

LIXIL Group Corporate Governance Guidelines (Translation)

LIXIL Group Corporation

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LIXIL Group Corporate Governance Guidelines

Chapter I General Provisions

Article 1 Purpose

- 1.1 These guidelines (these “Guidelines”) set forth the fundamental philosophy with respect to corporate governance of LIXIL Group Corporation (the “Company”) and its subsidiaries and affiliates (the “Group”).
- 1.2 In order to realize the group management philosophy set forth in Article 2 of these Guidelines, the Company shall strive at all times to implement the best possible corporate governance system, one which enables it to achieve maximum sustainable improvement in corporate value. The corporate governance system provided in these Guidelines constitutes the Company’s commitment to our shareholders and other stakeholders and also functions as the standard to which the Company holds itself.
- 1.3 The Company shall post the latest version of these Guidelines on its website.

Article 2 Group Management Philosophy

The fundamental philosophy underlying the Company’s corporate governance is the implementation of a corporate governance system embodying the Company’s Group Management Philosophy. The following is a summary of the Company’s Group Management Philosophy.

- (1) LIXIL CORE (Corporate Philosophy)
The Group's superior products and services contribute to improving people's comfort and lifestyles.
- (2) LIXIL Behaviors (3 Actions)
Do the Right thing
Work with Respect
Experiment and Learn

Article 3 Basic Corporate Governance Framework

Under the Company, a pure holding company, the Group aims to optimize the whole by maintaining cooperation between each operating company. The Group shall adopt the following fundamental framework and undertake initiatives to strengthen and enhance corporate governance in order to maintain the Group's standing as a corporate group that inspires confidence through the creation and provision of attractive value to our stakeholders.

(1) Company with a nominating committee, etc.

The Company has adopted the governance format of a "company with a nominating committee, etc." with the aim of clearly separating its executive and supervisory functions, enabling executive officers to make swift and decisive business decisions and ensuring management transparency.

(2) Enhancement of functions by utilizing discretionary organs

In addition to the organs legally required for a company with a nominating committee, etc., the Company shall have Executive Officers Meetings, and other discretionary organs.

(3) Implementation of a uniform corporate governance system across the entire Group

By setting forth the LIXIL Behaviors, the LIXIL Group Code of Conduct, and group-wide financial and accounting management policies, having the entire Group comply therewith, and carrying out integrated education and training for directors, executive officers and employees as well as uniform implementation of a compliance system, the Company shall strive to cause the core elements of its corporate governance permeate the entire globalized corporate group, enabling a full understanding and realization of these Guidelines.

Chapter II Relationship with Shareholders

Article 4 General Meeting of Shareholders

4.1 In order to ensure that shareholders have sufficient time to consider proposals put to General Meetings of Shareholders, the Company shall issue the convocation notice for the Annual General Meeting of Shareholders as early as possible and disclose the convocation notice and English translation thereof on the Company's website and TDnet before issuing the notice.

- 4.2 In order to enhance the usefulness of the General Meeting of Shareholders and facilitate the exercise of voting rights, the Company shall adopt a system for the exercise of voting rights via the Internet, and utilize the platform for the electronic exercise of voting rights by institutional investors.
- 4.3 In addition to information that is required under rules for timely disclosure of corporate information by issuers of listed securities (timely disclosure rules), the Company shall also proactively and impartially disclose information necessary to enable shareholders to exercise their voting rights appropriately at General Meetings of Shareholders. The Company shall also give consideration to how it communicates information in order to make it easier for shareholders to understand, including the use of colors in convocation notice reference documents and the use of visual representations, such as graphs, of the content of business reports.
- 4.4 With respect to the participation, attendance, and the exercise of voting rights, etc. at General Meetings of Shareholders by beneficial shareholders such as institutional investors whose shares are held in the name of a trust bank, etc., the Company shall discuss and examine the matter with the trust bank, etc. on a case-by-case basis in accordance with a policy to not obstruct (in terms of actual substance) the exercise of shareholder voting rights.
- 4.5 In order to allow as many shareholders as possible to participate in General Meetings of Shareholders, in principle the Company shall set a date for the General Meeting of Shareholders that is at least five days prior to the date on which many other companies are expected to hold their general meetings of shareholders.

Article 5 Measures After General Meetings of Shareholders

- 5.1 With respect to each proposal, the responsible department shall analyze the factors for approval or disapproval of resolution matters at General Meetings of Shareholders, and consider how the Company should respond.
- 5.2 In particular, when it is recognized that a considerable number of votes were submitted disapproving of a proposal made by the Company, the Board of Directors shall analyze the reason for disapproval and the cause of the numerous disapproving votes, and consider holding dialogue with shareholders, and other responses.
- 5.3 The responsible department shall examine whether it is necessary to respond to questions and

opinions voiced by shareholders at General Meetings of Shareholders.

