

Materiality **Strengthen governance**

Governance-strengthening transition

2004	<ul style="list-style-type: none"> Start of Operating Officer System The Board of Managing Directors is reviewed and renamed as the Business Strategy Committee
2006	<ul style="list-style-type: none"> CSR Committee is established
2008	<ul style="list-style-type: none"> Risk Management Committee is established An Outside Director is appointed for the first time
2011	<ul style="list-style-type: none"> The number of Outside Directors is increased (from 1 to 2)
2012	<ul style="list-style-type: none"> Fair Trade Monitoring Committee is established
2015	<ul style="list-style-type: none"> Compliance Committee is established The effectiveness of the Board of Directors is assessed

2016	<ul style="list-style-type: none"> Compensation Advisory Committee is established
2018	<ul style="list-style-type: none"> New corporate philosophy system is established
2019	<ul style="list-style-type: none"> Transition to a Company with Nominating Committee, etc. The number of Outside Directors was increased (from 2 to 5) Sustainability Committee is established
2020	<ul style="list-style-type: none"> Woman appointed as an Outside Director
2021	<ul style="list-style-type: none"> Flattening Executive Officer System
2022	<ul style="list-style-type: none"> ESG items set in the Executive Officer evaluation system Female Outside Director appointed as the chairperson of the Board of Directors

Board of Directors

Approach of Board of Directors

Directors other than Outside Directors are appointed from a wide range of fields, including manufacturing, marketing, technology, and administrative divisions. In addition, Outside Directors are appointed after considering diversity and balance, such as being a person with knowledge of finance, experienced management, and being a lawyer. We believe that the current number of Directors is an appropriate size for strengthening corporate governance and expanding our global businesses.

Diversity of Directors

Upon the approval of the General Meeting of Shareholders in the fiscal year ended March 2020, a female Director (Outside Director) was newly appointed for the first time at the Company. The female Director with experience in a different industry than ours supervises management. This will enable us to integrate diverse values and accelerate transformation aimed at achieving sustainable growth.

Assessment of effectiveness of the Board of Directors

We annually evaluate the effectiveness of the Board of Directors to improve the effectiveness. In the fiscal year ended March 31, 2023, we conducted a self-assessment of the Board of Directors by sending out questionnaires to Directors from the viewpoints such as role/structure/management of the Board of Directors and management of committees. Although this evaluation was generally positive, it was mentioned, regarding the performance evaluation of Executive Officers, that the target management system has been developed, but its operation is still in the developing stage. There was also another comment on reverification of matters resolved at the Board of Directors. On these matters, we have decided to continue discussion. We will continue to analyze and evaluate the effectiveness of the Board of Directors on a regular basis to make improvements.

Executive Officers

The appointment of Executive Officers

The appointment of Executive Officers shall be determined after careful deliberation by the Board of Directors, comprehensively considering whether they possess personalities, insights, capabilities, experience/performance, etc. that are appropriate for fulfilling their duties. In addition, if it becomes clear that an Executive Officer lacks the required qualifications, he/she will be promptly dismissed by the Board of Directors.

Flattening of the system and compensation

On June 25, 2021, the Company removed the Managing Executive Officers and eliminated hierarchical relationships among Executive Officers and made them one team. It enables all Executive Officers to activate discussions and respond to various issues quickly toward further enhancement of its corporate value.

In line with the flattening of the system, in April 2022 we abolished the conventional system of compensation by position and shifted to a system of compensation for Executive Officers based on the responsibilities of the division to which they are in charge.

Introduction of ESG evaluation

Since April 2022, ESG items have been set as key individual target measures for Executive Officers involved in the calculation of annual incentives (bonuses). The degree of achievement of these ESG items is one of the evaluation indicators. By introducing ESG items into the evaluation system, Executive Officers are promoting active ESG initiatives.

Nominating Committee (from April 1, 2022 to March 31, 2023)

■ Members, the number of meetings, and attendance

Name	Title	Attendance	Number of attendances
Noboru Tsuda	Chairperson Outside Director	100%	5 times/5 times
Kouji Kawahara	Outside Director	100%	5 times/5 times
Akira Murakoshi	Outside Director	100%	5 times/5 times
Eiichi Ukai	Director	100%	5 times/5 times
Isao Ozako	Director	100%	5 times/5 times

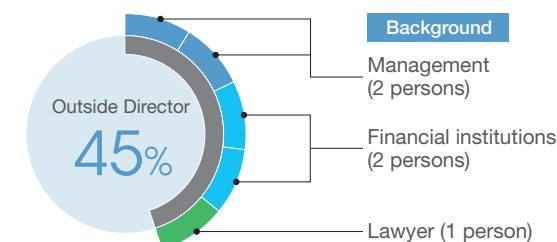
Discussions on Nominating Committee

The committee was held five times for the year ended March 31, 2023, with discussions mainly on the follow up on the business execution plans of Executive Officers, the structure of officers for the fiscal year ending March 31, 2024, and the selection of candidates for President, Executive Officer, Representative Executive Officers and Executive Officers and Directors.

