

Corporate Governance

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1. Basic Stance Regarding Corporate Governance

Based on a corporate ethic and spirit of compliance spelled out in its Mission Statement, the OTSUKA Group aims to adapt agilely to changes in the environment and augment its competitiveness by ensuring thorough compliance and raising both operational transparency and fairness.

2. Overview of the Corporate Governance System and Reason for Adopting This System

A. Overview of the Corporate Governance System

OTSUKA CORPORATION consists of various statutory bodies such as the General Meeting of Shareholders, Directors and Board of Directors, Audit & Supervisory Board Members and Audit & Supervisory Board and Independent Auditor. An Audit & Supervisory Board Members System has therefore been adopted. Additionally, the Company appoints outside directors and outside auditors with the aim of strengthening the monitoring of the execution of duties.

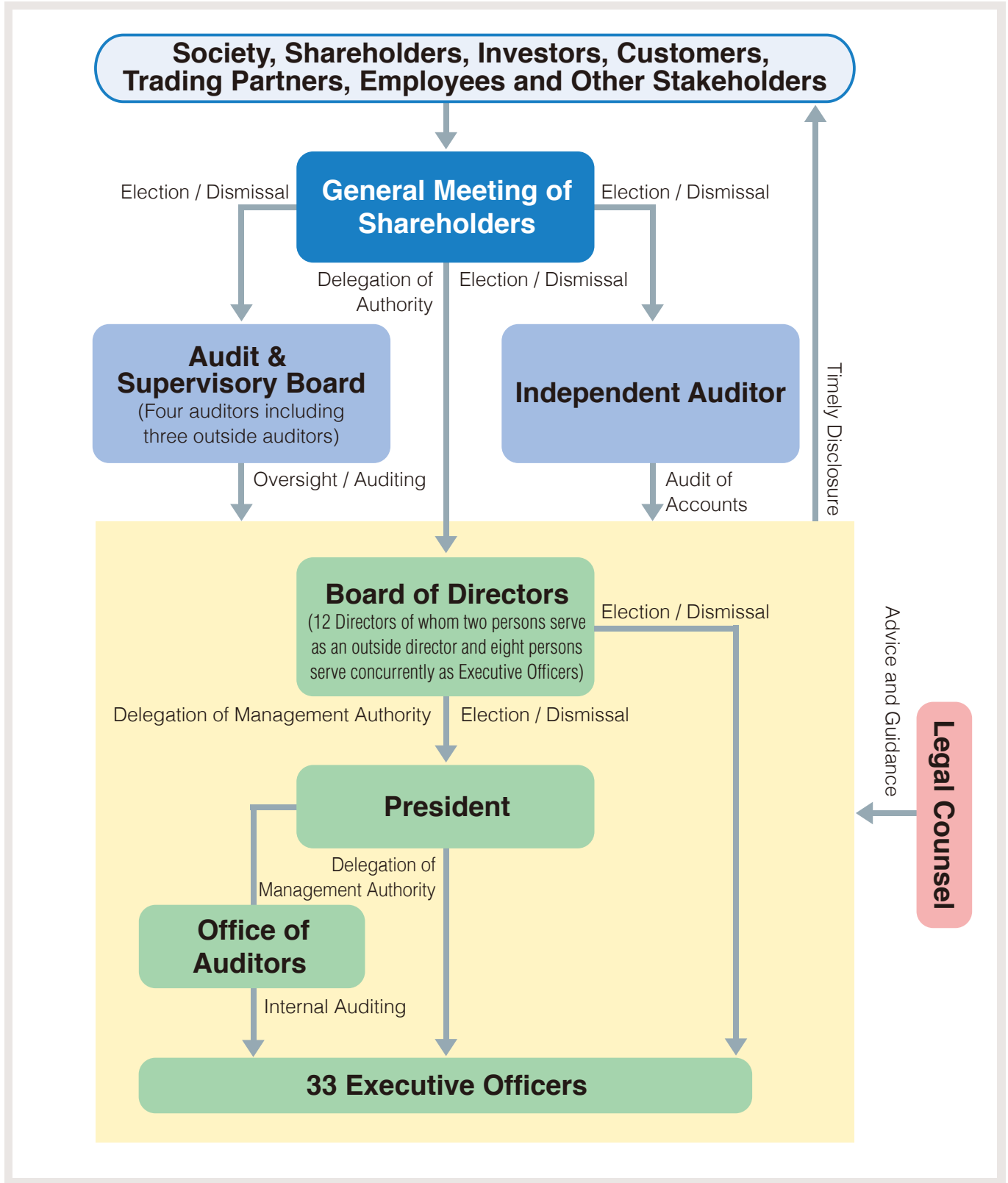
With regard to outside directors and outside auditors, the Company selects and appoints individuals with a sufficient level of knowledge and experience regarding laws, financial affairs and accounting.

