors; and
- v) Explanations with respect to the individual appointments/dismissal and nominations based on iv).

- i) The Company provides access to the Bridgestone Essence and its mid-term business plan ("Mid-term Management Plan") on the corporate website as follows.

"the Bridgestone Essence":

<https://www.bridgestone.com/corporate/philosophy/index.html>

"Mid-term Management Plan":

[https://www.bridgestone.com/corporate/library/mid\\_term/index.html](https://www.bridgestone.com/corporate/library/mid_term/index.html)

ii) The company outlines its basic approach and policies for promoting corporate governance based on each principle of the Corporate Governance Code in the first paragraph on page 7 of the Annual Report for 2017 as shown on the corporate website as follows:

[https://www.bridgestone.com/corporate/library/annual\\_report/](https://www.bridgestone.com/corporate/library/annual_report/)

iii) The Compensation Committee's policies and procedures in determining the remuneration of members of senior management and Directors are detailed in the following attachment.

iv) 1. Nominating Policy for the candidates for appointment to the Board

When nominating candidates for Board membership, the Company considers the character and judgment of each individual, their experience and expertise and their level of dedication and commitment to performing the duties expected of a member of the Board.

(1) Members of the Board other than Outside Directors

The Company takes into account the following:

- The candidate's scope of knowledge and experience regarding the business and its operations.
- The level of the candidate's ability to formulate business plans and targets based upon an insightful understanding of the changing business environment.

(2) Outside Directors

The Company takes into account the following:

- The candidate's expertise, experience and ability to make judgments from an independent perspective.
- The candidate's absence of connections with the Company that would undermine their independence from the Company (specifically, their ability to meet the conditions for independence as set out in the Company's criteria on outside directors' independence).

The Nominating Committee will choose candidates in an appropriate manner in accordance with fair and transparent guidelines and policies for the election and dismissal of the Members of the Board.

2. Nominating Policy for Executive Officers

When nominating Executive Officers, the Company considers if the candidate possesses the depth and scope of experience and expertise relevant to the business and the ability to implement business plans and meet performance targets based upon an insightful understanding of the changing business environment.

The Nominating Committee in accordance with the succession plan of the Representative Executive Officer submits proposals as appropriate for election and dismissal to the Board of Directors.

The Nominating Committee also deliberates the validity of proposals for the election and dismissal of candidates for positions as Executive Officers other than Representative Executive Officers.

v) The Company states the reason for nomination, summary of career to date and a list of important posts concurrently served in other corporations or organizations for each candidate for nomination to Board membership in the convocation notice and reference documents for



the Annual General Shareholders' Meeting, Business Report and Corporate Annual Report.

The current appointment/dismissal status of Executive Officers is outlined in the annual Business Report and Corporate Annual Report.

#### **Supplementary Principle 3.1.1**

These disclosures, including disclosures in compliance with relevant laws and regulations, should add value for investors, and the board should ensure that information is not boiler-plate or lacking in detail.

The Company makes every effort to ensure that information is disclosed in a manner which is both easily understandable and of benefit to stakeholders.

#### **Supplementary Principle 3.1.2**

Bearing in mind the number of foreign shareholders, companies should, to the extent reasonable, take steps for providing English language disclosures.

In light of the trend toward increased corporate share ownership by overseas investors, the Company prepares an English version of its Annual Report, which it makes publicly available on the corporate website. In addition, the Company also provides English translations of its consolidated financial statement, reference documents and notice of Annual General Shareholders' Meeting on its corporate website. The Company also provides English translations of the transcripts of quarterly financial performance meetings for analysts on the corporate website.

#### **Principle 3.2 External Auditors**

External auditors and companies should recognize the responsibility that external auditors owe toward shareholders and investors, and take appropriate steps to secure the proper execution of audits.

In recognition of the responsibility of External Accounting Auditors to perform appropriate accounting audits on behalf of shareholders and investors, the Company acts in compliance with the following Supplementary Principles as indicated below.

### **Supplementary Principle 3.2.1**

The audit committee should, at minimum, ensure the following:

- i) Establish standards for the appropriate selection of external auditor candidates and proper evaluation of external auditors; and
- ii) Verify whether external auditors possess necessary independence and expertise to fulfill their responsibilities.

- i) The Audit Committee has established standards for the appointment and evaluation of External Accounting Auditors.
- ii) The Audit Committee, in accordance with these standards, (1) monitors the External Accounting Auditor's performance of its duties, (2) monitors the content and compensation for non-auditing duties entrusted to the External Accounting Auditors by the Audit Committee, and (3) receives reports regarding the quality management systems of the External Accounting Auditors in order to verify their impartiality and professional qualifications.

### **Supplementary Principle 3.2.2**

The board and the audit committee should, at minimum, ensure the following:

- i) Give adequate time to ensure high quality audits;
- ii) Ensure that external auditors have access, such as via interviews, to the senior management including the CEO and the CFO;
- iii) Ensure adequate coordination between external auditors and each member of the audit committee (including attendance at the audit committee), the internal audit department and outside directors other than the members of the audit committee; and
- iv) Ensure that the company is constituted in the way that it can adequately respond to any misconduct, inadequacies or concerns identified by the external auditors.

- i) The Audit Committee requires that the External Accounting Auditor allocates sufficient time to perform their audits and, by means of receiving reports by the External Accounting Auditor on their audit plans, implementing the agreement procedures for determining the compensation of the External Accounting Auditor, and verifying audit reports by the External Accounting Auditor, ensures that sufficient time is devoted to performing audits and that audits are performed at the high quality levels required.
- ii) In the event that the External Accounting Auditor requests time to meet with the CEO, COO and or CFO such arrangements and scheduling are made.
- iii) 1. Audit Committee  
Adequate coordination between the External Accounting Auditor and members of the Audit Committee is achieved through audit reports by the External Accounting Auditor at Audit Committee meetings, regular meetings between the External Accounting Auditor and members of the Audit Committee outside of Audit Committee meetings, and the attendance

of Audit Committee members at site visits and audit reviews held by the External Accounting Auditor.