Article 6 Basic Policy Regarding Capital Structure

- 6.1 The Company's basic policy is to avoid as far as possible any measure related to capital structure that prejudices the interests of existing shareholders, and the Company shall endeavor to implement a system to ensure that any capital-related measure that risks prejudicing the interests of existing shareholders is thoroughly discussed by the Board of Directors.
- 6.2 When implementing a capital-related measure that poses the risk of prejudicing the interests of shareholders, the CEO (Representative Executive Officer) and CFO (Chief Financial Officer) shall endeavor to personally provide explanations to shareholders.

Article 7 Dividend Policy

- 7.1 Based on the fundamental principle of preservation of sound financial standing, the Company has as its policies: to preserve a 30% or higher dividend payout ratio on a consolidated basis; and to flexibly acquire treasury stock.
- 7.2 The Company shall use retained earnings for strategic investments for purposes such as the expansion of business activities.
- 7.3 The Company's basic policy is to pay dividends from surplus twice per year (an interim dividend and an annual dividend).

Article 8 Cross Shareholdings

- 8.1 The Group holds cross shareholdings in cases where it is recognized to be necessary to facilitate sales and revenue generation, or necessary as part of an alliance with an outside company required for the Company's business activities.
- 8.2 Each year, the responsible departments shall comprehensively evaluate cross-held shares individually from a quantitative and qualitative perspective in respect of whether the purpose of holding is appropriate, whether the capital cost matches the benefits and risks of the holding, whether there is any future risk as a result of sale, etc., and shall report the content to

the Board of Directors and the Board of Directors shall verify the content. Also, in conjunction with changes in the environment surrounding the Group, the Group shall undertake a reconsideration of the goal of such holding as needed. As a result of these verifications, in the case where it is determined that the necessity of holding is no longer indicated, the Group shall work to reduce the cross-held shares by undertaking a prompt disposition, etc.

- 8.3 The Group is undertaking strategic holdings of shares based on the policy under Articles 8.1 and 8.2 and in undertaking the exercise of voting rights, upon a full consideration from the point of view of whether it contributes to improving value over the mid to long-term of the Group and the invested company, etc., and with respect to resolutions that may violate the goal for such holding of the Group and resolutions that may harm shareholder value, the Group shall carefully determine whether to support or oppose after having a discussion with the entity as needed and then exercise the voting rights.

Article 9 Anti-Takeover Measures

- 9.1 Based on the Company's understanding that having shareholders hold the Company's shares on a medium- to long-term basis by winning the support of our shareholders is the best defense against hostile takeovers, the Company will not at this time introduce any anti-takeover measures.
- 9.2 If a tender offer is made for the Company's shares, the Board of Directors shall give such tender offer sufficient deliberation, appropriately disclose to shareholders its position, and ensure that proper procedures are carried out. In such event, the Company's policy is to avoid measures that unjustly prevent shareholders from selling or transferring their shares in response to a tender offer.

Article 10 Related-Party Transactions

Transactions with parties such as directors, executive officers and major shareholders shall be carried out in accordance with the law and rules that shall be set forth in a separate document.

Article 11 Communication with Shareholders

- 11.1 The IR Office shall play the central role in managing the overall dialogue with shareholders, and the Company's basic policy shall be to hold meetings at the request of any shareholder or

investor where possible. In such cases, the Company shall take care to ensure impartiality, irrespective of whether the shareholder or investor is in Japan or located abroad.

- 11.2 In addition to appointing an Officer in charge of IR with responsibility for managing the dialogue with shareholders, the Company shall endeavor to garner the understanding of shareholders with respect to the Group's management strategies and management plans by undertaking meetings between shareholders, etc., and the CEO, CFO, and other appropriate persons, depending on the importance, etc., of the purpose and content of the meetings. Also, when there is a request from a shareholder for an interview with an outside director and a particular reason is found upon consideration of the fair disclosure rule, etc., by the Officer in charge of IR, effort will be made to have the independent outside director respond with the participation of the Officer in charge of IR and other necessary persons.
- 11.3 As part of its disclosure of information to facilitate constructive dialogue, the Company shall aim to promote understanding on the part of shareholders by holding explanatory meetings with respect to quarterly financial results as well as holding explanatory meetings with respect to other matters as necessary.
- 11.4 The Board of Directors and Executive Officers Meeting shall be given regular feedback on opinions and concerns that the Company has learned of through its dialogue with shareholders, etc. and utilize such feedback to drive improvement of the Company's corporate value.
- 11.5 The Company shall exercise caution with respect to the management of inside information, using measures such as having multiple persons in charge for IR attend meetings, and providing a quiet period before the announcement of quarterly results.
- 11.6 The Company shall endeavor to have an understanding of its shareholder structure, and shall carry out surveys to identify beneficial shareholders at least once per year.