The Board of Directors is chaired by Yuji Otsuka, President & Chief Executive Officer, and consists of 12 persons, including two outside directors, and the Board of Directors meets regularly once a month in principle to discuss and make decisions on critical management issues requiring resolution based on relevant laws and the Articles of Incorporation, and monitors the execution of duties by directors. The introduction of the Executive Officer System aims to separate the functions of business execution and supervision in order to realize more rapid decision-making on operational matters and strengthen the oversight of the Board of Directors. To this end, Executive Officers elected by the Board of Directors are responsible for the execution of business operations while the Board of Directors and Audit & Supervisory Board Members handle the oversight of business execution. There are 33 Executive Officers, including eight with a concurrent post of Director.

The Audit & Supervisory Board is chaired by Naoto Minai, Standing Audit & Supervisory Board Member, and is comprised of four auditors (one full-time auditor, three part-time auditors), including three outside auditors. The Audit & Supervisory Board prescribes auditing policies and annual plans, receives reports on important auditing-related matters and carries out discussions. The Audit & Supervisory Board Members attend such important meetings as the Board of Directors meetings to provide appropriate recommendations and advice, monitor that suitable management is being carried out and closely audit the execution of duties by Directors.

Group Management Meetings, chaired by Norihiko Moriya, Managing Director & Operating Officer, and comprising and including four top management of all Group companies (Special Executive Officers), are also held to clarify operational conditions at each company and make progress in achieving profit targets in addition to working to strengthen corporate governance.

The structure for corporate management decision-making, business operations and oversight is as follows:



B. Reason for Adopting Present Corporate Governance System

It has been deemed that a governance system led by outside directors would not be suitable due to a wide range of business domains of the Company and the importance of understanding these domains and being familiar with the IT industry. An Audit & Supervisory Board Members System has therefore been adopted in the manner above.

The Company assures transparency of decision-making by strengthening management oversight and audit functions by auditors, including outside auditors, and appoints outside directors with no conflict of interest with general shareholders to strengthen management supervision functions. By doing so, the Company aims to contribute to proper decision-making by the Board of Directors.

In this manner, the Company believes that its Corporate Governance system under which Executive Officers handle business execution based on the Board of Directors, including outside directors, and the Audit & Supervisory Board, including outside auditors, functions effectively.

3. Other Matters Concerning Corporate Governance

A. State of Internal Control Systems

At a meeting of the Board of Directors, the Company has determined the following basic policies for a system for ensuring that the execution of duties by Directors is in compliance with laws and the Articles of Incorporation as well as for a system deemed necessary as prescribed by an ordinance of the Ministry of Justice for ensuring appropriate operations of stock companies and of corporate groups consisting of stock companies and their subsidiaries.

• Basic policies for internal control systems

a) System for ensuring compliance with laws and the Articles of Incorporation in the execution of duties by directors and employees

Directors shall take the lead and set an example in complying with and promoting the Mission Statement as the basis of our compliance structure.

Directors and employees shall strive to enhance the compliance system by taking such measures as improving awareness through continuous compliance education, improving business operations through internal audits and properly applying the internal reporting system in working to ensure compliance with laws and the Articles of Incorporation in the execution of their duties.

b) System for storing and managing information concerning the execution of duties by directors

Information concerning the execution of duties by Directors (paper or electronically recorded) as well as other important information shall be properly stored and managed in accordance with laws and internal regulations.

c) Regulations and other systems concerning management of risk of losses

Based on internal regulations, we shall establish a risk management system, identify, analyze and evaluate any risk that could affect business results, financial condition or other areas and respond appropriately.

In the event of unexpected contingencies, we shall set up a task force, collect risk information and devise quick and appropriate countermeasures.

d) System for ensuring the efficient execution of duties by directors

The Board of Directors shall in principle convene once per month to discuss and decide important matters concerning management and supervise the state of execution of business duties.

Also, the Board of Directors shall clarify criteria for convening and bringing up matters for debate at council bodies set up to raise the suitability of decision-making, while specific details shall be stipulated in Duty Authority Regulations and Separation of Duty Regulations and efficiency shall be raised.

e) System for ensuring proper operations of the Group consisting of the Company and its subsidiaries

1) System for reporting to the Company matters concerning the execution of duties by Directors of subsidiaries

Group Management Meetings are held and these clarify operational conditions at consolidated subsidiaries and progress in achieving profit plans.

The Special Executive Officer System has also been established, with the presidents of consolidated subsidiaries selected to serve as Special Executive Officers, to promote thorough compliance and strengthen governance at consolidated subsidiaries.

When the need arises, the Special Executive Officers shall be asked to report to the Company's Board of Directors or

Representative Directors on the state of the execution of duties.

2) Regulations and other systems concerning management of risk of losses at subsidiaries

The Board of Directors of consolidated subsidiaries shall identify, analyze and evaluate any risk that could affect business results, financial condition or other areas and respond appropriately.

Information regarding recognized risk by consolidated subsidiaries shall be shared at Group Management Meetings and efforts shall be made for the early detection and prevention of risk.

