

# Governance

## Corporate Governance

### Our basic approach and strategy

Unicharm believes that working towards sustainable growth and creation of medium-to-long term corporate value through efforts to cooperate appropriately with stakeholders and become a company supported and trusted by society lead to the “promotion of sound corporate management” through the Unicharm Ideals.


In order to achieve these targets, the basic policy towards corporate governance is to achieve transparent, fair, prompt and bold management through frank and proactive engagement that will gain the support of various stakeholders, initiatives in response to ESG issues and the further development of an environment that enables appropriate decision-making by directors without missing an opportunity.


**Corporate Governance Report**  
<https://www.unicharm.co.jp/en/company/corporate-governance.html>

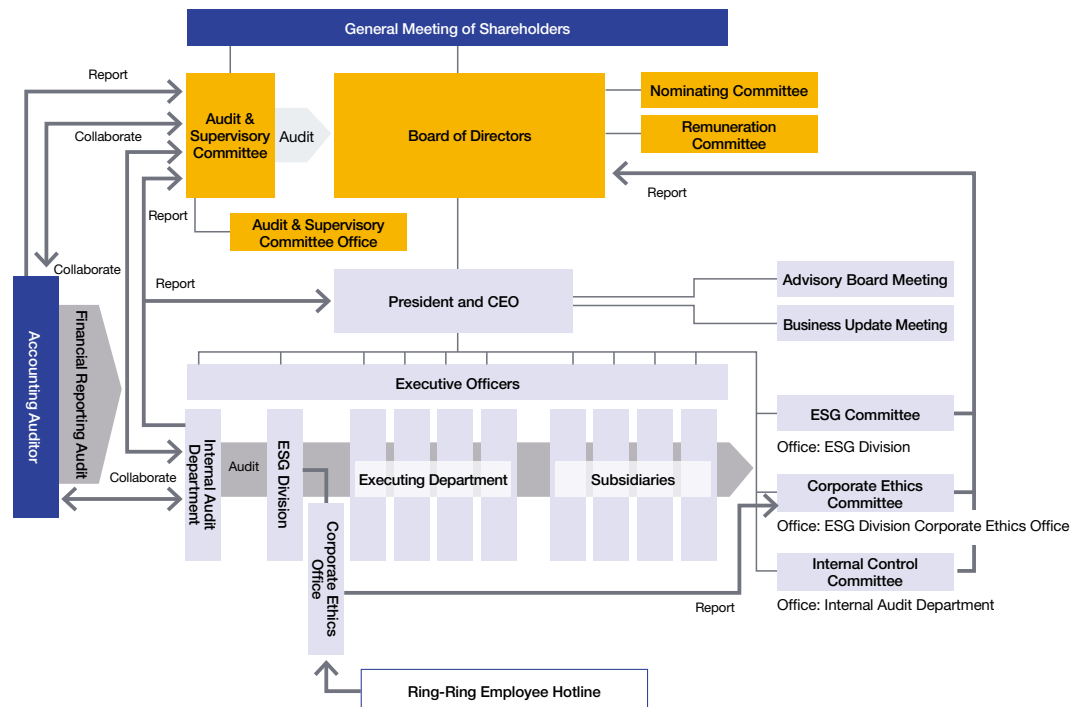
### Management structure

In May 2015, we moved to a “company with audit and supervisory committee governance structure” to meet the expectations of all stakeholders in Japan and overseas from a global perspective by strengthening the oversight function of the Board of Directors toward management and bringing outside directors into the management process to increase transparency and efficiency. Members of the independent Audit and Supervisory Committee have voting rights on the

Board of Directors and the committee actively uses the internal control system to carry out audits. This has helped to create a corporate culture and spirit based on compliance, appropriate collaborative relationships with stakeholders and sound business ethics.


[See P.018 “Unicharm Group Sustainability > ESG promotional structure”](#)

Corporate Governance Structure (as of March 31, 2021)