Chapter III Relationship with Stakeholders Other than Shareholders

Article 12 Collaboration with Stakeholders

In order to fulfill our social responsibilities as a global living and housing solutions company, the Company will implement dialogues with stakeholders, such as consumers, community members, NPOs and NGOs, etc. to accurately understand and reflect the demands of society and to be able to conduct business activities based on a socially-centered perspective rather than a company-centered

one, and, based on that, strive for appropriate synergies.

Article 13 Implementation of and Compliance with a Code of Conduct

13.1. The Company will set out clearly in the LIXIL Group Code of Conduct the compliance policies that must be followed by all directors, officers and employees of the Group, translate the content into multiple languages, print it in a booklet and distribute it to all directors, officers and employees, and together with that implement regular training and acknowledgment of compliance with the code of conduct, and follow up on it diligently.

13.2. The board of directors will regularly supervise the actual conditions and efficacy of the LIXIL Group Code of Conduct through the report of status of execution of operations, etc., of the executive officer in charge.

Article 14 CR Policy

The Board of Directors proactively works to understand important issues regarding sustainability, such as environmental, social and governance problems, and to consider countermeasures. The company's specific CR policies and efforts are disclosed via the company website as necessary and are formulated from the perspective of enabling a flexible response to changing social conditions.

Article 15 Ensuring Diversity, etc.

The Company realizes that establishing a corporate culture that generates innovation and energy is essential in order to strengthen people and organization which are a source of competitive strength and will practice handling in response to actual conditions at each juncture based on the LIXIL Diversity and Inclusion Declaration in order to actively promote diversity.

LIXIL Diversity and Inclusion Declaration

“We leverage our differences to create new energy and engagement generated by open and honest dialogue across our organization. These efforts will enable our employees to build entrepreneurial mindset that will drive growth and sustainable innovation.”

Article 16 Concern Raising (Whistleblowing)

16.1 The Company will prepare a system for concern raising (whistleblowing system), establish a

“CONCERN-RAISING POLICY” applicable to the whole Group that clearly sets out a confidentiality obligation and protection from retribution, and operate it in accordance with the Policy, other related rules and related laws and regulations, etc.

- 16.2 To ensure the effectiveness of the system for concern raising (whistleblowing system), the Company shall implement the following measures, and the Audit Committee shall monitor it by receiving regular reports on the operation status thereof from the responsible departments.
- (1) a system for appropriately receiving concern raising (establishment of reception channels in an outside specialist or law firm, or other place independent of management, capable of handling multiple languages, and publish the reception channels);
 - (2) a system to objectively evaluate the concerning facts that are reported (assure neutrality of the investigation, obtain cooperation from employees, etc., distribution and education of persons in charge of investigation);
 - (3) a system to provide feedback to the person making the concern raising and other stakeholders regarding the concern submitted through the concern raising system and the handling;
 - (4) a system to follow up on correction measures;
 - (5) a system to make public an outline of operational performance of the system for concern raising (whistleblowing system) that takes into consideration confidentiality and privacy.

Article 17 Exercise Functions as Asset Owner of Corporate Pension Fund

- 17.1 In order to properly perform pension fund payments to beneficiaries in the future, the corporate pension fund of the Group will undertake operations with the goal of ensuring long-term overall profits determined to be necessary while recognizing various risks, and draw up strategic asset allocation from the mid to long-term point of view based on the opinions of various investor operators.
- 17.2 The corporate pension fund of the Group will periodically monitor the status of management of the pension fund assets and reconsider the strategic asset allocation as needed. Also, for each investor operator, it will implement a comprehensive evaluation based not only on quantitative criteria but also qualitative criteria of investment policy, investment process, compliance, etc.
- 17.3 In order for the Group’s corporate pension fund to be able to raise the expert level of operations and maximize the function as an asset owner, the Group will from the personnel side, appoint a person with expert ability and knowledge in pension fund management as the

investment executive officer in charge. Also, on the operating side, an asset management committee constituted by personnel affairs, financial, etc., experts and a conference of delegates of which a majority are beneficiaries will implement continuous monitoring of the status of operations, and set up a system to certify and manage in each case that there are no conflicts of interest between the Group and the beneficiaries of the Group's corporate pension fund.

Chapter IV Corporate Governance System

Section 1 Organization

Article 18 Organizational Structure

18.1 As a company with a nomination committee, etc., the Company has the following organs required by statute: General Meeting of Shareholders, Board of Directors, Nomination Committee, Compensation Committee, Audit Committee, executive officers, and accounting auditor.

18.2 In addition to the organs in Article 18.1, the Company also has the following discretionary organs.

- (1) The Executive Officers Meeting composed of the Company's executive officers. This meeting allows the company to execute its business flexibly and efficiently, ensures opportunities to consider important matters, and makes it possible to execute business consistently throughout the Company.
- (2) In addition to the preceding subparagraph, the Company shall have appropriate and necessary committees and meeting bodies to enhance the Group's governance in areas including internal audit, compliance, risk management, and CR. The Company shall disclose the implementation status and activities thereof each year in disclosure materials such as the Annual Report.