2. Internal Audit Division /Independent Directors

Adequate coordination with the Internal Audit Division is achieved by their participation as observers in Audit Committee meetings where External Accounting Auditors share information regarding the audit plan and findings, and with other Independent Directors who do not serve on the Audit Committee via information provided by the Audit Committee.

- iv) In the event the External Accounting Auditor uncovers fraudulent activity and calls for appropriate countermeasures, or indicates problems or other issues, the Company will in accordance with the nature of the situation indicated instigate investigation by the Audit Committee, order reports from executive departments, provide directors with advice, warnings and or injunctions, report to the Board of Directors and undertake all measures necessary to identify the cause, rectify and prevent recurrence of the issue identified.

## Section 4: Responsibilities of the Board

### General Principle 4

Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid-to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:

- (1) Setting the broad direction of corporate strategy;
- (2) Establishing an environment where appropriate risk-taking by the senior management is supported; and
- (3) Carrying out effective oversight of directors and the management (including *shikkoyaku*<sup>4</sup> and so-called *shikkoyakuin*<sup>5</sup>) from an independent and objective standpoint.

Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with *Kansayaku* Board (where a part of these roles and responsibilities are performed by *kansayaku* and the *kansayaku* board), Company with Three Committees (Nomination, Audit and Remuneration) or Company with Supervisory Committee.

<sup>4</sup> *Shikkoyaku*: According to the Companies Act, Companies with Three Committees (Nomination, Audit and Remuneration) must appoint one or more *shikkoyaku* from directors or non-directors by a resolution of the board and delegate business administration to *shikkoyaku*. Also, authority to make certain kinds of business decisions may be delegated to *shikkoyaku*.

<sup>5</sup> *Shikkoyakuin*: There are cases where a Company with *Kansayaku* Board or a Company with Supervisory Committee creates positions with the title of “*shikkoyakuin*” for persons who are delegated by the board a certain range of discretion regarding business administration. Unlike *shikkoyaku* in Companies with Three Committees (Nomination, Audit and Remuneration), *shikkoyakuin* is not a statutory position.

The Board fulfills its responsibility to promote sustainable corporate growth and enhance corporate value over the mid to long term by the following means:

- (1) By focusing upon matters related to fundamental policies such as the “Bridgestone Essence” (the Corporate Philosophy), and upon issues related to the sustained growth and long term value enhancement of the corporation, such as the formulation of mid to long term business strategies, sustainable corporate growth and related issues, the Board seeks to maintain a separation between supervisory and executive functions.
- (2) In order to facilitate the timely and effective decision making required to implement the policies and strategies approved by the Board, the Board delegates a certain degree of authority to the executive.
- (3) In addition to the establishment of the statutory and discretionary committees, the Board is comprised on a majority of independent directors in order to ensure both the objectivity and effectiveness of its supervisory function.

#### **Principle 4.1 Roles and Responsibilities of the Board (1)**

The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities. It should engage in constructive discussion with respect to specific business strategies and business plans, and ensure that major operational decisions are based on the company's strategic direction.

To fulfill the corporate mission of "Serving Society with Superior Quality," the Company has established "The Bridgestone Essence (Corporate Philosophy)," which is one of the key components of the Bridgestone Essence Framework, and underpinned by four foundations: "Seijitsu-Kyocho [Integrity and Teamwork];" "Shinshu-Dokuso [Creative Pioneering];" "Genbutsu-Genba [Decision-Making Based on Verified, On-Site Observations];" and "Jukuryo-Danko [Decisive Action after Thorough Planning]." Other components of the framework include the Safety Mission Statement, the Quality Mission Statement, and the Environmental Mission Statement. The Bridgestone Essence Framework and the global corporate social responsibility (CSR) structure, known as "Our Way to Serve," are the core of business throughout the group and is supported by a number of newly established global policies including the Global Sustainable Procurement Policy, the Global Human Rights Policy, and the Bridgestone Code of Conduct. With its updated and reinforced corporate governance structure, the Company group will continue to pursue its ultimate goal of becoming "a truly global company" and achieving "Dan-Totsu (absolute and clear leadership) in all aspects of our business."

To achieve the goals outlined above, the Board focuses its deliberations upon critical issues related to the sustained growth and long term value enhancement of the corporation, such as the corporate philosophy framework and formulation of the Mid-term Policy and the monitoring of their achievement. In order to implement the most important strategic decisions of the Board with group-wide implications the Company has established a Global Executive Committee ("Global EXCO") comprised of key executives from across the global organization which determines and oversees implementation of such policies and strategies.

#### **Supplementary Principle 4.1.1**

The board should clearly specify its own decisions as well as both the scope and content of the matters delegated to the management, and disclose a brief summary thereof.

The Company, in accordance with its Articles of Incorporation and applicable laws, stipulates in the Regulations of the Board of Directors that the Board of Directors is the highest decision-making body within the Company. The Board has made continuous improvements in order to focus more on deliberations concerning business strategy. Currently the Board determines:

1. the formulation of fundamental management policy;
2. the formulation of group business strategy (Mid-term Policy, significant business changes from the standpoint of group global operations, investment policy, issuance or guarantee

of substantial amounts of borrowings and debenture bond issues, debt guarantees, others);

3. issues involving personnel matters concerning directors and corporate officers;
4. issues involving internal control systems; and
5. other matters as required by laws and regulations, or by the Articles of Incorporation.

By delegating authority for the determination of other issues to the operating divisions, the Company seeks to implement decision making in a timely manner.

#### **Supplementary Principle 4.1.2**

Recognizing that a mid-term business plan (*chuuki keiei keikaku*) is a commitment to shareholders, the board and the senior management should do their best to achieve the plan. Should the company fail to deliver on its mid-term business plan, the reasons underlying the failure of achievement as well as the company's actions should be fully analyzed, an appropriate explanation should be given to shareholders, and analytic findings should be reflected in a plan for the ensuing years.

The Company has positioned its mid-term strategic plan ("Mid-term Management Plan") as a tool for business reform and innovation, and it formulates a Mid-term Policy that establishes fundamental principles for mid-to-long-term group global operations. Based on this policy, the Company revises the Mid-term Management Plan annually. The Company fully assesses and deliberates on changes in the business environment and achievement of the targets set forth therein, ensures the Mid-term Policy and Mid-term Management Plan reflect the future direction of the Company and its mid-to-long-term business strategy, and implements decisions accordingly.