**Board of Directors and Committees, etc.**

|                                 |  |
|---------------------------------|--|
| Board of Directors              | The board of directors is comprised of one representative director, three non-executive directors other than outside directors and two outside directors. As for the concurrent posting of directors as executive officers, only the representative director serves in a concurrent post as President & CEO. The board of directors has the authority to determine basic management policies and decide on the establishment of the internal control system and the execution of other important duties. It also fulfills a supervisory role in monitoring the formulation and execution of the medium-to-long term direction which ensures a system is in place for the management to make appropriate decisions without missing opportunities. |
| Audit and Supervisory Committee | The Audit and Supervisory Committee consists of one non-executive director other than an outside director and two outside directors. The one non-executive director is the full-time member of the Audit and Supervisory Committee. The full-time member is selected for this role to increase the effectiveness of audits performed by the Audit & Supervisory Committee based on information obtained by a person highly familiar with the Company's internal situation gained during the course of attendance at important meetings other than the board of directors and close collaboration with the internal auditing departments.   |
| Nominating Committee            | The discretionary Nominating Committee was established with the purpose of nominating candidates for director and ensuring the transparency and objectivity of the selection of executive officers. The Nominating Committee has the authority to (1) propose ideas on the appointment and dismissal of directors to submit to the general shareholders' meeting, (2) select and dismiss the representative director and (3) submit proposals on the selection and dismissal of executive officers as well as the executive officers in office to the board of directors.  |
| Remuneration Committee          | Unicharm has established a discretionary Remuneration Committee with the purpose of securing the transparency and objectivity regarding the remuneration of directors (excluding directors who are Audit and Supervisory Committee members) and executive officers. The Remuneration Committee has the authority to (1) provide to the board of directors proposals concerning remuneration of directors, etc., to be submitted to the general meeting of shareholders, (2) provide proposals to the board of directors on remuneration, etc., of individual director (excluding directors who are Audit and Supervisory Committee members) and (3) determine the details of remuneration of individual executive officers.                      |
| Advisory Board Meetings         | The Advisory Board Meeting is chaired by representative director, President & CEO, and attended by all executive officers, leaders of relevant business units and the full-time Audit and Supervisory Committee member. Outside directors also attend the meeting upon necessity. The meetings deliberate on how to achieve the strategies in the Medium-Term Management Plan as well as the business plans and strategies of Group companies.   |
| Business Update Meeting         | The Business Update Meeting is attended by all executive officers and the leaders of relevant business units among others. The President & CEO chairs this meeting. In principle, the meeting is held monthly where reports are provided on the execution of operations and discussions are held on material issues in terms of business execution selected by the chair for prompt resolution.  |
| ESG Committee                   | The ESG Committee is chaired by the President & CEO with a vice president serving as deputy chair. The ESG Division serves as the committee's secretariat. The ESG Committee discusses and determines the major themes of the Medium-Term Management Plan, progress of activities related to mid-to-long term ESG objectives and countermeasures for the issues.   |
| Corporate Ethics Committee      | The Corporate Ethics Committee is chaired by the President & CEO with the executive officer in charge of the Corporate Ethics Office serving as deputy chair. All Audit and Supervisory Committee members serve as permanent members of this committee which promotes a system for ethics and legal compliance.  |
| Internal Control Committee      | The Internal Control Committee is chaired by the President & CEO with the executive officer in charge of the Internal Audit Department serving as deputy chair. The Internal Audit Department serves as the committee's secretariat. The committee promotes matters concerning the evaluation and auditing of the internal control system related to financial reporting.  |
| Accounting Auditor              | The Audit and Supervisory Committee approves the accounting auditor based on its auditing system, independence and expertise.  |

**Composition of the Board of Directors and Audit and Supervisory Committee**

◎ denotes chair/chairperson and ○ denotes members

|  |                   | Board of Directors | Audit and Supervisory Committee | Nominating Committee | Remuneration Committee |
|--|-------------------|--------------------|---------------------------------|----------------------|------------------------|
| President & CEO  | Takahisa Takahara | ◎                  |                                 | ○                    | ○                      |
| Director & Vice President<br>General Manager of Production/Research & Development                          | Eiji Ishikawa     | ○                  |                                 |                      |                        |
| Director & Vice President<br>General Manager of Sales  | Shinji Mori       | ○                  |                                 |                      |                        |
| Director and Audit and Supervisory Committee Member (Outside Director)<br><b>Outside &amp; Independent</b> | Hiroko Wada       | ○                  | ◎                               | ◎                    | ◎                      |
| Director and Audit and Supervisory Committee Member (Outside Director)<br><b>Outside &amp; Independent</b> | Hiroaki Sugita    | ○                  | ○                               | ○                    | ○                      |
| Director and Audit and Supervisory Committee Member  | Shigeru Asada     | ○                  | ○                               | ○                    | ○                      |

**Policies and procedures for the nomination of director candidates as well as the appointment and dismissal of executive officers**