Article 19 Role and Duties of the Board of Directors

- 19.1 In order to achieve flexible business management through the separation of supervision and business execution functions, the Board of Directors shall independently and objectively carry out effective supervision reflecting the evaluation of business results achieved by persons executing business activities, by means such as the exercising its authority in relation to management personnel.
- 19.2 The Board of Directors shall make decisions regarding the execution of business that are prescribed by law as matters to be determined solely by the Board of Directors of a company with a nomination committee, etc., such as basic policies regarding the execution of business and implementation of an internal control system. In general, matters other than those to be determined solely by the Board of Directors shall be the responsibility of executive officers.
- 19.3 The Board of Directors shall play the lead role in realizing the Group's management philosophy and fostering a unified corporate culture and values throughout the Group by supervising the practice of the LIXIL Behaviors and LIXIL Group Code of Conduct throughout the entire Group.
- 19.4 By creating an environment that supports appropriate risk taking by management, the Board of Directors shall ensure a rational decision making process while implementing a system that promotes rapid and decisive decision-making.
- 19.5 In order to promote sustainable growth, and improvement of corporate value in the medium- to long-term, the Board of Directors shall formulate and announce Medium-Term Management Plans, seeking to understand the capital cost of the company accurately and to assure profits that exceed that cost. In the medium-term management plan, a detailed policy relating to distribution of cash flow created through business activities and a return on investment (ROE) goal of the ownership holders of the parent company will be established and disclosed.
- 19.6 The Board of Directors shall conduct annual reviews of Medium-Term Management Plans stated in the Article 19.5, and discuss focused themes from a long-term perspective. If the targets set in the Medium-Term Management Plans are not achieved, the Board of Directors shall thoroughly analyze the cause thereof and the details of the Company's response, provide an explanation to shareholders, and reflect such analysis in the next Management Plans.
- 19.7 The Board of Directors will exercise leadership with regard to the promotion of CR activities, and will monitor the substance of those activities by receiving regular reports from the

responsible departments.

- 19.8 The Board of Directors shall take initiatives to be engaged in formulation and operation of a succession plan of CEO, etc. and carry out appropriate supervision of the development of successor candidates for CEO, etc. in order to ensure that the development is implemented as planned with sufficient time and resources, by receiving regular reports on the operation status thereof from the responsible departments.
- 19.9 The Board of Directors shall implement a training system for directors and executive officers, and confirm whether it is being appropriately implemented by receiving regular reports on the operation status thereof from the responsible departments.
- 19.10 The Board of Directors shall appropriately implement internal control and risk management systems, and manage conflicts of interest between related parties such as management and controlling shareholders.

Article 20 Composition of the Board of Directors

- 20.1 The Board of Directors shall be composed of all directors. It shall be made up of no more than 16 persons, the maximum number permitted pursuant to the Articles of Incorporation, with a board size appropriate to allow thorough discussion.
- 20.2 In order to achieve the role and duties provided in Article 19, the Company shall place a focus on ensuring diversity, including for gender and internationality, and aim to achieve diversity not only of gender, nationality, and age, but also of knowledge, experience, opinion, and background in the composition of the Board of Directors.

Article 21 Operation of the Board of Directors

The Board of Directors shall implement the following measures to enhance active deliberations by the Board of Directors.

- (1) To allow thorough discussion, materials for meetings of the Board of Directors shall in general be distributed to directors prior to the date of the meeting.
- (2) At the request of the Board of Directors, the Board of Directors' Office or related departments shall submit appropriate materials or provide explanations.
- (3) Prior to the commencement of a business year, determine the schedule for meetings of the Board of Directors for the business year and the matters that are expected to be

deliberated, and communicate this to each director.

- (4) In general, meetings of the Board of Directors will be held once a month, and reports on the Company's business, finances, and organization, etc. will be made and discussed at each meeting. If it is difficult for any director to attend, the Company shall put in place measures to allow participation by conference call or video conference.
- (5) Meetings of the Board of Directors provide sufficient time for discussion in order to allow sufficient statements and debate by each director.

Article 22 Composition of Nomination Committee, Compensation Committee, Audit Committee and Governance Committee

22.1 The Company shall structure the Nomination Committee, Compensation Committee Audit Committee and Governance Committee, which is established according to Article 23, as follows so that they are able to effectively fulfill the role and duties required by law and internal rules.

- (1) A majority of the members of each committee shall all be independent outside directors who satisfy the Company's independence criteria.
- (2) In general, the Audit Committee shall appoint a person with appropriate experience and ability and necessary knowledge of finance, accounting, and law, and will particularly have at least one member with experience as a certified public accountant, in order to ensure that the committee has a member with appropriate financial and accounting knowledge.
- (3) The chairperson of each committee who also chairs its meetings, shall be an independent outside director.

22.2 The Board of Directors requests an opinion regarding appointment and removal of members and the chairperson of each committee provided in Article 22.1 to the Nomination Committee, and the Nomination Committee shall make investigation and discussion, and reports its opinion.