About Outside Directors

As of June 27, 2023, the Board of Directors consists of 11 members, including six Inside Directors and five Outside Directors, and the ratio of Outside Directors is 45%. We will continue to strengthen the supervision of management and improve management transparency and fairness. In addition, in order to ensure appropriate corporate governance, we have established our own standards regarding the independence of Outside Directors, stipulating qualification and independence standards for them. These standards are used for appointing Outside Directors. Also, all of the Outside Directors are designated as Independent Officers as defined by the rules of the Tokyo Stock Exchange, Inc. (TSE), and are reported to TES as such.

For Outside Directors, we have established an environment where active discussions can be held at the Board of Directors through actions such as explaining the issues as necessary by secretariat and others prior to a relevant meeting of the Board of Directors. Moreover, we continuously provide information necessary to effectively fulfill the roles and responsibilities of an Outside Director by creating opportunities to deepen their understanding of our business through on-site inspection of business sites and other means.



Standards for Selection of Directors

Candidates for Directors will be selected from inside and outside the Company based on standards for selection of Directors as described below, considering the diversity and balance of the Board of Directors (including gender and internationality), after careful deliberation by the Nomination Committee.

- Must be in good condition both physically and mentally.
- Must have a high sense of ethics and a law-abiding spirit.
- Must be able to engage in constructive discussion from an objective viewpoint.
- Must be highly motivated to improve their abilities.
- Must have excellent decision-making skills from a company-wide and medium- to long-term perspective.
- Must have excellent insight and foresight concerning changes to the overall environment and to society.
- Must have sufficient record of performance and expertise in relevant fields. (Corporate manager or expertise)
- Outside Directors must (1) have sufficient time to accomplish their duties, (2) satisfy the standards regarding the independence of Outside Directors, (3) ensure diversity between the Outside Directors, and (4) have the requisite abilities to accomplish duties as a member of any of the three Committees.

Compensation Committee (from April 1, 2022 to March 31, 2023)

■ Members, the number of meetings, and attendance

Name	Title	Attendance	Number of attendances
Tomonori Nishimura*	Chairperson Outside Director	100%	6 times/6 times
Ryo Kawakami	Outside Director	100%	7 times/7 times
Yuriya Komatsu	Outside Director	100%	7 times/7 times
Eiichi Ukai	Director	100%	7 times/7 times
Masaaki Yamamoto*	Director	100%	6 times/6 times

*The number of attendances after becoming as a member of the Committee

Discussions at the Compensation Committee

The Compensation Committee was held seven times from April 2022 to March 2023.

The Compensation Committee aims to improve fairness, transparency, and objectivity of procedures regarding the decision making of compensation for Directors and Executive Officers and enhance corporate governance. Also, the committee passed resolutions regarding the details of compensation (such as compensation specified for each individual) of Officers.

■ Compensation Committee (from April 1, 2022 to March 31, 2023)

1st	<ul style="list-style-type: none"> Points granted by BIP Trust for compensation of Officers Bonus for Executive Officers in 2022
2nd	<ul style="list-style-type: none"> Decision of the order of substitution for the chairperson in the event of an accident Basic policy for determination of compensation Director compensation Changes in compensation for Executive Officers due to organizational change Compensation Committee's annual activity plans
3rd	<ul style="list-style-type: none"> Executive Officer's business execution plans
4th	<ul style="list-style-type: none"> Review of compensation levels and compensation structure of Officers Winter bonus for Operating Officers
5th	<ul style="list-style-type: none"> Punishment of Executive Officer
6th	<ul style="list-style-type: none"> Executive Officer compensation
7th	<ul style="list-style-type: none"> Basic compensation for Executive Officers Executive Officer compensation Revision of stock issuance regulations and internal regulations

Basic policy for determining compensation

The system and level of compensation for Officers, compensation specified for each individual, etc. are determined in the Compensation Committee chaired by an Outside Director using objective information including the level and trends of other companies as reference.

Compensation for Executive Officers and compensation for Directors are determined separately, and if a Director also serves as an Executive Officer, those compensations are added up.

Compensation for Directors

Compensation for a Director consists only of fixed compensation.