**Policies**

Candidates for both internal and outside directors are nominated among those possessing outstanding characteristics and comprehensive management knowledge with an emphasis on their capacity of appropriately fulfilling due care of a prudent manager and duty of loyalty and contributing to the company's sustained growth and increased corporate value. Internal directors are appointed based on the periodic assessment on the cultivation of successors and implementation of supervision by the directors, Nomination Committee and the board of directors. Executive officers are appointed from those with outstanding characteristics who are familiar with the Company's

businesses and practice the “Five Great Pillars’ and Associate Code of Conduct” established as the Company’s charter of actions for both executives and employees with an emphasis on the ability to appropriately execute the businesses. To ensure objectivity and transparency, the evaluation criteria for directors and executive officers are clearly defined per role and disclosed. If and when receiving an evaluation below the standard for two consecutive years, the director or executive officer will be subject to review by the Nomination Committee and dismissed (or not reappointed) by the Board of Directors following a comprehensive determination based on the advice and recommendations from the Committee. Please refer to “Director Remuneration” for specific evaluation criteria.

**Procedures**

The nomination of candidates for directors and appointment of executive officers are determined by the board of directors based on the opinion solicited from the “Nomination Committee”, chaired by an independent outside director and consisting of the President & CEO, two independent outside directors and one non-executive director, in order to secure transparency and objectivity. The Nomination Committee deliberates on the policy concerning the nomination of candidates for directors and appointment of executive officers as necessary. Decision on candidates for directors who are Audit and Supervisory Committee members is made by the board of directors based on a draft formulated following deliberation by the Nomination Committee in accordance with the policy of the Auditor and Supervisory Committee, with prior consent from the same Committee.

**Resolution requirements for the appointment of directors**

The Articles of Incorporation stipulate that resolution on the appointment of a director is reached when more than one third of shareholders with exercisable voting rights are in attendance and pass the proposal with a majority vote, with directors separated by those who are members of the Audit and Supervisory Committee and those who are not. In addition, the Articles of Incorporation stipulate that the resolution on the appointment of directors shall not use cumulative voting.

**Avoiding conflicts of interest**

The Company obtains prior approval of the board of directors when conducting either direct or indirect business with its directors (Audit and Supervisory Committee members included) or their relatives.

With regard to transactions between Group companies, a legal check is conducted in advance to verify the validity of transactional conditions and their method of determination, as well as a careful deliberation will be conducted by the board of directors including multiple independent outside directors, when conducting important transactions.

**Selection Standards for Independent Directors**

The selection standards for Independent Directors are presented below.

 **Selection Standards for Independent Directors (Japanese only)**  
[https://www.unicharm.co.jp/content/dam/sites/www\\_unicharm\\_co\\_jp/pdf/company/about/dokuritsutorisimariyakusennmin.pdf](https://www.unicharm.co.jp/content/dam/sites/www_unicharm_co_jp/pdf/company/about/dokuritsutorisimariyakusennmin.pdf)

**Reasons for appointment of outside directors**

| Name           | Audit and Supervisory Committee Member | Independent Director | Supplementary explanation on appropriateness  | Reasons for appointment  |
|----------------|--|----------------------|---|--|
| Hiroko Wada    | ○                                      | ○                    | Ms. Wada is qualified as an independent director in accordance with the independence standards provided in the “Guidelines concerning Listed Company Compliance, etc.” of the Tokyo Stock Exchange and the “Standards for Appointment of Independent Directors” of the Company. Therefore, the Company judges that she is unlikely to have a conflict of interest with general shareholders and has designated Ms. Wada as an independent director.   | Ms. Wada served as Vice President of US Procter & Gamble and the president of other foreign companies in Japan. She has diverse management experience and extensive knowledge with global perspectives in various areas, including marketing, gained through her career. The Company believes that she will provide appropriate advice on management strategy, finance, governance and marketing as the Company further expands its business globally.   |
| Hiroaki Sugita | ○                                      | ○                    | Mr. Sugita currently serves as the Managing Director & Senior Partner of Boston Consulting Group, Inc. and is not involved in the Company’s consulting business. Moreover, the ratio of expense payment for consulting from Mr. Sugita comprises less than 0.1% of both group’s consolidated net sales for the most recent three fiscal years. Therefore, he is qualified as an independent director in accordance with the independence standards provided in the “Guidelines concerning Listed Company Compliance, etc.” of the Tokyo Stock Exchange and the “Standards for Appointment of Independent Directors of the Company” and the Company has determined it unlikely that he will have a conflict of interest with general shareholders. | With the background as the Japanese representative of major foreign capital consulting firm, Boston Consulting Group, Mr. Sugita possesses high levels of insight and is highly experienced in finance and accounting, as well as management strategies within business management, particularly in globalization strategy, corporate governance, group management, digitalization and transformation. The Company determined that he is qualified in further developing its global expansion and providing appropriate advice on both governance and management strategies. |