Article 23 Role and Responsibility of the Governance Committee

23.1 The Governance Committee is established with the objective of monitoring and supervising the Company's corporate governance and its continuance enhancement, with the aim of enhancing management transparency and fairness and increasing corporate value, taking into account the positions of all stakeholders.

23.2 The Governance Committee, in cooperation with the Board of Directors, the Nomination Committee, the Compensation Committee, the Audit Committee and related responsible departments, shall discuss or advise the Board of Directors on matters relating to the

Company's corporate governance, including reviewing and amending the LIXIL Group Corporate Governance Guidelines.

Section 2 Policy for Nomination or Appointment and Removal of Directors and Executive Officers, and Compensation Criteria

Article 24 Policy for Nomination of Director Candidates and Removal of Directors

24.1 The criteria for the nomination of director candidates are as follows:

- (1) Director candidates must be of outstanding character, with high ethical standards;
- (2) Director candidates must have attributes to adequately conduct his or her duty of care of a prudent manager and duty of loyalty in executing his or her duties and to contribute to the Company's sustainable growth and improvement of corporate value in the medium-to long-term;
- (3) Taking into consideration circumstances such as the status of the candidate's other concurrent positions, the candidate must be able to dedicate the time and effort required in order to appropriately carry out his or her duties;
- (4) Outside director candidates must have considerable insight and extensive experience in such areas as business, finance, financial accounting and law and have attributes to supervise management's execution of duties from an independent objective standpoint, in addition to satisfying the Company's independent criteria; and
- (5) One-third or more of the total number of directors must be composed of independent outside directors.

24.2 Based on the nomination criteria provided in Article 24.1, the Nomination Committee shall analyze the knowledge, experience, and capabilities, etc., of each current member of the Board of Directors and nominate candidate directors by analyzing and considering the elements or attributes that need to be enhanced and thoroughly discussing in order to achieve the Company's management philosophy.

24.3 The Company shall clearly state in convocation notices for General Meetings of Shareholders the reasons for the nomination of each respective director candidate and show that a balance has been achieved by describing the knowledge, experience, and capabilities, etc., of each director candidate.

24.4 In the case where it is found that a director is not fully functioning based on the status of execution of duties by the director or other objective facts or that the director does not meet

the standards set out in Article 24.1 or otherwise can be found to be a material harm to management of the company, the Nomination Committee will discuss the removal of that director and decide the content of a proposal to a shareholders meeting. In this case, the Nomination Committee will interview and conduct a hearing with the director and report to the Board of Directors. The same will apply when a resignation is submitted by a director.

Article 25 Policy for Appointment, Election, Removal and Dismissal of Executive Officers and Representative Executive Officer (CEO)

25.1 The criteria for the appointment of executive officers are as follows.

- (1) Executive officers must be of outstanding character, with high ethical standards.
- (2) Executive officers must have a deep understanding of the Group's business and the capacity to appropriately carry out management of the Group as an executive officer.
- (3) Taking into consideration circumstances such as the status of the candidate's other concurrent positions, the candidate must be able to dedicate the time and effort required in order to appropriately carry out his or her duties.

25.2 The election of representative executive officer (CEO) shall be based on the criteria provided in each item under Article 25.1 and the point in which the person can exert high leadership and control executive officers.

25.3 The Board of Directors shall request an opinion regarding appointment, election, removal and dismissal of an executive officer or the representative executive officer (CEO), and the Nomination Committee will report its opinion to the Board of Directors regarding appointment, election, removal and dismissal candidates for executive officers and representative executive officer (CEO) by undertaking an analysis of the knowledge, experience, and capabilities, etc., of each current member of the Board of Executive Officers, based on the criteria of each preceding paragraph, after full investigation and discussion pursuant to objective, timely and transparent procedures through an analysis and consideration of management resources toward realization of the mid-term management plan. In undertaking formation of the opinion, the Nomination Committee will implement exchanges of opinion with the present CEO or the candidate for new CEO and assure a structure that will ensure the agile and smooth performance of duties. Furthermore, in reporting the opinion set forth in this paragraph, if a Nomination Committee member is in the scope of the opinion, such Nomination Committee member shall not be able to participate in the discussion or resolution.

25.4 In the case where the Nomination Committee reports its opinion to the Board of Directors regarding appointment, election, removal and dismissal of candidates for executive officers

and representative executive officer (CEO), the Nomination Committee shall show reasonability and fairness of the content of the report by clearly stating the reasons for having undertaken formation of the opinion.