In the event of unexpected contingencies, we shall set up a task force at the Company, collect risk information, collaborate with the relevant consolidated subsidiaries and devise quick and appropriate countermeasures.

3) System for ensuring the efficient execution of duties by directors of subsidiaries

Consolidated subsidiaries shall ensure the autonomy and independence of management and formulate an annual plan in accordance with the Group's policies. The targets and responsibilities of each company shall be clarified and efforts shall be made to attain the intended performance targets through the analyses of variances between budget estimates and actual results. Consolidated subsidiaries shall establish Board of Directors regulations and convene meetings of the Board of Directors to deliberate on and resolve important matters concerning management and monitor the state of the execution of duties. Moreover, details on the execution of duties shall be prescribed in the various types of internal company regulations and efficiency shall be raised.

4) System for ensuring compliance with laws and the Articles of Incorporation in the execution of duties by Directors and employees

Consolidated subsidiaries shall ensure the proper execution of business operations by the functioning of self-cleansing mechanisms through the execution of business operations that are in accordance with the Mission Statement. Consolidated subsidiaries shall strive to enhance their compliance systems and ensure the execution of business operations is in compliance with laws and the Articles of Incorporation by taking such measures as raising awareness through continuous compliance education, setting up internal audit offices within each company to improve business operations and properly applying the internal reporting system established by the Company and shared by consolidated subsidiaries.

5) Other systems for ensuring proper operations of the Group consisting of the Company and its subsidiaries

The Company's Office of Auditors shall receive reports on the results of internal audits implemented at each consolidated subsidiary by internal auditing offices established at each consolidated subsidiary. Additionally, it shall implement regular audits of consolidated subsidiaries as well as audit the state of compliance with laws and regulations and provide necessary guidance.

f) Matters regarding employees assisting Audit & Supervisory Board Members when requested by Audit & Supervisory Board Members

When a Audit & Supervisory Board Member makes such a request, an appropriate employee shall be appointed from the Business Administration Headquarters and assigned to a concurrent position as an employee assisting the Audit & Supervisory Board Member.

g) Matters concerning the independence of such employees from Directors as mentioned in the preceding item and matters related to ensuring the effectiveness of instructions from the Audit & Supervisory Board Member to the relevant employees

Concerning the determination of matters related to the delegation of authority over personnel matters to the relevant employee as mentioned in the previous item, the independence of such employees from Directors shall be ensured by obtaining the prior consent of the Audit & Supervisory Board Member.

Effectiveness shall be ensured by establishing a structure under which the Audit & Supervisory Board Member provides direct instructions to and receives reports from the relevant employee.

h) System regarding reporting to the Audit & Supervisory Board Members

1) System for reporting to Audit & Supervisory Board Members by Directors and employees

A system shall be established that enables Audit & Supervisory Board Members to receive reports from Directors and employees on the state of the execution of duties. At the same time, collaboration and coordination with internal departments carrying out audits shall be strengthened.

2) System that enables directors, Audit & Supervisory Board Members, employees and other employees executing business operations of consolidated subsidiaries, as well as parties receiving reports from these persons, to report to the Audit & Supervisory Board Members

Directors, Audit & Supervisory Board Members, employees and other employees executing business operations of consolidated

subsidiaries, as well as parties receiving reports from these persons shall, depending on the importance and urgency of the matters, report to the Audit & Supervisory Board Members about any improprieties regarding the execution of duties by directors or employees of the Company or consolidated subsidiaries, about any actual matters in violation of laws and regulations or the Articles of Incorporation or regarding actual matters that could cause significant damage to the Company.

- i) System for ensuring that persons reporting matters described in the previous item are not treated unfavorably as a result of such reports
In accordance with employment regulations, persons reporting matters to the Audit & Supervisory Board Members shall not be treated unfavorably as a result of such reports.
- j) Matters related to the treatment of expenses and liabilities incurred in business execution by Audit & Supervisory Board Members
In the case Audit & Supervisory Board Members request prepayment of expenses from the Company for their execution of duties, based on Article 388 of the Companies Act, the Company shall upon deliberation with the Compliance Office process these requested expenses except in the case these are determined to be unnecessary for the execution of duties by such Audit & Supervisory Board Members.
- k) Other systems for ensuring effective audits by Audit & Supervisory Board Members
Representative Directors shall exchange opinions with Audit & Supervisory Board Members on a timely basis. The Company's Office of Auditors shall maintain close relations with the Audit & Supervisory Board Members and undertake inspections in accordance with the requests of Audit & Supervisory Board Members.