Message from  
the President &  
CEO

Unicharm  
Group's  
COVID-19  
Initiatives

Kyo-sei Life  
Vision 2030

Unicharm Group  
Sustainability

Key Topics

Environment

Human Rights

Responsibility  
to Our  
Customers

Quality

Labor  
Standards

Health and  
Safety

Human  
Resources  
Data

Local  
Community

Supply Chain  
(Society)

Shareholders  
and Investors

Governance

Third Party  
Assurance  
Report

List of Awards  
and  
Commendations  
Received in  
Fiscal 2020

## Views on the balance of knowledge, experience and capabilities, diversity and size of the board of directors

The Board of Directors consists of members who are appointed to ensure an overall good balance of knowledge, experience and capabilities, as well as comprised of diversity and appropriate size in order to effectively fulfill the board's roles and responsibilities. Audit and Supervisory Committee members are selected for their appropriate experience, ability and the essential expertise in finance, accounting and legal matters, plus one or more members with high level of expertise in finance and accounting are selected.

In terms of gender diversity, there is one female out of six directors.

### Audit status

(1) Audit status of the Audit and Supervisory Committee

#### I. Organization and personnel

The Audit and Supervisory Committee consists of three members, including one full-time member who is a non-executive director and two members who are outside directors.

Outside director and chair of the committee, Ms. Hiroko Wada, has considerable financial and accounting knowledge and extensive experience through her roles, such as executive officer of Procter & Gamble, a major foreign company, and the president of a Japanese subsidiary of a foreign company.

Outside director and member of the Committee, Mr. Hiroaki Sugita, has considerable knowledge of finance and accounting and experience utilizing his knowledge of corporate finance and accounting through his roles as the Japanese representative for Boston Consulting Group, a major foreign consulting company.

Full-time member of the Audit and Supervisory Committee, Mr. Shigeru Asada, has considerable knowledge of finance and accounting with the experience serving as the executive

director and general manager of the Accounting Control and Finance Division of the Company.

The Audit and Supervisory Committee conducts systematic audits based on reports from departments including the Internal Audit Department and other internal control system and may require further reports and sharing of opinions as needed.

#### II Activity status of the Audit and Supervisory Committee

##### 1. Meeting frequency

Meetings of the Audit and Supervisory Committee are generally held once a month and from time to time as needed.

##### 2. Main meeting agenda

The following resolutions and reports were made in fiscal 2020.

Resolutions: Audit plan and sharing of duties of the Audit and Supervisory Committee, evaluation, reappointment and non-reappointment of accounting auditor, agreement on the remuneration of the accounting auditor, audit and supervisory report proposals, etc.

Reports: prior confirmation of board of directors' agenda items, report on audit plan, internal control and audit report on the Internal Audit Department, reports on special cases such as scandals, financial status report on domestic and overseas subsidiaries, etc.

3. Attendance of Audit and Supervisory Committee members  
See "Implementation Status of Meetings of the Board of Directors and Committees" for attendance of the Audit and Supervisory Committee for meetings held in fiscal 2020.

The average meeting time of Audit and Supervisory Committee was approximately 60 minutes.

4. Activities of the full-time Audit and Supervisory Committee member

The full-time Audit and Supervisory Committee member shares information with part-time outside directors who are

Audit and Supervisory Committee members while auditing the appropriateness of the operational status of the internal control system through 1) collecting information internally, 2) monitoring information dissemination from the company management, 3) attending business update meetings held regularly and advisory meetings that deliberate on the company master plan and management plan of each subsidiary company in Japan and overseas, 4) auditing business report, financial documents, consolidated financial statements and supplemental schedules, 5) perusing important approval documents and contracts, 6) receiving reports from the Internal Audit Department in a timely manner and 7) verifying the appropriateness of methods and results of the accounting auditor and confirming if an internal control system is in place through regular meetings with the accounting auditor.