Fixed compensation shall be calculated by increasing basic compensation (which is determined based on his/her concurrent duties as an Executive Officer and whether he/she works full-time or part-time), taking into account a committee to which a Director belongs and his/her role at the committee.

Compensation for Executive Officers

Compensation for Executive Officers consists of fixed compensation and performance-linked compensation which fluctuates according to performance. The ratio of fixed compensation to performance-linked compensation is approximately 6:4 as a standard.



Fixed compensation

Fixed compensation consists of basic compensation, compensation by responsibility and compensation by representation.

Performance-linked compensation

■ Annual incentives

For Executive Officers, the Company determines whether or not to provide payment of monetary compensation that reflects the performance of a single fiscal year, based on consolidated financial results indicators, etc. of the previous fiscal year and, in the case of providing such payment, the total amount. The payment or non-payment of each Executive Officer, and in the case of payment, the amount, is determined within the total amount of provision by considering the Executive Officer's progress on priority target measures. Indicators related to the calculation of bonuses are based on consolidated financial results: net sales, operating income and net income from the perspective of emphasizing the achievement of earnings growth. The provision is made once a year in June after the determination of the Compensation Committee.

■ Medium- to long-term incentives

Company's shares shall be issued based on the achievement level of major target figures in the Medium-term Management Plan (money equivalent to the converted amount of shares shall be paid for a certain portion) as incentives to motivate them to achieve the targets in the Medium-term Management Plan and contribute to raising shareholder value, and in order to promote the holding of the Company's shares. Medium- to long-term performance targets include key performance indicators (consolidated operating margin, consolidated net sales, etc.) that take into account the Company's management policies.

Audit Committee (from April 1, 2022 to March 31, 2023)

■ Members, the number of meetings, and attendance

Name	Title	Attendance	Number of attendances
Kouji Kawahara	Chairperson Outside Director	100%	15 times/15 times
Ryo Kawakami	Outside Director	100%	15 times/15 times
Tomonori Nishimura	Outside Director	100%	15 times/15 times
Isao Ozako*	Director	100%	11 times/11 times

*The number of attendances after becoming as a member of the Committee

Discussions at the Audit Committee

Major items to be discussed at the Audit Committee include the formulation of the Audit Committee's auditing standards, the formulation of auditing policies and auditing plans, the evaluation of the content of auditing plans of independent auditors, and the assessment of the selection of independent auditors, and the assessment of the status of development and operation of internal control systems.

Audit Status

The Audit Committee members attend meetings of the Board of Directors and other major meetings in

accordance with auditing standards, policies, and plans determined by the Audit Committee. The Audit Committee receives reports or hears from Directors, Executive Officers, employees, etc. on the status of the execution of their duties, and audits the execution of duties by Directors and Executive Officers. In addition to the Board of Directors and Executive Officers Meetings, members of the Audit Committee attend and monitor the Sustainability Committee, the Risk Management Committee, the Compliance Committee, and the Fair Trade Monitoring Committee, which operate internal control systems.

Internal Control/Internal Audit

Internal control system

We regard risk management and compliance as one of the most important management issues, and have established a basic approach to internal control system (Internal Control Policy). Based on this basic policy, we maintain and operate the Group's internal control system, and are working to improve the soundness and efficiency of our management by constantly reviewing our internal control system in response to changes in the business environment.

Internal audit activities

The Internal Audit Department reports directly to the President, Executive Officer and is in charge of internal audit operations independently from the divisions to be audited. The Internal Audit Department conducts internal audits of the execution status of execution organizations from the perspectives of compliance with laws and internal regulations, appropriateness, and the effectiveness and efficiency of business activities.

For internal audits, audits are conducted by each organization of the execution organization (operational audits) and cross-organizational audits by risk and business function (thematic audits). Based on the results of these audits, we provide advice and recommendations

for improvement to divisions subjects to audits, as well as conducting follow-up audits to confirm the implementation status of improvement measures until their completion.

Overseas, we have established the Administration & Internal Control Department within the General Manager's Office of each region. The Internal Audit Department and the Administration & Internal Control Department work together to strengthen internal controls while taking into account the circumstances and characteristics of each region. In the fiscal year ended March 2023, we resumed operational audits by visiting overseas affiliates, which had been voluntarily restrained due to the COVID-19 pandemic.

The results of internal audits are reported to the President, Executive Officer and to the Audit Committee, and are shared also with all Executive Officers. In addition, the Audit Committee, the Internal Audit Department and the Accounting Auditor hold regular meetings to exchange information and opinions about the audit policies, audit plans, audit results, etc., and strive to improve efficiency and effectiveness of audits.