B. Basic thinking on the elimination of antisocial forces and establishment of measures

a) Basic thinking

The Mission Statement and Compliance Regulations stipulate that the Company shall take a firm stance against and maintain no relations with antisocial forces that threaten the order and safety of society.

b) Establishment of measures

The Company shall express its Action Guidelines against antisocial forces in its Mission Statement and Compliance Manual while designating its Compliance Office, Human Resources and General Affairs Department, and Customer Relationship Office as the department and office responsible for responding to antisocial forces. The Company shall collaborate with legal counsel and external organizations that include police departments and the Metropolitan Police Department Joint Association for the Prevention of Particular Violence. At the same time, employees shall be thoroughly familiarized with the Action Guidelines.

C. State of Establishment of Risk Management Structure

OTSUKA CORPORATION has established a Risk Management Committee as the body to promote and control business risk management as part of a risk management system.

The Risk Management Committee identifies and assesses all risk related to the Company and investigates respective measures for key risks. The Committee provides direction on the creation of a risk management system to ensure the ongoing and stable maintenance and management of risk in each division and department in its scope. At the same time, efforts are made to enhance crisis management by (1) preparing for such emergencies during ordinary times, (2) taking appropriate steps during a crisis and (3) formulating and managing a business continuity plan.

D. Summary of Details of Contract of Limited Liability

As prescribed by Article 427-1 of the Companies Act, the Company, each Director (excluding Executive Directors) and each Audit & Supervisory Board Member conclude a contract that limits liability under Article 423-1 of the Act. The amount limit of the liability based on these contracts shall be the amount prescribed by law.

E. Number of Directors

The Company's Articles of Incorporation stipulate that the number of Company Directors shall be 19 or fewer.

F. Resolutions for Appointment and Dismissal of Director

The Company's Articles of Incorporation stipulate that a resolution for the appointment of a Director requires attendance by shareholders with more than one-third of the voting rights of shareholders capable of exercising such rights at the General Meeting of Shareholders, and is decided by a majority of shareholders. In addition, a resolution for the appointment of a Director shall not be

decided by cumulative voting.

G. Requirements for Special Resolution of the General Meeting of Shareholders

The Company's Articles of Incorporation stipulate that a special resolution of the General Meeting of Shareholders, pursuant to Article 309, Paragraph 2 of the Companies Act, shall be adopted when it is approved by a vote of two-thirds or more of the voting rights present at a General Meeting of Shareholders, a quorum for which shall be the presence of shareholders of one-third of the aggregate voting rights if the total shareholders are capable of exercising such rights. This aim is to facilitate efficient operation of the General Meeting of Shareholders through the moderation of special resolutions at the General Meeting of Shareholders.

H. Decision-making Body for the Distribution of Retained Earnings

The regular General Meeting of Shareholders shall serve as the decision-making body for the distribution of retained earnings at year-end.

I. Interim Dividend

Pursuant to Paragraph 5, Article 454 of the Companies Act, the Company's Articles of Incorporation stipulate that based on a resolution of the Board of Directors, the Company can pay interim dividends with the date of record being June 30 of each year. This is in order to allow the flexible return of profits to shareholders.

J. Purchase of Own Shares

The purport of the Company's Articles of Incorporation stipulates that the Company shall be able to purchase its own shares based on a resolution of the Board of Directors as prescribed under Article 165, Paragraph 2 of the Companies Act. This is aimed at purchasing own shares through market transactions to enable the execution of a flexible capital policy that responds to changes in economic conditions.

Status of Directors and Auditors

1. Status of Outside Directors and Auditors

The Company has two outside directors and three outside auditors.

Although Outside Director Jiro Makino had no involvement in company management in the past other than serving as an outside officer, he has been appointed as an outside director because of his knowledge and experience as a lawyer and long years of involvement in the actual practice of legal affairs. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE.

There are no special interests or otherwise relationship between the Company and Jiro Makino Law Office legal professional corporation, in which outside director Jiro Makino currently has a key position.

Tetsuo Saito has been appointed as an outside director because of his long years of experience in participating in the management of numerous companies in multiple industries. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE.

There are no special interests or otherwise relationship between the Company and Work Two Co., Ltd., DD Holdings Co., Ltd., DM SOLUTIONS Co., Ltd., and Career Design Center Co., Ltd., in which Tetsuo Saito currently has key positions.

Although Outside Auditor Kazuhiko Nakai had no involvement in company management in the past other than serving as an outside officer, he has been appointed as an outside director because of his knowledge and experience as a certified public accountant and tax accountant and long years of involvement in the actual practice of corporate accounting. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Kazuhiko Nakai Tax Accountant Office, Kazuhiko Nakai CPA Office, Nippon Antenna Co., Ltd. and S-Pool, Inc., in which Kazuhiko Nakai concurrently has key positions.

Mr. Nakai joined Ernst & Young ShinNihon (currently, Ernst & Young ShinNihon LLC) as a representative employee in 2007 and resigned from the firm in 2010. Although OTSUKA CORPORATION and Ernst & Young ShinNihon LLC have concluded an

agreement and OTSUKA CORPORATION receives accounting audits from the firm, there are no special interests or otherwise relationship with the Company and this firm.