- 25.5 The Board of Directors shall appoint and elect executive officers and representative executive officer (CEO) based on the criteria for appointment or election provided in Articles 25.1 and 25.2 as well as the content of the report if the Nomination Committee reported its opinion under Articles 25.3 and 25.4. After the appointment and election of each executive officer and representative executive officer (CEO), the reason(s) for that appointment and election shall be clearly specified on the Company's web site.
- 25.6 The Board of Directors will supervise the status of execution of duties by executive officers and representative executive officer (CEO), and in the case where it is found that an executive officer and the representative executive officer (CEO) are not fully functioning based on objective facts, or in the case that can be found to be a material harm to management of the company, such as the case where the executive officer no longer meets each standard set out in Article 25.1 or the representative executive officer (CEO) no longer meets each standard set out in Article 25.1 or 25.2, the Board of Directors will remove or dismiss that executive officer or that representative executive officer (CEO), also by taking it into consideration of the content of the report if the Nomination Committee reported its opinion under Articles 25.3 and 25.4. In this case, the Nomination Committee will request the executive officers or representative executive officer (CEO) to participate in the Nomination Committee meeting, interview and conduct a hearing with the executive officers or representative executive officer (CEO), and report to the Board of Directors. The same will apply when a resignation is submitted by an executive officer or representative executive officer (CEO).
- 25.7 After the removal or dismissal of each executive officer or the representative executive officer (CEO), the reason(s) for that removal or dismissal shall be clearly specified on the Company's website.

Article 26 Compensation Policy

- 26.1 The basic policy regarding compensation for Directors and Executive Officers shall be determined by the Compensation Committee as follows:
- (1) Performance related compensation in order to provide effective incentives designed to optimize short, medium, long term business results and corporate value.
 - (2) Attract and retain the best global talent who will be necessary to maintain sustainable growth.
 - (3) Fair and reasonable decision process with regards to compensation that will provide accountability to shareholders and employees and all stakeholders.

- (4) Conduct comparative evaluation with domestic and foreign companies in order to ensure transparency and objectivity.
- (5) Individual compensation shall be determined in accordance with role and responsibility, performance contribution, and company performance

26.2 Directors are responsible for giving the advice to and supervising the company's management from objective point of view. Executive Officers are responsible for execution of business. Accordingly, there shall be separate compensation scheme for each group in order to align with their different roles. When a director serves as Executive Officer, the compensation scheme of the Executive Officer shall be applied in principle.

- (1) Board of Director
 - Fixed amount compensation (Base pay)
 - compensation linked to stock price
- (2) Executive Officer
 - Fixed amount compensation (Base pay)
 - compensation linked to business result
 - compensation linked to stock price

Compensation of personnel shall be deliberated and decided in accordance with the basic policy of compensation.

Section 3 Independent Outside Directors

Article 27 Duties of Independent Outside Directors

Independent outside directors shall have the following duties.

- (1) Independent outside directors shall demonstrate strong supervisory capabilities from a standpoint independent from management and controlling shareholders through the decision making process for important decisions regarding management's execution of business at meetings of the Board of Directors.
- (2) Independent outside directors shall contribute to proactive corporate governance by providing advice, etc. with respect to management policies and the improvement of management.
- (3) Independent outside directors shall perform a supervisory role to ensure the appropriate execution of business by monitoring for issues such as conflicts of interest between the Company and management.
- (4) Independent outside directors shall ensure that the opinions of stakeholders such as minority shareholders are appropriately reflected.

Article 28 Sharing of Information, Etc., among Independent Outside Directors

- 28.1 From the perspective of active contribution to discussions in the Board of Directors and to better ensure the transparency of the Board of Directors of the Company, Independent Outside Directors Opinion Exchange Committee consisting only of the Independent Outside Directors will be established for the purpose of encouraging exchange of information and sharing of understanding based on an independent and objective standpoint.
- 28.2 In addition to the preceding paragraph, the Independent Outside Directors Opinion Exchange Committee will discuss and consider matters on which an opinion is requested or matters on which an advice has been requested from the Board of Directors, and report to the Board of Directors the result.
- 28.3 Independent Outside Directors Opinion Exchange Committee will convene twice a year or convene an extraordinary meeting when needed.
- 28.4 The chairperson of the Independent Outside Directors Opinion Exchange Committee will be determined by election from among the constituent members of the Independent Outside Directors. The chairperson of the Independent Outside Directors Opinion Exchange Committee will represent the Independent Outside Directors and report to the Board of Directors regarding opinions, etc., submitted at the Independent Outside Directors Opinion Exchange Committee and the results of discussions and consideration of matters on which an opinion is requested or matters on which advice is requested from the Board of Directors.
- 28.5 In addition to the preceding paragraph, the Independent Outside Directors will seek necessary interaction by exchanging opinions between independent outside directors and the chairman of the board, CEO, and other management persons as needed.

Article 29 Independence Criteria

- 29.1 The Company considers an outside director to be independent unless he or she is:
- (1) A shareholder, or an executive officer of such shareholder (an executive officer means an “executive officer” provided in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act; the same shall apply hereafter in this article), who holds 10% or more of the voting rights of the Company.
 - (2) An executive officer of a company of which the Company holds 10% or more of the voting rights.
 - (3) A business partner whose transactions with the Company exceed an amount of 2% or more of the consolidated gross revenue of either the Company or such business partner in a fiscal year, or an executive officer of such business partner.