Information regarding the above are appropriately explained in financial performance meetings, meetings with investors, and other opportunities.

#### **Supplementary Principle 4.1.3**

Based on the company objectives (business principles, etc.) and specific business strategies, the board should proactively engage in the establishment and implementation of a succession plan for the CEO and other top executives and appropriately oversee the systematic development of succession candidates, deploying sufficient time and resources.

Bridgestone adopted the "Company with Nominating Committee, etc." model of corporate governance in March 2016. The Board has subsequently delegated to the Nominating Committee, which is composed solely of independent directors, the authority to formulate and present proposals regarding the appointment of Representative Executive Officers.

The Nominating Committee determines the selection process and qualifications required of potential successors to the position of Representative Executive Officer, assesses the Representative Executive Officer's own succession planning, identifies and evaluates candidates through a process of ongoing discussions of the future strategic directions of the Company with executive officers and corporate officers, and reports periodically to the Board as required.

### **Principle 4.2 Roles and Responsibilities of the Board (2)**

The board should view the establishment of an environment that supports appropriate risk-taking by the senior management as a major aspect of its roles and responsibilities. It should welcome proposals from the management based on healthy entrepreneurship, fully examine such proposals from an independent and objective standpoint with the aim of securing accountability, and support timely and decisive decision-making by the senior management when approved plans are implemented.

Also, the remuneration of the management should include incentives such that it reflects mid- to long-term business results and potential risks, as well as promotes healthy entrepreneurship.

The Company has established and continues to enhance systems and processes necessary for the promotion and achievement of technological and business model innovation and related activities entailing appropriate risk taking. In accordance with this, key business policies are developed after thorough deliberation by the Board of Directors – which is composed of a majority of independent directors thus reflecting the interests of both shareholders and society at large – and then implemented by Representative Executive Officers and Executive Officers.

The Company remunerates executives including Representative Executive Officers and Executive Officers in part using a Performance Share Unit Plan which is a variable remuneration linked to and for the purpose of achieving mid-term goals and incentivizing the creation of long-term corporate value.

### **Supplementary Principle 4.2.1**

The compensation committee should design management remuneration systems such that they operate as a healthy incentive to generate sustainable growth, and determine actual remuneration amounts appropriately through objective and transparent procedures. The proportion of management remuneration linked to mid- to long-term results and the balance of cash and stock should be set appropriately.

Remuneration for management is comprised of a fixed monthly payment, an annual performance-based bonus payment, and a Performance Share Unit Plan in which additional compensation in the form of stock is tied to the degree of achievement of mid-term performance goals and which is designed to provide management with an incentive to improve the long-term value of the Company. The design of the compensation system and specific remuneration amounts are deliberated and determined by the Compensation Committee, which is composed solely of independent directors, based upon consideration of executive compensation survey and other data.

### **Principle 4.3 Roles and Responsibilities of the Board (3)**

The board should view the effective oversight of the management and directors from an independent and objective standpoint as a major aspect of its roles and responsibilities. It should appropriately evaluate company performance and reflect the evaluation in its assessment of the senior management.

In addition, the board should engage in oversight activities in order to ensure timely and accurate information disclosure, and should establish appropriate internal control and risk management systems.

Also, the board should appropriately deal with any conflict of interests that may arise between the company and its related parties, including the management and controlling shareholders.

The Board of Directors evaluates the Company's performance and reflects this evaluation in its assessment and compensation of management. The Board of Directors also monitors quarterly financial performance and other important performance indicators, and ensures the accurate and timely disclosure of corporate performance information.

Regarding internal control systems including risk management systems, the Board of Directors delegates to Representative Executive Officers the establishment of internal control systems in accordance with the policies determined by the Board of Directors, and monitors such execution by receiving regular reports on the levels of achievement. Through such activities, the Board of Directors promotes further improvements of the systems.

Moreover, the Company requires that any potential conflict of interest trades by management be approved in advance by the Board. Although the Company does not have a controlling shareholder, it requires that any deals involving an entity holding 5% or more of the Company's stock on a voting rights basis be approved in advance by the Board of Directors and that all directors submit an annual report to the Board regarding whether or not they have participated in any such deals and the nature of any deals in which they were involved.

#### **Supplementary Principle 4.3.1**

The board should ensure that the appointment and dismissal of the senior management are based on highly transparent and fair procedures via an appropriate evaluation of the company's business results.

Appointments and dismissals of senior management are determined by the Board of Directors after consideration by the Nominating Committee, which is comprised entirely of independent directors, upon the basis of the respective individual's performance and suitability.

#### **Supplementary Principle 4.3.2**

Because the appointment/dismissal of the CEO is the most important strategic decision for a company, the board should appoint a qualified CEO through objective, timely, and transparent procedures, deploying sufficient time and resources.



The Company transitioned to the “Company with Nominating Committee etc.” Model in March 2016. The Board has determined that one function of the Nominating Committee, which is composed solely of independent directors, is developing proposals regarding the appointment of Representative Executive Officers.

The Nominating Committee identifies and evaluates adequate successor candidates for Representative Executive Officers through sharing management strategy and exchanging opinions with executive officers and corporate officers, and submits a proposal to the Board regarding the appointment of Representative Executive Officers.

The Board of Directors subsequently thoroughly deliberates such proposals and makes final decisions at a Board meeting at which the majority of Board members are independent directors.

### Supplementary Principle 4.3.3

The board should establish objective, timely, and transparent procedures such that a CEO is dismissed when it is determined, via an appropriate evaluation of the company’s business results, that the CEO is not adequately fulfilling the CEO’s responsibilities.

Subsequent to adopting the “Company with Nominating Committee etc.” Model in March 2016, in addition to the proposal of motions for the dismissal of Representative Executive Officers by a board member, motions for dismissal may also be proposed by the Nomination, Audit or Compensation Committees as shown in the following diagram. Should such a motion be proposed it would be deliberated upon by the board, which is made up of a majority of independent directors.