##### (2) Status of internal audit

The Company has established the Internal Audit Department (5 members) as an internal auditing section that is under the direct control of the President & CEO. The Internal Audit Department conducts internal audits on executive departments and compiles internal audit reports which include points of critique and improvement recommendations. The reports are then shared with President & CEO as well as the Audit and Supervisory Committee and submitted to the department undergoing the audit. In case any deficiency is noted, the audited department will develop and implement an improvement plan while the Internal Audit Department will monitor the improvement results.

Regular meetings are held between the Internal Audit Department, Audit and Supervisory Committee and accounting auditor for sharing of information and opinions. Moreover, audits done by this assembly include the establishment and operational status of an internal control system developed by the internal control sections.

### (3) Policy and reason for selection of audit firm

The selection of an accounting auditor is made upon considering the audit system, independence and expertise of the accounting auditor by the Company's Audit and Supervisory Committee. Following this policy, the Company has determined it is appropriate to reappoint PricewaterhouseCoopers Arata LLC as its accounting auditor.

If an accounting auditor is found to fit the description of any item under Article 340, Paragraph 1 of the Companies Act, the accounting auditor will be terminated by the Audit and Supervisory Committee, given the agreement of all members of the Committee. The decision of reappointing an accounting auditor is determined every term with consideration of the accounting auditor's suitability, independence and job performance. If the decision is made such that non-reappointment is appropriate, then the Audit and Supervisory Committee will determine the detail of the proposal of non-reappointment of the accounting auditor to be proposed at the General Meeting of Shareholders.

### ■ Development of internal control system

The Company formulated its "Basic Policy for Establishing an Internal Control System" in accordance with the Companies Act and established an "Internal Control Committee" in compliance with the "Internal Control and Reporting System (J-SOX)" of the Financial Instruments and Exchange Act.

The Internal Control Committee conducts an annual reassessment of risks for each Group company, reviews target countries and regions for J-SOX assessment and revises the scope of business processes requiring evaluation. At the same time, the committee works to improve the reliability of financial report by promoting the establishment and operation of an internal control system and effective assessments.

The Company is making ongoing improvements to this internal control system from a global perspective by taking into account regulatory developments in countries overseas where the Group operates.

### ■ Director's remuneration

#### Policy on the amount and decisions on the calculation methods for remuneration of directors

##### Basic policy

Remuneration for directors (excluding directors who are Audit and Supervisory Committee members) and executive officers of the Company and related policies are determined comprehensively considering the motivation for improvement of performance and corporate value and securing excellent human resources and according to a level appropriate to their roles and responsibilities. Basic policies on their remuneration to promote growth-oriented management and to accomplish management strategy and fulfill management plan are as follows.

##### Basic policy on remuneration of directors

- (1) Contributes to the sustainable growth and medium-to-long-term increase of corporate value
- (2) Remuneration structure that is linked closely with performance and motivates the fulfillment of management plans and the achievement of results
- (3) Remuneration level which attracts and retains "human resources" valuable for the management
- (4) Highly transparent and objective process for determining remuneration

##### Considerations for level of remuneration of directors

- (1) The remuneration is set to match the director remuneration level of the same industry within Japan and overseas and companies of the same scale in other industries in order to promptly cope with the changes of the external environment and market condition.
- (2) The target value of monetary compensation is set at top 25% and that of combined stock option compensation from a medium-to-long-term perspective is set at top 10%.

### Remuneration for directors, decision making process of remuneration policy and activity status of 2020

To ensure transparency and objectivity of the decision-making process, remuneration for directors is deliberated on by the "Remuneration Committee" which consists of the President & CEO (1 person), non-executive director (1 person) and independent outside directors (2 persons) with independent outside directors comprising half of the seats on the committees and the committee chaired by an independent outside director. The results are determined in consultation with the board of directors based on the deliberation.

In 2020, the "Remuneration Committee Meeting" was held on February 21, 2020 to deliberate on the detailed design of share-based remuneration and other matters.

The "Remuneration Committee Meeting" was held on February 22, 2021 to deliberate the following matters: (1) Fixed remuneration, performance-linked remuneration, share-based remuneration calculation method, (2) Percentage of the above items, (3) Timing of each remuneration and (4) Decision delegator and content. After discussions on the matters that should be resolved by the "board of directors", decisions were made according to the resolutions of the "board of directors' meeting" held on the same day.

In order to properly assess individual remuneration amount based on the contribution performance of each director, the evaluation results based on each key performance indicator are reported to and deliberated by the Remuneration Committee with a decision made by the representative director entrusted in a resolution of the Board of Directors' meeting.