Although Outside Auditor Etsuo Hada had no involvement in company management in the past other than serving as an outside officer, he has been appointed as an outside auditor because of his knowledge and experience as a Certified Public Accountant (CPA), licensed tax accountant, judicial scrivener and administrative scrivener, as well as his long years of involvement the actual practice of corporate accounting and legal affairs. He makes reports to the TSE as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Hada CPA and Judicial Scrivener Office and Nikkan Kogyo Shimbun Ltd. in which outside auditor Etsuo Hada currently has key positions.

Although Outside Auditor Katsumasa Minagawa had no involvement in company management in the past other than serving as an outside officer, he has been appointed as an outside auditor because of his knowledge and experience as a lawyer as well as his long years of involvement the actual practice of corporate law. He makes reports to the TSE as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Katsumasa Minagawa Law Office and Ubiquitous AI Corporation in which outside auditor Katsumasa Minagawa currently has key positions.

OTSUKA CORPORATION does not stipulate standards and other criteria regarding independence in terms of the selection and appointment of outside directors and outside auditors. However, the Company selects and appoints individuals who are able to ensure independence from the Company by making a decision on an individual basis according to the background and relationship with the Company based on various regulations and other relevant matters concerning independence including regulations of the Tokyo Stock Exchange (TSE). The outside directors and outside auditors each attend Board of Directors meetings to provide insights and impart opinions based on their extensive experience. This strengthens the function of overseeing business execution by the Board of Directors and decision-making by the Board of Directors.

2. Supervision or Auditing by Outside Directors or Outside Corporate Auditors and Mutual Cooperation among Internal Audits, Audit & Supervisory Board Audits and Accounting Audits, and Relationships with Internal Control Departments

Outside directors attend the Audit & Supervisory Board as observers, ascertain the status of audit implementation by the Audit & Supervisory Board and exchange information and opinions with Audit & Supervisory Board Members.

Outside directors and outside auditors receive a report on the audit plan and the status of audit implementation from the Office of Auditors and exchange opinions at the Audit & Supervisory Board that in principle is held once per month. Besides receiving reports on the establishment and operation of internal controls from the Internal Control Committee at the Board of Directors meetings, the Board of Directors or the Audit & Supervisory Board exchange information and opinions with the Finance and Accounting Dept. and Compliance Office at their discretion to ascertain the current situation and issues of the OTSUKA Group and express opinions from a professional viewpoint as necessary.

The outside directors and outside auditors meet on a timely basis with the accounting auditors to confirm auditing plans and the condition of audit implementation and progress on improvements to recommended areas, exchange information confirming the legality of actions taken by Directors and take appropriate steps as required.

Status of Audits

1. Status of Audits by Audit & Supervisory Board Members

The Audit & Supervisory Board consists of four persons, including three outside auditors (one full-time auditor and three part-time auditors). Among these auditors, outside auditor Kazuhiko Nakai and outside auditor Etsuo Hada hold qualifications as certified public accountants and tax accountants and have considerable knowledge of finance and accounting.

The Audit & Supervisory Board is chaired by a full-time auditor in accordance with a resolution. Regarding audits by the Audit & Supervisory Board, the audit policies and annual plan are determined by the Audit & Supervisory Board. Each auditor complies with the Audit & Supervisory Board Audit Standards prescribed by the Audit & Supervisory Board and attends the Board of Directors meetings, and through discussions with management, audit reports from the Office of Auditors and audit reports of auditors of subsidiaries shall strive for communication with Directors, the Office of Auditors and auditors of subsidiaries and work to collect information and enhance the

environment for auditing while monitoring and verifying the state of the internal control system. In addition, the full-time auditor attends important meetings, receives reports from Directors on the state of their business duties and investigates the state of business operations and assets at the head office and main business sites. Through these activities, Audit & Supervisory Board Members provide opinions such as advice and recommendations to Directors or employees.

The Audit & Supervisory Board exchanges information with the accounting auditor and takes action as necessary.

The Compliance Office is in charge of assisting Audit & Supervisory Board Members with their duties. Although the Compliance Office is an organization within the Business Management Division, one employee (concurrent position) assists with duties based on instructions given directly by Audit & Supervisory Board Members to ensure independence.

2. Status of Internal Audits

The Office of Auditors (13 persons) under the direction of the President has been established to conduct periodic and on-demand internal audits of all operations across the Group and assess the adequacy of policies, plans and procedures, the effectiveness of their implementation and compliance with laws, as well as to offer concrete advice and recommendations for improving operations and raising awareness.

The Office of Auditors regularly exchanges opinions with the accounting auditor regarding audit plans, the state of audit implementation and results, and strives for mutual collaboration. Moreover, the Office of Auditors strives for mutual collaboration with Audit & Supervisory Board Members.