### Supplementary Principle 4.3.4

The establishment of effective internal control and proactive risk management systems for compliance and financial reporting has the potential of supporting sound risk-taking. The board should place priority on the appropriate establishment of such systems and the oversight of whether they effectively operate, and should not limit itself to the examination of compliance with respect to specific business operations.

The Board of Directors reviewed the policies for internal control systems including risk management systems and, on March 23, 2018, determined the updated policies.

The Board of Directors also delegates to Representative Executive Officers the establishment of internal control systems in accordance with the policies determined by the Board of Directors, and monitors such execution by receiving regular reports on the levels of achievement.

#### **Principle 4.4 Roles and Responsibilities of the Member of the Audit Committee and the Audit Committee**

The audit committee should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of directors' duties, appointment and dismissal of external auditors and the determination of auditor remuneration.

Although so-called "defensive functions," such as business and accounting audits, are part of the roles and responsibilities expected of the member of the audit committee and the audit committee, in order to fully perform their duties, it would not be appropriate for the member of the audit committee and the audit committee to interpret the scope of their function too narrowly, and they should positively and proactively exercise their rights and express their views at board meetings and to the management.

The Audit Policy set out annually by the Audit Committee states that it should perform its duties from an independent and unbiased perspective and contribute to the sound development of the Company. In accordance with this policy the Audit Committee supervises the performance of directors, sets the compensation for and appoints and dismisses External Accounting Auditors.

Additionally, the Audit Committee actively collects information and voices its opinion at meetings of the Board of Directors in accordance not only with issues of legality but also in regards to the adequacy of policies and deliberations.

#### **Supplementary Principle 4.4.1**

Given that more than half of the Audit Committee must be composed of outside director and that the system needed to execute the duties must be decided in board of directors in accordance with the Companies Act, the audit committee should, from the perspective of fully executing its roles and responsibilities, increase its effectiveness through an organizational combination of the independence of the former and the information gathering power of the latter. In addition, the member of audit committee or the audit committee should secure cooperation with outside directors who are not the member of audit committee so that such directors can strengthen their capacity to collect information without having their independence jeopardized.

The Company, as a "Company with Nominating Committee, etc." in accordance with the Companies Act of Japan, has established an Audit Committee comprised of a majority of independent directors. In addition, in order to enhance the Audit Committee's capacity to collect information, two of the committee members are currently full-time appointees who attend

important corporate meetings in addition to Board Meetings, receive regular reports from executives, attend meetings held in operating divisions and actively engage in the collection of information within the company. In order to assist the Audit Committee the Company has appointed a full-time executive officer in charge of audits who is in charge of the Auditing Department established to support the Audit Committee. Information gathered by the full-time audit committee members, along with that gathered by the executive officer in charge of audits, is reported to the Audit Committee in order to enhance the effectiveness of audits by promoting the objectivity and impartiality of their deliberations.

Moreover, in addition to the regular reports on Audit Committee activities to the Board of Directors, access to information by independent directors not serving on the Audit Committee is provided through committees and other meetings comprised exclusively of independent directors.

#### **Principle 4.5 Fiduciary Responsibilities of Directors**

With due attention to their fiduciary responsibilities to shareholders, the directors and the management of companies should secure the appropriate cooperation with stakeholders and act in the interest of the company and the common interests of its shareholders.

There are currently eight Independent Directors serving on the Board. Each Independent Director actively participates in Board and committee meetings and promotes the consideration of shareholder and stakeholder interests. All Directors and Executive Officers act in the interest of the Company and its shareholders in accordance with the business policies and strategic plans determined by the Board.

#### **Principle 4.6 Business Execution and Oversight of the Management**

In order to ensure effective, independent and objective oversight of the management by the board, companies should consider utilizing directors who are neither involved in business execution nor have close ties with the management.

Among the eleven directors currently serving on the Board, nine are non-executive directors including eight who qualify as Independent Non-Executive Directors.

#### **Principle 4.7 Roles and Responsibilities of Independent Directors**

Companies should make effective use of independent directors<sup>6</sup>, taking into consideration the expectations listed below with respect to their roles and responsibilities:

- i) Provision of advice on business policies and business improvement based on their knowledge and experience with the aim to promote sustainable corporate growth and increase corporate value over the mid- to long-term;
- ii) Monitoring of the management through important decision-making at the board including the appointment and dismissal of the senior management;
- iii) Monitoring of conflicts of interest between the company and the management or controlling shareholders; and
- iv) Appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders.

<sup>6</sup> Independent director: The listing rules of securities exchanges provide that the outside directors, as defined in the Companies Act, are independent directors where they satisfy independence criteria of securities exchanges and the company determines that they do not have the possibility of conflicts of interest with its shareholders.

In addition to the establishment of a Governance Committee as an advisory committee to the Board of Directors comprised entirely of Independent Directors, the Company strives to promote the role of Independent Directors by the following means:

- i) The Company strengthens its corporate governance by nominating independent directors with a wealth of experience and expertise from a wide variety of different backgrounds and disciplines to deliberate management policies and strategies at the Board level.
- ii) Executive officers are nominated and dismissed by the Board in accordance with the determinations of the Nominating Committee which is comprised exclusively of Independent Directors.
- iii) In accordance with the Regulations of the Board of Directors the Company requires that any outside transactions by executive officers and Directors including Independent Directors that may constitute a potential conflict of interest with the Company be approved in advance by the Board and subsequently monitored. Although the Company does not have a controlling shareholder, it requires that any transactions involving an entity holding 5% or more of the Company's stock on a voting rights basis be approved of in advance by the Board of Directors and that all directors submit a report to the Board on an annual basis regarding whether or not they have been involved in any such transactions.
- iv) In order to ensure the objectivity of external directors the Company has established its own Independence Standard. Currently eight Independent Directors serve on the Board of which all eight meet the conditions set forth under this standard for independence thereby ensuring that they objectively represent the interests of shareholders and other stakeholders and have no conflicts of interest with general shareholders.

### **Principle 4.8 Effective Use of Independent Directors**

Independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. Companies should therefore appoint at least two independent directors that sufficiently have such qualities.

Irrespective of the above, if a company believes it needs to appoint at least one-third of directors as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should appoint a sufficient number of independent directors.

Currently, eight members of the board qualify as Independent Directors.