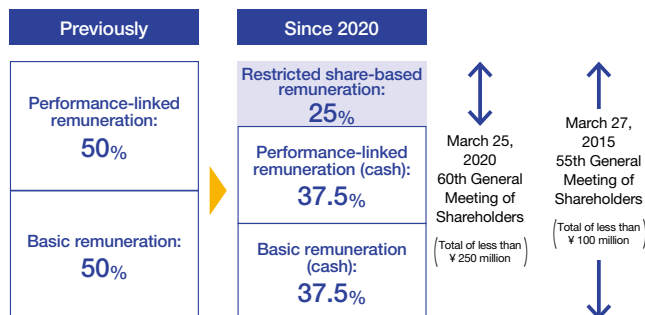
### Composition of remuneration for directors and key performance indicators

Remuneration for directors (excluding directors who are Audit and Supervisory Committee members) and executive directors consists of basic remuneration (cash) and performance-linked remuneration. Performance-linked remuneration consists of monetary compensation as a short-term incentive and restricted share-based remuneration as a medium-to-long-term incentive. In addition, the basic remuneration is determined for each position based on the extent of job responsibility.

Independent outside directors, coming from a stance independent of business executives, and directors who are Audit and Supervisory Committee members receive only fixed remuneration, given their roles to provide supervision and advice on the Company's management from an objective perspective.

The amount of annual remuneration (total) was approved to be within 1 billion yen for directors (excluding those who are Audit and Supervisory Committee members) and within 100 million yen for directors who are Audit and Supervisory Committee members at the 55th General Meeting of Shareholders held on March 27, 2015. The annual amount of restricted share-based remuneration was approved to be within 250 million yen (which shall be within the above-mentioned 1 billion yen limit) at the 60th General Meeting of Shareholders held on March 25, 2020.

### Composition of Remuneration



- Basic remuneration (cash): Basic remuneration is fixed remuneration, which is determined for each position in line with extent of responsibilities, paid monthly.
- Performance-linked remuneration (cash): As a short-term incentive, performance-linked remuneration are set in the range of 0% to 200% of the basic remuneration amount depending on performance results for one year. Performance-linked remuneration is paid out from the following April to the next March based on the results of the fiscal year being evaluated (preceding January to December).
- Restricted share-based remuneration: As an incentive to increase corporate value over the medium to long term, the Company allocates in April of the following year restricted shares equivalent to 33% to 100% of the basic remuneration amount according to the performance results of the year being evaluated (January to December). Restricted share-based remuneration has a transfer restriction period set at three years.

### Evaluation indicators and view to directors remuneration as well as targets and results

Key performance indicators for determining the performance-linked remuneration (cash) and restricted share-based remuneration of directors (excluding directors who are Audit and Supervisory Committee members) and executive officers as well as the targets and results for 2020 are presented below.

Furthermore, weightings for performance indicators are assigned to each position in line with the extent of responsibilities. For example, performance weightings for representative director are set at 50% for group performance and 50% for group key strategy. For executive officers responsible for line function departments, the weightings are 30% each for group and department performance and 20% each for group and department key strategy.

In addition, ESG assessment which was added as a new key performance indicator from 2020 is assigned to each individual director and executive officer. Indicators such as "inclusion in the FTSE Blossom Japan Index" or "improvement of ESG score" are used in an effort to conduct quantitative assessments to every extent possible.

Weighting linked to the key initiative themes of "Kyo-sei Life Vision 2030", our mid-to-long term ESG objectives revealed in October 2020, is also assigned to each director and executive officer with the results and progress of such taken into account.

| No. | Assessment indicator              | Accountability   | Assessment weighting | Target                        | Result                        | Assessment |
|-----|-----------------------------------|--|----------------------|-------------------------------|-------------------------------|------------|
| 1   | Group performance (business plan) | 1-1 Consolidated net sales                                     | 20-50%               | ¥760,000 million (106.4% YoY) | ¥727,475 million (101.9% YoY) | 95.7%      |
|     |                                   | 1-2 Consolidated core operating income                         |                      | ¥100,000 million (111.4% YoY) | ¥114,744 million (127.8% YoY) | 114.7%     |
|     |                                   | 1-3 Profit attributable to owners of parent                    |                      | ¥63,000 million (136.6% YoY)  | ¥52,344 million (113.5% YoY)  | 83.1%      |
| 2   | Department performance            | 2-1 Sales in applicable business division                      | 0-40%                | (Each dept.)                  | (Each dept.)                  | —          |
|     |                                   | 2-2 Profits in applicable business division                    |                      | (Each dept.)                  | (Each dept.)                  | —          |
| 3   | Group key strategy                | 3-1 Priority strategies for each role                          | 20-50%               | (Each director)               | (Each director)               | —          |
|     |                                   | 3-2 ESG assessment (specialist rating agency evaluation, etc.) |                      | (Each director)               | (Each director)               | —          |
| 4   | Department key strategy           | 4 Priority strategy in applicable business division            | 0-40%                | (Each dept.)                  | (Each dept.)                  | —          |