- (4) A financial institution or other major creditor which is essential for the financing of the Group and on which such financing is irreplaceably dependent on, or an executive officer thereof.
- (5) A member, partner or employee of the audit firm or tax accountant firm which is an accounting auditor or accounting advisor of the Group;
- (6) A person receiving a donation or subsidy of 10 million JPY or more from the Group in a fiscal year, or if the person receiving the donation or subsidy is a corporation, partnership or other organization (the “Juridical Persons, etc.”), an executive officer of the Juridical Persons, etc. receiving a donation or subsidy of more than 2% of the consolidated gross revenues of such Juridical Persons, etc. from the Company in a fiscal year;
- (7) A person receiving monetary payments or other financial assets of 10 million JPY or more from the Group as a lawyer, accountant, tax accountant, consultant or other professional advisor, besides the director compensation, or if a person receiving such financial assets is a juridical person, partnership or other organization such as a legal professional corporation, law firm, audit corporation, tax accountant corporation or consulting firm (the “Law Firm, etc.”), a person belonging to the Law Firm, etc. receiving monetary payments or other financial assets of more than 2% of the Law Firm, etc.’s annual gross revenues from Group;
- (8) A person whose spouse, a relative within the second degree of kinship or a relative who lives with such person corresponds to any of subsections (1) through (7) of this Article 29.1;
- (9) A person who corresponded to any of subsections (1) through (8) of this Article 29.1 in the past five years; or
- (10) An executive officer of a company to which an executive officer (meaning an executive director, executive officer, corporate officer, manager or other employees, notwithstanding subsection (1) in this Article 29.1) of the Group serves as an officer of such company.

29.2 The Board of Directors shall monitor on an ongoing basis whether persons serving as outside directors continue to satisfy the criteria set forth in Article 29.1.

Section 4 Other

Article 30 Audit System Enhancement

30.1 The Audit Committee shall communicate information on each company in the Group and a uniform audit policy by means such as holding group audit meetings with corporate auditors,

etc. from each Group company. The Audit Committee shall also conduct efficient audits of the entire Group by maintaining close ties with the internal audit division and corporate auditors, etc. at each Group company by means such as receiving regular reports and issuing directions.

30.2 The external accounting auditor shall also carry out appropriate auditing of overseas subsidiaries by means such as obtaining from the audit firms responsible for major overseas subsidiaries on a quarterly basis clearance of the results of reviews and the timely communication of audit issues requiring action.

30.3 The Audit Committee shall set forth criteria for the appropriate appointment and evaluation of external accounting auditors and confirm the independence and expertise of the external accounting auditor.

30.4 The external accounting auditor and the Audit Committee shall strive to mutually improve the quality of audits by regularly providing reports and exchanging opinions, such as at the audit report meeting held at the end of each business year.

Article 31 Collection of Information by Directors and Support Systems

31.1 The Company shall implement a system for the collection of information by all directors that allows them to obtain information from the Board of Directors' Office or directly from relevant business departments.

31.2 In addition to Article 31.1, the Company shall implement a system for the collection of information for audits by members of the Audit Committee that allows them to obtain information from the Secretariat of the Audit Committee or directly from relevant business departments.

31.3 As necessary, directors may either through organizations such as the Board of Directors' Office or the Secretariat of the Audit Committee and the Compensation Committee Office, etc., or directly themselves obtain with respect to their duties the advice of outside experts such as lawyers or certified public accountants at the cost of the Company.

Article 32 Persons Serving Concurrently as Directors and Executive Officers

32.1 Directors and executive officers must be able to dedicate the time and effort required in order to appropriately carry out their duties. Persons nominated as directors or executive officers

shall themselves verify whether they are able to dedicate sufficient time and effort based on the circumstances of their other concurrent positions, and shall accept their appointment only if they have made such a determination. The same confirmation process shall be repeated each year if he or she is being reappointed.

- 32.2 In addition to the aforementioned, an executive officer may not serve concurrently as an executive (meaning an executive director, executive officer, corporate officer, manager, or other employee) at a company other than a member of the Company's Group.

Article 33 Board of Directors Self-Evaluation

33.1 Each director shall contribute to an annual self-evaluation of the effectiveness of the Board of Directors.

33.2 The Board of Directors shall refer to the results of the evaluation by each director provided in Article 33.1, carry out annual analysis and evaluation of the effectiveness of the Board of Directors as a whole, and strive to enhance and improve the effectiveness of the Board of Directors.

33.3 A summary of the analysis and evaluation provided in Article 33.2 shall be made available on the Company's website.

Article 34 Director and Executive Officer Training

34.1 The Board of Directors' Office shall be responsible for training directors and Executive officers.

34.2 The Company's directors and executive officers, and the directors of Group subsidiaries that are recognized to be of particular importance, (hereinafter in this Article 34 "Officers to Receive Training") will undergo training.