### **Supplementary Principle 4.8.1**

In order to actively contribute to discussions at the board, independent directors should endeavor to exchange information and develop a shared awareness among themselves from an independent and objective standpoint. Regular meetings consisting solely of independent directors (executive sessions) would be one way of achieving this.

As a “Company with Nominating Committee, etc.”, Independent Directors comprise the majority of both the Company’s Board of Directors and, Audit Committee, while the Nominating, Compensation and other discretionary committees are comprised entirely of Independent Directors thus enabling a higher level of information exchange and opportunities to share awareness between independent directors.

### **Supplementary Principle 4.8.2**

Independent directors should endeavor to establish a framework for communicating with the management and for cooperating with the member of the audit committee or the audit committee by, for example, appointing the lead independent director from among themselves.

Meetings are held on a regular basis between Independent Directors and members of corporate management in order to ensure a sufficient degree of information exchange.

### **Principle 4.9 Independence Standards and Qualification for Independent Directors**

Boards should establish and disclose independence standards aimed at securing effective independence of independent directors, taking into consideration the independence criteria set by securities exchanges. The nominating committee should endeavor to select independent director candidates who are expected to contribute to frank, active and constructive discussions at board meetings.

The Company has established its own Standards of Independence entitled the “Guidelines for determining whether outside directors are sufficiently independent” which has been filed with the Tokyo Stock Exchange and made publicly available on the corporate website:

[https://www.bridgestone.com/corporate/library/corporate\\_governance/pdf/Guidelines\\_for\\_Determining\\_Whether\\_Outside\\_Directors\\_are\\_Sufficiently\\_Independent.pdf](https://www.bridgestone.com/corporate/library/corporate_governance/pdf/Guidelines_for_Determining_Whether_Outside_Directors_are_Sufficiently_Independent.pdf)

To further enhance corporate governance, the Nominating Committee selects candidates with extensive experience and who are expertly qualified in a wide variety of diverse backgrounds and disciplines for Board membership.

#### **Principle 4.10 Use of Optional Approach**

In adopting the most appropriate organizational structure (as stipulated by the Companies Act) that is suitable for a company’s specific characteristics, companies should employ optional approaches, as necessary, to further enhance governance functions.

The company has adopted the governance model of the “Company with Nominating Committee, etc.” and, in addition to the mandatory committees required within this model, has established Governance and Compliance Committees to serve as advisory committees to the Board in order to further enhance the input from Independent Directors.

#### **Supplementary Principle 4.10.1**

If the organizational structure of a company is either Company with *Kansayaku* Board or Company with Supervisory Committee and independent directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from independent directors in the examination of such important matters as nominations and remuneration by establishing independent advisory committees under the board, such as an optional nomination committee and an optional remuneration committee, to which independent directors make significant contributions.

This principle does not apply to the Company since it has adopted the “Company with Nominating Committee, etc.” model of corporate governance.

#### **Principle 4.11 Preconditions for Board and Audit Committee Effectiveness**

The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity, including gender and international experience, and appropriate size. In addition, persons with appropriate experience and skills as well as necessary knowledge on finance, accounting, and the law should be appointed as the member of the audit committee. In particular, at least one person who has sufficient expertise on finance and accounting should be appointed as the member of the audit committee.

The board should endeavor to improve its function by analyzing and evaluating effectiveness of the board as a whole.

The Board of Directors is currently comprised of two internal directors concurrently serving as Representative Executive Officers, one non-executive internal director (non-independent), and eight Independent Directors. In order to achieve a balance in terms of expertise, experience, gender and perspective, and to maintain a board composition capable of realizing the Mission and strategy of the Company, board members are nominated in order to maintain a balanced portfolio across a comprehensive range of professional and academic fields including management, finance, accounting and law.

The background and expertise of independent directors are summarized in Section 5 (Officers) and Section 6 (Corporate Governance) Item 2 (Independent Directors) in the Company's Annual Securities Report (as required by the Financial Instruments and Exchange Law of Japan).

<https://www.bridgestone.co.jp/ir/library/securities/pdf/100.pdf>

The Board of Directors engages in the ongoing analysis and evaluation of the effectiveness of the board's deliberations – including those of the advisory committees – as part of its efforts to further strengthen and promote effective corporate governance.

#### **Supplementary Principle 4.11.1**

The nominating committee should have a view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size. Consistent with its view, the board should establish policies and procedures for nominating directors and disclose them along with its view.

The Nominating Committee by selecting internal directors who serve as representative executive officers, non-executive internal directors who serve as full-time members of the Audit Committee, and Independent Directors with extensive experience and expertise from a wide variety of disciplines and fields, seeks to maintain diversity and, at the same time, overall balance in board membership composition. Additionally, it is the basic policy of the Company that the Board should be of sufficient size so as to enable adequate debate and deliberation.

The policies and procedures for nominating directors are set out in principle 3-1 (iv).

**Supplementary Principle 4.11.2**

Outside directors and other directors should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors also serve as directors, *kansayaku* or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.

As disclosed in the Annual Business Report and reference documents distributed at the Annual General Shareholders' Meeting, the attendance rate for all external directors during 2018 was high thus facilitating both active and objective deliberations at all board meetings.

As part of the process for considering candidates for nomination to the board their concurrent commitments to other companies and organizations, including board memberships, are reviewed and taken into consideration. Other commitments for all directors are reviewed annually and reported in the Annual Business Report.