\* View on key assessment indicators

1. Performance-based indicators for company efforts
2. Performance-based indicators for individual director and executive officer efforts
3. Performance indicators for company priority strategies (including qualitative evaluation)
4. Performance indicators for individual director and executive officer priority strategies (including qualitative assessment)

**Conditions in the Agreement on the Allotment of Restricted Share-based Remuneration**

Restricted-share based remuneration is that eligible directors and executive officers receive monetary claims as their remuneration; next, eligible directors and executive officers contribute all of the monetary claims to the Company; and then, the Company disposes of treasury shares in exchange for the contribution. The Company and each of eligible directors and executive officers conclude an agreement on the allotment of restricted shares.

|   |                                 |   |
|---|---------------------------------|---|
| 1 | Restriction Period              | The eligible directors and executive officers are prohibited from assigning, pledging as collateral or disposing ("Transfer Restriction, etc.") of these shares ("Allotted Shares") for three years from the date of the allotment ("Restriction Period").  |
| 2 | Handling of Retirement          | If an eligible director or executive officer resigns or retires from the position of director, executive officer or another position stipulated in advance by the board of directors before the Restriction Period ends, the Company shall automatically acquire the Allotted Shares without contribution unless there are justifiable reasons for the retirement from office, such as expiration of the term of office or death.   |
| 3 | Removal of Transfer Restriction | The Company will remove the Transfer Restriction for all of the allotted shares when the Restriction Period ends on the condition that the eligible directors and executive officers serve in the position of director, executive officer or another position stipulated in advance by the board of directors continuously during the Restriction Period. However, if an eligible director or executive officer resigns or retires from the position of director, executive officer or another position stipulated in advance by the board of directors before the end of the Restriction Period due to justifiable reasons for the retirement from office, such as expiration of the term of office or death as outlined in (2) above, the Company will reasonably adjust as needed the number of Allocated Shares for removal of the Transfer Restriction and the timing of when to remove the Transfer Restriction. Also, the Company will automatically acquire without contribution the Allotted Shares for which the Transfer Restriction has yet to be removed as of the point in time immediately after the removal of the Transfer Restriction Period following the above rules. |
| 4 | Clawback Provision              | The eligible directors and executive officers shall return all or part of the accumulated Allotted Shares without contribution in the event of material accounting fraud or substantial losses, to take responsibility for such occurrences.  |
| 5 | Other Matters                   | Other matters concerning the agreement on the allotment of restricted shares shall be determined by the board of directors.   |

**Total remuneration for each director and executive officer, total for each type of remuneration and number of eligible directors and executive officers**

| Role  | Total compensation (millions of yen) | Totals for each type of compensation (millions of yen) |                                 |                                     | Number of directors receiving compensation |
|---|--------------------------------------|--|---------------------------------|-------------------------------------|--|
|   |                                      | Basic pay  | Performance-linked remuneration | Restricted share-based remuneration |  |
| Directors (excluding audit committee members and outside directors) | 431                                  | 194  | 132                             | 106                                 | 3  |
| Directors (audit committee members) (excluding outside directors)   | 26                                   | 26   | —                               | —                                   | 1  |
| Outside directors   | 21                                   | 21   | —                               | —                                   | 2  |

(Notes) Following the enforcement of the Companies Act, the Company's shareholders approved a resolution to abolish the retirement benefit system for directors and executive officers at the 47th Annual General Meeting of Shareholders on June 26, 2007. Directors and executive officers now only receive annual compensation.