34.3 Each year, newly appointed Officers to Receive Training shall participate in officer training courses designated by the Board of Directors' Office and as necessary receive orientation regarding the entire Group or the divisions for which they are responsible, unless they are excepted from training due to their experience or knowledge.

34.4 Each year, the Board of Directors' Office will hold interviews with each Officer to Receive

Training and obtain opinion, etc., regarding necessary training, and provide advice in response thereto or make necessary arrangements.

34.5 As long as the Company recognizes that any training undertaken by Officers to Receive Training is useful to improve the performance of their duties, the Company shall pay the full cost thereof, irrespective of whether or not the Company has arranged such training itself, or whether or not such training was based on the Company's advice.

34.6 The Board of Directors' Office shall regularly report to the Board of Directors regarding the implementation status of training.

Article 35 Successor and Next-Generation Leader Training Planning

35.1 Through the organization-wide structure of POD (People & Organization Development), which is implemented annually, the Company creates succession plans for major organizations and development plans of each successor. This will lead to the development of human resources of the next generation and enhancement of organizations toward the future.

35.2 The Company implements a three stage Talent Acceleration Program (TAP) for the department head/section manager level (Stage 1), the mid-management level (Stage 2), and junior level (Stage 3), as a training program aimed at selected personnel under the management level to encourage human resources of the next generation to develop and play an active role from a younger level. Subject personnel are selected through the POD process and, through a number of workshops and business problem-solving which are also participated by the top management, participants reflect on themselves and learn ownership development that enhances their sense of ownership and subjectivity. Also, for future top leader successors, leader development is undertaken to train leaders so that they will be active worldwide, through a more global system such as sending them to foreign business school (EMBA) for the purpose of building a global network as well as overall management learning.

Chapter V Information Disclosure Policy

Article 36 Basic Policy Regarding Information Disclosure

36.1 The Company recognizes that ensuring the provision of information and transparency are fundamental to a constructive dialogue with stakeholders. Therefore, the Company shall set forth its Disclosure Policy and make it available on its website.

36.2 Under the Disclosure Policy, the Company shall strive to disclose not just information required by law and the timely disclosure rules enacted by the Tokyo Stock Exchange, but also to make full disclosure of other information, such as non-financial information (including information regarding management strategy and management issues requiring action, risk, and governance).

Article 37 Methods of Disclosure

37.1 The Company shall implement a timely disclosure system as follows to ensure that matters requiring timely disclosure are disclosed in a timely manner and disclosed appropriately after the passing of a resolution by the Board of Directors or approval by the Executive Officers Meeting.

- (1) Each department or group company reports material company information directly to the Executive Officers Meeting.
- (2) Matters concerning (i) investment or loans, (ii) environmental strategy, (iii) consideration of reorganization, (iv) establishment of new subsidiaries, (v) disasters or accidents, etc., or (vi) other unforeseen facts arising suddenly, such as product liability or wrongful acts, shall first be submitted for discussion or reported to each relevant committee etc. and then reported to the Executive Officers Meeting.
- (3) For matters submitted to Executive Officers Meetings for discussion, the Support Office for the Executive Officers Meeting shall first consider whether it should be an agenda item, and the Officer responsible for IR (in charge of the handling of information) shall determine the necessity of timely disclosure through discussions with related departments such as the accounting department and the IR department.
- (4) Timely disclosure matters that require a resolution of the Board of Directors shall be submitted for discussion, or reported to, the Board of Directors by the Executive Officers Meeting.

37.2 Information falling under the timely disclosure rules is disclosed through the timely disclosure

circulation system (TDnet) offered by the Tokyo Stock Exchange as well as the Company's website. The Company will also take care to disclose as accurately and fairly as possible other information using appropriate methods, based on the principles of timely disclosure.

37.3 The Company will endeavor to simultaneously disclose in English as well as Japanese all information issued by the Company's IR Office.

37.4 With respect to non-financial information, non-financial data will also be certified by a third-party.

Chapter VI Revision and Abolition

Article 38 Revision and Abolition

These Guidelines may be revised or abolished by resolution of the Board of Directors. However, revision or abolition of the Compensation Policy (Article 26) requires the approval of the Compensation Committee, revision or abolition of the Policy for Nomination and Removal of Director Candidates (Article 24) requires the approval of the Nomination Committee, and revision or abolition of the Independence Criteria (Article 29) requires the approval of the Nomination Committee.

Supplementary Provisions

1. These Guidelines shall come into force from December 22, 2015.
2. These Guidelines shall be amended partially and shall take effect from February 15, 2016.
3. These Guidelines shall be amended partially and shall take effect from June 25, 2018.
4. These Guidelines shall be amended partially and shall take effect from December 21, 2018.
5. These Guidelines shall be amended partially and shall take effect from February 25, 2019.
6. These Guidelines shall be amended partially and shall take effect from October 28, 2019.