**Supplementary Principle 4.11.3**

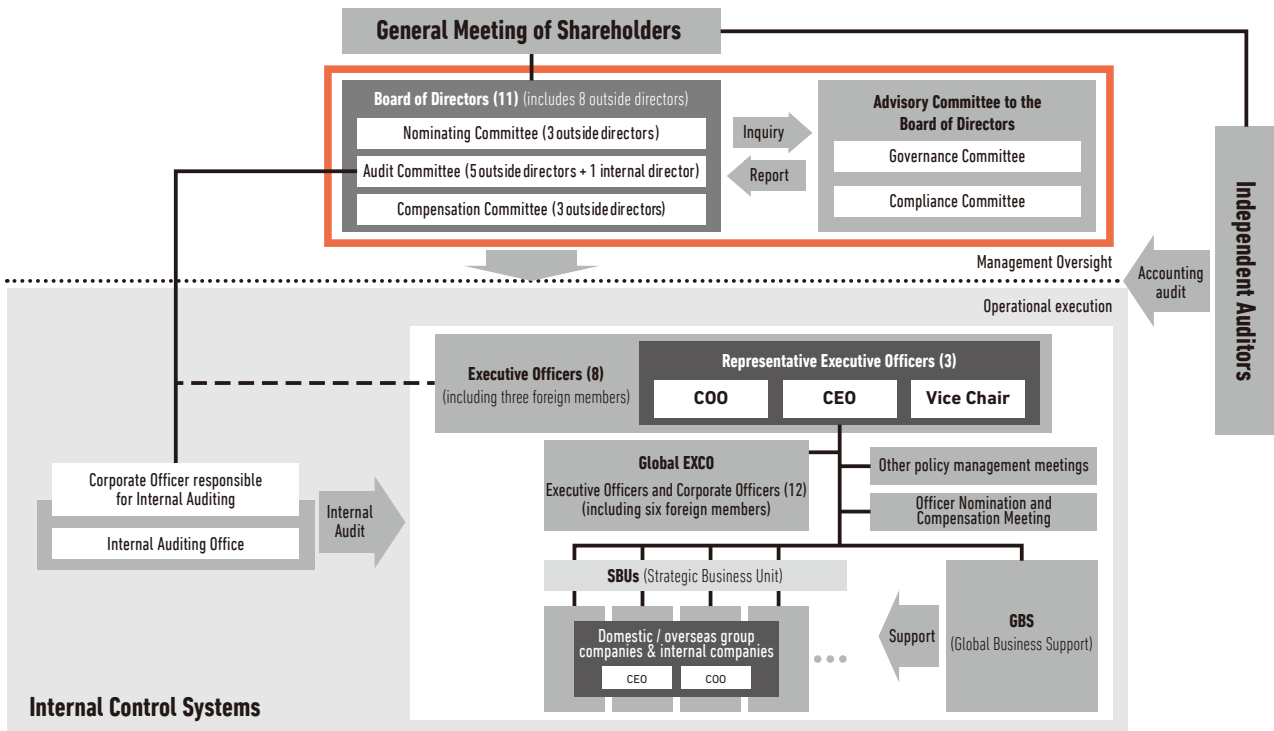
Each year the board should analyze and evaluate its effectiveness as a whole, taking into consideration the relevant matters, including the self-evaluations of each director. A summary of the results should be disclosed.

In order to strengthen its corporate governance and promote the speed of business execution the Company has regularly reviewed its governance performance and continually implements reforms to its governance systems and processes (as a part of this process the Company introduced Independent Directors in 2010, and between 2013 and 2014 established Nominating, Compensation, Governance and Compliance committees as advisory committees to the board, and adopted the "Company with Nominating Committee, etc." model of corporate governance in 2016).

Building upon these enhancements the scope for the evaluation of Board effectiveness has been taken to include not only the Board and the committees required under the "Company with Nominating Committee, etc." Model (Nominating, Auditing and Compensation Committees) but also the advisory committees (Governance and Compliance Committees). With the objective of strengthening corporate governance, the entire scope of board functions (the Board and all five committees – both legally required and advisory) is subject to annual evaluation in a process which involves a review of all board deliberations and their outcomes and self-evaluations of all directors. The following diagram illustrates the structure and scope of this evaluation process.



## Diagram of Board Evaluation Scope



The Board evaluation process requires the Board and each Committee to complete a formal self-evaluation process the results of which are then submitted to the Board where the overall effectiveness of the Board's operation and governance performance level is evaluated. The preceding diagram illustrates the overall schedule and procedure of this evaluation process.

As a result of this Board evaluation it has been determined that decision-making ensures transparency and that the oversight functions of the Board are being carried out through timely reports to the Board for deliberation, productive discussions among members of the Board, active deliberations at Board meetings taking the various perspectives of external independent directors into account and the ongoing efforts of the legally- required and advisory committees to create an organization of global awareness.

Also, in 2018 the Board revised the planning process for the mid-term management plan and delegated some of its managerial authority to executive management resulting in the enhanced speed of business execution. Concurrently, information sharing between the Board and the operating divisions, including the communication of priority issues related to business execution and reporting by Representative Executive Officers regarding deliberations of the Global EXCO has been further improved, and the Board is able to put even greater focus on deliberations concerning management strategy. From now on the Board, in efforts to improve the Company ever further, is addressing the enhancement of governance and continuous improvement of all the functions of the Board of Directors.

#### **Principle 4.12 Active Board Deliberations**

The board should endeavor to foster a climate where free, open and constructive discussions and exchanges of views take place, including the raising of concerns by outside directors.

The Company provides preliminary briefing sessions for independent directors pertaining to all items tabled on the Board agenda and, where necessary, holds special joint briefing meetings on issues of importance in order to promote full understanding among independent directors of all business and related issues salient to items for deliberation or reporting and thus promote rigorous debate and deliberation among all directors at Board meetings.

#### **Supplementary Principle 4.12.1**

The board should ensure the following in relation to the operation of board meetings and should attempt to make deliberations active:

- i) Materials for board meetings are distributed sufficiently in advance of the meeting date;
- ii) In addition to board materials and as necessary, sufficient information is provided to directors by the company (where appropriate, the information should be organized and/or analyzed to promote easy understanding);
- iii) The schedule of board meetings for the current year and anticipated agenda items are determined in advance;
- iv) The number of agenda items and the frequency of board meetings are set appropriately; and
- v) Sufficient time for deliberations

The Company endeavors to promote open and comprehensive deliberations by the Board of Directors by the following means:

- i) As stipulated in internal regulations, material relating to Board agenda items must be delivered to Directors at least two days in advance.
- ii) The Corporate Planning Division implements preliminary briefing sessions on Board agenda items for independent directors and responds to all questions and requests for additional information arising therefrom. In addition, when deemed necessary, special joint briefing meetings on issues pertinent to Board agenda items or concerns are held in order to further enhance the information available to Board members.
- iii) The annual schedule of the Board of Directors and the regular agenda items to be deliberated at each meeting are determined by the end of the previous year after coordination and consultation in advance with all Board members.
- iv) The Company sets guidelines defining issues that must be submitted to the Board of Directors and plans the agenda and frequency of Board meetings accordingly.
- v) The Company allocates time for deliberation for each Board meeting, based upon the time required to deliberate similar agenda in the past where appropriate. In cases where deliberations cannot be concluded within the allocated time frame, they will continue until such time as they can be concluded satisfactorily.