3. Accounting Audits

a) Name of Corporate Auditor

Ernst & Young ShinNihon LLC

b) Certified public accountants involved in auditing-related operations

Seiji Yamamoto, Designated Employee with Limited Liability and Managing Partner

Shigeyuki Kano, Designated Employee with Limited Liability and Managing Partner

Tomo Ito, Designated Employee with Limited Liability and Managing Partner

* Summarized, as all members have less than seven years of continuous auditing experience

c) Composition of staff assisting in auditing-related operations

CPAs 10

Other individuals 19

d) Corporate Auditor Selection Policy and Reasons

(Corporate auditor selection policy)

The Audit & Supervisory Board makes comprehensive considerations that include the independence, expertise and the state of quality control of the corporate auditor as well as the appropriateness and efficiency of auditing activities and on the basis of the establishment of a system that assures the proper execution of duties of the corporate auditor the Board decides on suitability.

(Policy on Dismissal or Determining Non-reappointment of Accounting Auditor)

If there is determined to be a necessity, such as interference with the execution of the duties of the accounting auditor, the Audit & Supervisory Board will determine details of the proposal for dismissal or non-reappointment of the accounting auditor that is submitted to the General Meeting of Shareholders.

If the accounting auditor is deemed to come under any of the items prescribed in Article 340-1 of the Companies Act, the accounting auditor shall be dismissed based on the approval of all Audit & Supervisory Board Members. In this case, the Audit & Supervisory Board Member selected by the Audit & Supervisory Board will report the intent and reason for the dismissal of the accounting auditor at the first General Meeting of Shareholders convened after the dismissal.

e) Evaluation of Accounting Auditors by Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board exchanges information with the accounting auditor and receives reports from the accounting auditor on the results of quality control reviews and inspections of the corporate auditors that are external organizations.

Audit & Supervisory Board Members and the Audit & Supervisory Board evaluate the accounting auditor based on the evaluation standards prescribed in accordance with the Japan Audit & Supervisory Board Members Association's "Practical Guidelines for Auditors Concerning Determination of Evaluation Standards for Selection Criteria for Accounting Auditors" and determined this to be suitable.

4. Details of Auditors' Remuneration, etc.

a) Remuneration for Auditing Certified Public Accountants

Class	Previous Fiscal Year		Current Fiscal Year	
	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)
Otsuka Corporation	67	—	69	—
Consolidated Subsidiaries	14	—	14	—
Total	81	—	84	—

b) Excluding (remuneration <a) >for the same network (Ernst & Young) as the audit certified public accountants

Not applicable

c) Details of remuneration for other important audit certification services

Not applicable

d) Audit Remuneration Policy

The Company determines with agreement of the Audit & Supervisory Board an appropriate amount of audit remuneration based on a number of factors, including the number of days of auditing work, the nature of auditing duties and scale of work to ensure the accounting auditor can conduct auditing and certification services fairly and in good faith from an independent standpoint.

e) Reasons the Audit & Supervisory Board Agreed to the Remuneration for the Accounting Auditor

The Audit & Supervisory Board, upon undertaking necessary verifications of the appropriateness of the details of audit plan of the accounting auditor, the state of execution of duties of accounting audits and the basis for calculating remuneration estimates, has agreed to the provisions of Article 399-1 of the Companies Act for remuneration for the accounting auditor proposed by the Board of Directors.

Directors (Officers) Remuneration

1. Items Concerning Policy for Determination of Remuneration Amounts for Directors and Its Calculation Method

The amount of annual remuneration for Directors is up to ¥650 million as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include employee compensation). The Company shall have no more than 19 directors as stipulated by the Articles of Incorporation.

Remuneration for Directors (excluding outside directors) comprises basic remuneration, bonus, annual performance-based pay, retirement bonuses for Directors (accumulation-type remuneration at the time of resignation) and corporate-type defined contribution pension (full-time directors under 60 years of age). For Directors who concurrently serve as Executive Officers, position and performance as an Executive Officer shall also be elements in determining director remuneration. Remuneration levels are set according to job responsibilities giving reference to survey data from external specialist organizations.

- A. For basic remuneration, the President and Representative Director, who is appointed by the Board of Directors, shall determine the payment amount giving comprehensive consideration to such factors as the evaluation of the performance of the supervised department in past years taking into account levels of other companies and a balance with employee salaries.
- B. In order to link contribution to business performance, bonuses are determined based on the target achievement rate for operating profit, which is strongly correlated to stock price. The President and Representative Director, who is appointed by the Board of Directors, shall determine bonuses based on the performance of the entire company during the bonus payment period, the performance of the supervised department and the degree of contribution to performance of the individual officer upon assuring transparency of the link with performance. In the current fiscal year, actual operating profit was ¥53,826 million (published value) versus the operating profit target for bonus calculation of ¥43,766 million, which was an achievement rate of 123.0%.
- C. Annual performance-based bonus is paid in accordance with the annual and semi-annual operating profit achievement rate based on the annual and semi-annual plan for employees. In the current fiscal year, actual operating profit amounted to ¥55,632 million (published value) versus the operating profit target of ¥44,700 million, which was an achievement rate of 124.5%.
- D. Retirement benefits for directors are set aside in accordance with the rules for retirement benefits for directors, with the annual

basic amount being set aside for full-time directors (each position), and the cumulative amount is calculated at retirement and paid upon determination of payment amount at the Board of Directors based on a resolution of the General Meeting of Shareholders. Retirement benefits for the current fiscal year were resolved at the General Meeting of Shareholders held on March 27, 2019.