**Implementation status of the Board of Directors and Committees**

**Number of board of directors and committee meetings, attendance and its rate (2020)**

|  |                   | Board of Directors | Audit and Supervisory Committee | Nomination Committee | Compensation Committee |
|--|-------------------|--------------------|---------------------------------|----------------------|------------------------|
| President & CEO  | Takahisa Takahara | 100% (10/10 times) | —                               | 100% (1/1 time)      | 100% (1/1 time)        |
| Director and Vice President General Manager of Production and Research & Development | Eiji Ishikawa     | 100% (10/10 times) | —                               | —                    | —                      |
| Director and Vice President General Manager of Japan Sales                           | Shinji Mori       | 100% (10/10 times) | —                               | —                    | —                      |
| Director and Audit and Supervisory Committee Member (Outside Director)               | Takashi Mitachi   | 100% (10/10 times) | 100% (12/12 times)              | 100% (1/1 time)      | 100% (1/1 time)        |
| Director and Audit and Supervisory Committee Member (Outside Director)               | Hiroko Wada       | 100% (10/10 times) | 100% (12/12 times)              | 100% (1/1 time)      | 100% (1/1 time)        |
| Director and Audit and Supervisory Committee Member                                  | Gumpei Futagami   | 100% (10/10 times) | 100% (12/12 times)              | 100% (1/1 time)      | 100% (1/1 time)        |

**Support System for Outside Directors**

The secretary responsible supports outside directors while the board of directors' secretariat coordinates between outside directors and the board of directors and hands out meeting documents in advance. Documents for board meetings are in principle handed out four business days prior to the meeting in an effort to ensure time for reviewing proposals in advance. Support is also provided to ensure that outside directors can make a correct judgement by providing information on the Company's important strategies, even if there is no direct correlation to the matters of the resolution.

In addition, support staff of the Audit and Supervisory Committee Office provide assistance to the two outside directors who are Audit and Supervisory Committee

members. The Full-time Audit and Supervisory Committee members also support outside directors by providing preliminary explanations of agenda items for the board of directors and setting up meetings with relevant departments as necessary.

### Analysis and Evaluation of Board Effectiveness

The Company conducts a questionnaire of all directors every year and also hosts a discussion on the results of this survey with all directors in attendance. Through this discussion, the Company seeks to improve board effectiveness by analyzing and evaluating the results of the overall effectiveness of the board of directors.

A summary of the analysis and evaluation results for 2021 is presented below.

1. At the Company's meetings of the board of directors, various opinions are expressed by the directors and agenda items are duly deliberated through active discussions. In addition, in the analysis and evaluation for 2020, specific steps have been made to improve the following points found to require further efforts. Accordingly, the Company can evaluate that the board of directors meeting functions effectively.
  - (1) Opportunities to discuss each theme of group-wide strategy within the Medium-Term Management Plan were made available on a regular basis and in-depth discussions were held on matters requiring attention with regard to the execution of this strategy.
  - (2) The board of directors has incorporated a system that shortens the explanation time or adopts bulk approval of agenda items where it is deemed possible to understand the points from referencing documents distributed in advance. As such, more time than before is dedicated to discussing important topics.
  - (3) Opportunities for discussion with executive officers and outside directors are now provided consciously, including discussions on group-strategy within the Medium-Term Management Plan. The effectiveness of developing and evaluating successor candidates has increased through the involvement of outside directors who are Nomination Committee members. In addition, a restricted share-based remuneration plan has been introduced which provides further incentive to eligible directors to strive toward the continual improvement of the corporate value and encourage the further sharing of value with shareholders.
2. In order to further improve the effectiveness of the board of directors, the Company will consider promotion of the following initiatives:
  - (1) Further increase the board of directors' involvement in the Medium-Term Management Plan, including selection of topics to discuss from an early stage of its formulation process and reviews after the plan is being implement.
  - (2) Improve approaches to the board of directors' involvement in using DX to grow customer value, including entrusting what needs to be entrusted to executing departments and increasing the board of directors' involvement where needed.
  - (3) Further deepen discussions on the roles of the board of directors aimed at strengthening defensive governance such as strengthening audit functions or preventing misconduct.

### Evaluating Audit and Supervisory Committee Effectiveness

The Company's Audit and Supervisory Committee in principle meets monthly. During these meetings, the Audit and Supervisory Committee conducts preliminary confirmation of agenda items for board meetings and develops an understanding of issues through reviewing the audit plan summary and report from the accounting auditor, the audit report from Internal Audit Department (including internal control), performance projections and issue reports from Accounting Control & Finance Division and activity reports from each department (as needed). In addition to the above, outside Audit and Supervisory Committee members receive reports on various issues obtained from audit reports prepared by the full-time Audit and Supervisory Committee member, exchange opinions and information, attend

important meetings other than the board and carry out close coordination with the internal auditing sections. Through these activities, the Company seeks to improve the effectiveness of audits performed by the Audit and Supervisory Committee.