### **Principle 4.13 Information Gathering and Support Structure**

In order to fulfill their roles and responsibilities, directors should proactively collect information, and as necessary, request the company to provide them with additional information.

Also, companies should establish a support structure for directors, including providing sufficient staff.

The board should verify whether information requested by directors is provided smoothly.

Board members obtain information through regular executive reports to the Board and Committees and are able to request any additional information they may deem necessary for the fulfillment of their roles and responsibilities. The Board and relative Committees actively monitor the quality and speed of responses to these requests for additional information.

In addition, in order to promptly and fully respond to requests for support and information from Independent Directors the Company provides administrative and clerical support via the corporate planning division and internal auditing office.

#### **Supplementary Principle 4.13.1**

Directors, including outside directors, should request the company to provide them with additional information, where deemed necessary from the perspective of contributing to transparent, fair, timely and decisive decision-making. In addition, the member of the audit committee, including the outside directors, should collect information appropriately, including the use of their statutory investigation power.

Directors may at any time request additional information from the Corporate Planning Division and all executive and operating divisions are required to respond promptly to all such requests. In addition, members of the Audit Committee share among themselves information which they may have gained independently or through the support of the internal auditing office.

#### **Supplementary Principle 4.13.2**

Directors should consider consulting with external specialists at company expense, where they deem it necessary.

The company provides Directors with access at corporate expense to external experts including consultants and lawyers at their request.

### **Supplementary Principle 4.13.3**

Companies should ensure coordination between the internal audit department and directors. In addition, companies should take measures to adequately provide necessary information to outside directors. One example would be the appointment of an individual who is responsible for communicating and handling requests within the company such that the requests for information about the company by outside directors are appropriately processed.

In order to promote coordination between the internal auditing office and directors the Company appoints a full-time executive officer in charge of auditing in order to support the Audit Committee. In addition, in order to promptly and fully respond to requests for support and information from Independent Directors the Company provides administrative and clerical support via the corporate planning division.

### **Principle 4.14 Director Training**

New and incumbent directors should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills. Accordingly, companies should provide and arrange training opportunities suitable to each director along with financial support for associated expenses. The board should verify whether such opportunities and support are appropriately provided.

Directors are given briefings regarding their responsibilities, corporate policies and procedures, and provided opportunities to enhance understanding of their roles and responsibilities through training sessions, and factory and facility visits at the Company's expense. The Board of Directors formally reviews the effectiveness of these training activities on an annual basis.

### **Supplementary Principle 4.14.1**

Directors, including outside directors, should be given the opportunity when assuming their position to acquire necessary knowledge on the company's business, finances, organization and other matters, and fully understand the roles and responsibilities, including legal liabilities, expected of them. Incumbent directors should also be given a continuing opportunity to renew and update such knowledge as necessary.

The Company provides newly appointed Members of the Board and Executive Officers with briefings regarding the Company's mid-term business plan, business operations, responsibilities and rights of board members and other relevant policies and procedures before appointment. In addition to training sessions for Members of the Board and Executive Officers held once every two months, opportunities to visit the company factories and facilities are also provided.

#### **Supplementary Principle 4.14.2**

Companies should disclose their training policy for directors.

In order to enable directors to fully exercise their supervisory function the Company provides newly appointed directors with detailed briefings regarding the Company's midterm plan, operations, the responsibilities of directors as set forth within the Corporate Regulations for Directors and other relevant regulations. Subsequent to their appointment, all directors are invited to participate in regular training sessions covering a variety of topics chosen to promote their understanding of issues with relevance to the company's activities. Independent Directors also participate in regular site visits to factories and corporate facilities in order to promote their understanding of the environment and issues facing the Company. Additional training sessions may be held at the request of directors on an ad hoc basis regarding topics deemed relevant.

## Section 5: Dialogue with Shareholders

### General Principle 5

In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting.

During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.

In order to achieve sustainable growth and enhance corporate value over the mid to long term, the Company considers that it is important to consider the opinions and expectations of shareholders when formulating business policies.

The Company has therefore established a specialist department to manage IR (Investor Relations) which, by facilitating discussions with shareholders and investors by both individual and financial performance meetings for analysts, aims to promote better understanding of the Company's business strategy and establish a system whereby it can respond appropriately to the opinions and expectations voiced by shareholders.

### Principle 5.1 Policy for Constructive Dialogue with Shareholders

Companies should, positively and to the extent reasonable, respond to the requests from shareholders to engage in dialogue (management meetings) so as to support sustainable growth and increase corporate value over the mid- to long-term. The board should establish, approve and disclose policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders.

The Company has established a department specifically to respond to requests for individual meetings with shareholders. The Company not only holds financial performance meetings for analysts and discussions with investors but also offers plant visits and a range of opportunities to promote dialogue with shareholders. The corporate policy for promoting dialogue with shareholders is as follows:

The Company proactively engages in dialogue with shareholders and investors in order to achieve sustainable business growth and enhance corporate value over the mid to long term.

In order to promote constructive engagement with shareholders and investors in addition to engaging in the fair and impartial disclosure of information in accordance with Japan's Financial Instruments and Exchange Act and the regulations of stock exchanges where the Company's shares are listed, it is the basic policy of the Company that, even in the absence of such legal requirements, information considered by the Company to be of relevance to shareholders and

In this manner the Company seeks to promote the understanding of its performance and operations in order that its corporate value be accurately assessed.

The Company has established a dedicated IR unit reporting directly to the CFO to manage relations with shareholders and investor dialogue. Coordinating on an ongoing basis with the Corporate Planning, General Affairs, Finance, Legal, Public Relations, and Sales departments the IR Unit serves to promote constructive dialogue with shareholders by disclosing not only financial data but also information of a non-financial nature.