- E. The company-type defined contribution pension for full-time directors who have not reached the age of 60 is contributed to monthly in an amount equal to the maximum amount for employees. There were no eligible persons this fiscal year.

Outside directors shall receive only fixed basic remuneration from the perspective of maintaining independence.

Basic remuneration is determined by the President and Representative Director, who is appointed by the Board of Directors, based on the levels of other companies and the remuneration levels of full-time directors of the Company.

The amount of annual remuneration for Audit & Supervisory Board Members is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005. The Company shall have no more than four Audit & Supervisory Board Members as stipulated by the Articles of Incorporation.

The remuneration of Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members) comprises basic remuneration, officer retirement benefits (accumulation-type remuneration at the time of resignation) and corporate-type defined contribution pension (full-time directors under 60 years of age).

- A. Basic remuneration is determined through discussions with Audit & Supervisory Board Members.
- B. Retirement benefits for Directors are set aside in accordance with the rules for retirement benefits for directors, with the annual basic amount being set aside for full-time Audit & Supervisory Board Members, and the cumulative amount is calculated at retirement and paid upon determination of payment amount based on a resolution at the General Meeting of Shareholders upon consultation with the Audit & Supervisory Board Members. There were no eligible persons this fiscal year.
- C. The company-type defined contribution pension for full-time Audit & Supervisory Board Members who have not reached the age of 60 is contributed to monthly in an amount equal to the maximum amount for employees. There were no eligible persons this fiscal year.

Outside Audit & Supervisory Board members receive only fixed basic remuneration. The paid amount of basic remuneration is determined by consultation with the Audit & Supervisory Board Members.

2. Details of Activities of the Board of Directors in the Process of Determining the Amount of Remuneration for Officers

In the current fiscal year, at the Board of Directors meeting on March 27, 2019, the Board resolved to entrust the basic remuneration for directors and the amount of retirement benefits for directors to the President and Representative Director and determined the amount of retirement benefits for directors based on a policy for determining the amount of remuneration for officers.

3. Total Amount of Remuneration for Each Officer Class, Total Amount by Type of Remuneration and Number of Eligible Officers

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Fixed Remuneration	Performance-linked Remuneration	Retirement Benefits	
Directors (excluding outside directors)	390	256	91	42	12
Audit & Supervisory Board Members (except outside auditors)	18	16	–	1	1
Outside Directors and Auditors	43	43	–	–	5

Notes:

- The above includes two Directors who retired at the conclusion of the 58th General Meeting of Shareholders held on March 27, 2019.
- Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
- The increase in allowance for retirement benefits for directors in the year under review is included in the above retirement benefits.

4. Total Consolidated Remuneration by Director and Audit & Supervisory Board Member

Not disclosed since there are no Directors or Audit & Supervisory Board Members that receive consolidated remuneration of ¥100 million or more.

Principal Stockholdings by the Company

1. Criteria and Concept for Classification of Investment Stocks

The Company classifies stocks into investment stocks held for the purpose of pure investment, which are investment stocks held for the purpose of obtaining profits from fluctuations in stock prices and dividends from stocks, and investment stocks held for purposes other than pure investment (policy stocks), which are held for the purpose of strengthening relationships and alliances with partner companies. The Company does not in principle hold investment stocks held for the purpose of pure investment.

2. Stocks Held for Purposes Other than Pure Investment

a) Holding Policy and Method for Verifying the Rationality of Holdings and Details of Verification by the Board of Directors

Regarding the Suitability of Holding Individual Stocks

Every year the Board of Directors verifies the returns and risks of policy stocks from a medium- to-long-term perspective and considers the suitability of holding these stocks. As evaluation criteria for determining the suitability of holdings, the Company comprehensively considers such factors as the benefits of alliances, comparison of investment returns and the cost of capital, investment risk and the growth potential of the relevant company. In accordance with the above criteria, as a shareholder, the Company will sell policy stocks that do not result in a medium- to-long-term increase in corporate value upon carrying out sufficient dialogue with its partner company.