In addition to regular communication with domestic and overseas investors in order to promote their understanding of business strategies, financial conditions, and operations, the Company also conducts quarterly press meetings regarding its financial results for institutional investors, and also organizes small meetings and factory visits. Additional opportunities whereby the CEO and CFO visit investors within Japan and overseas in order to facilitate direct communication are also being organized. Communication with individual shareholders is also being promoted by the release of materials related to quarterly financial performance meetings and audio recordings of those meetings including questions and answer periods, and press releases on the corporate website.

Information from shareholders obtained through these activities are compiled into reports which are reviewed and discussed at internal meetings held at relevant departments, transmitted to executive management and reported to the Board.

In addition to IR activities the Company also engages in Shareholder Relations (SR) activities whereby representatives of the Company will visit shareholders in order to explain the Company's business policies, approach towards and structure of governance, and corporate proposals for the Annual General Shareholders' Meeting.

However, the Company does not engage in shareholder and or investor dialogue in periods preceding earnings announcements in order to avoid the risks related to insider information and has established rules and procedures for the internal management of potential insider information.

#### **Supplementary Principle 5.1.1**

Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management and directors, including outside directors, should have a basic position to engage in dialogue (management meetings) with shareholders.

The IR department is responsible for facilitating dialogue with shareholders. In cases where it is deemed necessary members of the Board of Directors including the CEO and/or CFO may participate in meetings with shareholders depending upon the nature of requests, objectives and content of the topics to be discussed.

### **Supplementary Principle 5.1.2**

At minimum, policies for promoting constructive dialogue with shareholders should include the following:

- i) Appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place, including the matters stated in items ii) to v) below;
- ii) Measures to ensure positive cooperation between internal departments such as investor relations, corporate planning, general affairs, corporate finance, accounting and legal affairs with the aim of supporting dialogue;
- iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities);
- iv) Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board; and
- v) Measures to control insider information when engaging in dialogue

The Company policy for the promotion of constructive dialogue with shareholders is outlined above in Principle 5-1.

### **Supplementary Principle 5.1.3**

Companies should endeavor to identify their shareholder ownership structure as necessary, and it is desirable for shareholders to cooperate as much as possible in this process.

The Company conducts regular surveys twice yearly to determine shareholder composition. The information thus obtained is used for IR activities both overseas and domestically.

### **Principle 5.2 Establishing and Disclosing Business Strategies and Business Plans**

When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company's cost of capital. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human resources, and specific measures that will be taken in order to achieve their plans and targets.

The Company formulates a mid-term business plan and, through financial performance meetings, meetings with investors and other opportunities, provides explanations on mid to long-term policy and strategy, in addition to targets for return on equity (ROE), return on assets (ROA), and ratio of operating profit on sales which it discloses along with reports on progress to date regarding priority issues. The priority issues are (1) Cultivating global corporate culture, (2) Developing human resources capable of global management, and (3) Upgrading the global management structure, and details regarding the measures being taken to manage them.



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**[Attachment] Principle 3.1 iii)**

**A. Policy for setting directors' and executive officers' remuneration**

The Company has adopted "Principles for Remuneration Setting," with four elements: to attract and cultivate superior talent, to support a competitive remuneration level, to provide motivation for the execution of business strategies, and to provide motivation for enhancing shareholder value. Based on these principles, the Company sets the remuneration for directors and executive officers in accordance with their respective business size and performance, commensurate with their tasks and responsibilities, and also in consideration of the remuneration levels of other major global companies in Japan which are selected considering their sales, overseas sales ratio and operating profit ratio as appropriate comparators.

a. Remuneration for directors

- Remuneration for directors who are concurrently officers is comprised of fixed payments and variable payments. Fixed payments are composed of base reward for business execution, an allowance for directors commensurate with their tasks and responsibilities, and an allowance for executive officers commensurate with their tasks and responsibilities. Variable payments are composed of bonuses vary depending on the Company's performance, and a Performance Share Unit Plan.
- Remuneration for directors who are not officers is comprised of fixed payments by base reward and allowance for directors. This remuneration system takes into consideration that they contribute to mid- to long-term business results and corporate value by monitoring business operation at the positions separated from business operation. Directors who are not officers are independent directors, and internal directors who perform audits and other duties on the performance of officers and directors.

b. Remuneration for executive officers

- Remuneration for executive officers is comprised of fixed payments and variable payments. Fixed payments are comprised of base reward for business execution and an allowance for executive officers. Variable payments are composed of bonuses vary depending on the Company's performance, bonuses vary depending on the performance by their business responsibilities, and the Performance Share Unit Plan.

\*The Company has discontinued stock-compensation-type stock options, and has newly initiated a performance-based stock compensation plan named Performance Share Unit Plan ("PSU") since March 2018. The Company expects that initiating the PSU, in which the number of stocks issued as remuneration vary depending on the Company's performance, contributes to incentivizing and motivating directors and officers who are authorized to perform business operation to achieve mid-term goals and improve long-term corporate value. The PSU would also contribute to sharing risk and rewards of the change in stock price between shareholders and directors and officers by holding shares while being in office.

\*Percentages of each remuneration type for directors who are concurrently officers (in case where the performance-based remunerations were in the range of base amount) are in the following. If a director or officer is concurrently a director or officer of a subsidiary and remunerated from the subsidiary, there may be a case that the following percentage is not applied.

**Fixed Remuneration:**

Monthly remunerations (Base payment, and additional payment for directors and officers): 30%-44%

**Variable Remuneration:**

Short-term incentives (group-wide performance-based bonus, performance-based bonus in its responsible area): 29-38%

Long-term incentives (performance-based stock compensation plan): 26-32%

**B. Process for setting directors' and executive officers' remuneration**

- The Compensation Committee determines directors' and executive officers' individual remuneration. The committee consists of only outside directors. The committee determines the policies on directors' and executive officers' remuneration. Based on the policies, the committee deliberates on remuneration including composition grades and levels. The committee also deliberates the remuneration of directors' and executive officers' paid by group subsidiary corporations in the case where they concurrently serve as executives in group subsidiary corporations.