During this fiscal year, the Company adopted a resolution to proceed with the sale of some stocks, etc., based on verification at the Board of Directors.

b) Criteria for Exercising Voting Rights for Holdings of Policy Stocks

Regarding the exercise of voting rights of policy stocks, the Company determines advantages and disadvantages of a resolution upon close examination by individual stock to determine whether these contribute to the enhancement of medium-to-long-term corporate value of the relevant company and the Company.

c) Number of issues and balance sheet amount

	Number of issues	Total balance sheet amount (millions of yen)
Unlisted stocks	22	127
Stocks other than unlisted stocks	33	9,611

(Issues for which the number of shares increased this fiscal year)

	Number of issues	Total amount of acquisition price for the increase in the number of shares (millions of yen)	Reason for increase in number of shares
Unlisted stocks	1	5	New investment for collaborative business development
Stocks other than unlisted stocks	8	23	Regular purchases by business partner holding company

(Issues for which the number of shares decreased this fiscal year)

	Number of issues	Total amount of sales price for the decrease in the number of shares (millions of yen)
Unlisted stocks	1	29
Stocks other than unlisted stocks	3	36

d) Information on the number of shares for each issue of specified investment stocks and deemed stocks held and balance sheet amounts

Specified investment stocks

Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares (stock)	Number of shares (stock)		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
PERSOL HOLDINGS CO., LTD.	3,000,000	3,000,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 3
	6,153	4,908		
Uchida Esco Co., Ltd.	180,000	180,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	966	252		
GiG Works Inc. Note 4	360,000	360,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	694	310		
Ricoh Company, Ltd.	359,724	341,989	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	Yes
	428	368		
Daiwa House Industry Co., Ltd.	100,000	100,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	339	349		
Billing System Corporation	200,000	100,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares was due to an increase resulting from a stock split.	No
	228	409		
Daito Trust Construction Co., Ltd.	13,100	13,100	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	176	196		
Concordia Financial Group, Ltd.	382,204	382,204	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	172	161		
Credit Saison Co., Ltd.	50,000	50,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	95	64		
NAMUCO BANDAI Holdings Inc.	9,504	9,504	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	63	46		
Meiko Network Japan Co., Ltd.	60,000	60,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	61	53		
Zeon Corporation	34,098	33,160	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	46	33		
Mitsubishi Tanabe Pharma Corporation	13,300	13,300	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	26	21		

Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares (stock)	Number of shares (stock)		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
Nippon Kayaku Co., Ltd.	19,231	18,605	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	26	26		
Kyowa Kirin Co., Ltd. Note 5	8,000	8,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	20	16		
HYPER Inc.	24,000	24,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	17	10		
Mitsubishi UFJ Financial Group, Inc.	29,110	29,110	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 6
	17	15		
Morinaga & Co., Ltd.	3,209	3,153	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	16	14		
Iwabuchi Corporation	2,343	2,213	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	15	10		
Iino Kaiun Kaisha, Ltd.	35,630	33,492	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	13	13		
Dai-ichi Life Holdings, Inc.	4,300	4,300	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 7
	7	7		
Rengo Co., Ltd.	7,600	7,600	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	6	6		
Maruzen Co., Ltd.	2,000	2,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	4	3		
Mizuho Financial Group, Inc.	21,520	21,520	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 8
	3	3		
Canon Marketing Japan Inc.	1,155	1,155	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	2	2		
Tsuchiya Holdings Co., Ltd.	12,627	11,621	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	2	1		
Autobacs Seven Co., Ltd.	1,500	1,500	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	2	2		

Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares (stock)	Number of shares (stock)		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
LIXIL Group Corporation.	331	331	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
KOIKE SANSEI KOGYO Co., LTD.	133	133	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
TOKYO THEATRES COMPANY Inc.	199	155	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	0	0		
Kurimoto, Ltd.	100	100	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
HOSODA CORPORATION	1,200	1,200	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
NIPPON KINZOKU CO., LTD.	100	100	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
The Keiyo Bank, Ltd.	-	25,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	-	17		
J ESCOM HOLDINGS, INC.	-	150,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	-	12		
Levi Strauss Japan K.K.	-	440	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	-	0		

Notes:

- All stocks, including stocks with recorded balance sheet amounts of 1/100 or less of their capital amounts, are listed.
- The - symbol indicates the Company does not hold that stock.
- Although PERSOL HOLDINGS CO., LTD. does not hold Company shares, its subsidiary, PERSOL TEMPSTAFF CO., LTD., holds Company shares.
- ThreePro Group Co., Ltd. was renamed GiG Works Inc. on August 1, 2019.
- Kyowa Hakko Kirin Co., Ltd. was renamed Kyowa Kirin Co., Ltd. on July 1, 2019.
- Although Mitsubishi UFJ Financial Group, Inc. does not hold Company shares, its subsidiaries MUFG Bank, Ltd., and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. hold Company shares.
- Although Dai-ichi Life Holdings, Inc. does not hold Company shares, its subsidiary, The Dai-ichi Life Insurance Company, Limited, holds Company shares.
- Although Mizuho Financial Group, Inc. does not hold Company shares, its subsidiaries, Mizuho Bank, Ltd. and Mizuho Securities Co., Ltd., hold Company shares.

Deemed stocks

Not applicable

3. Investment Stocks Held for the Purpose of Pure Investment

Not applicable