

Corporate Governance

Corporate Governance Structure

Overview of the Corporate Governance Structure

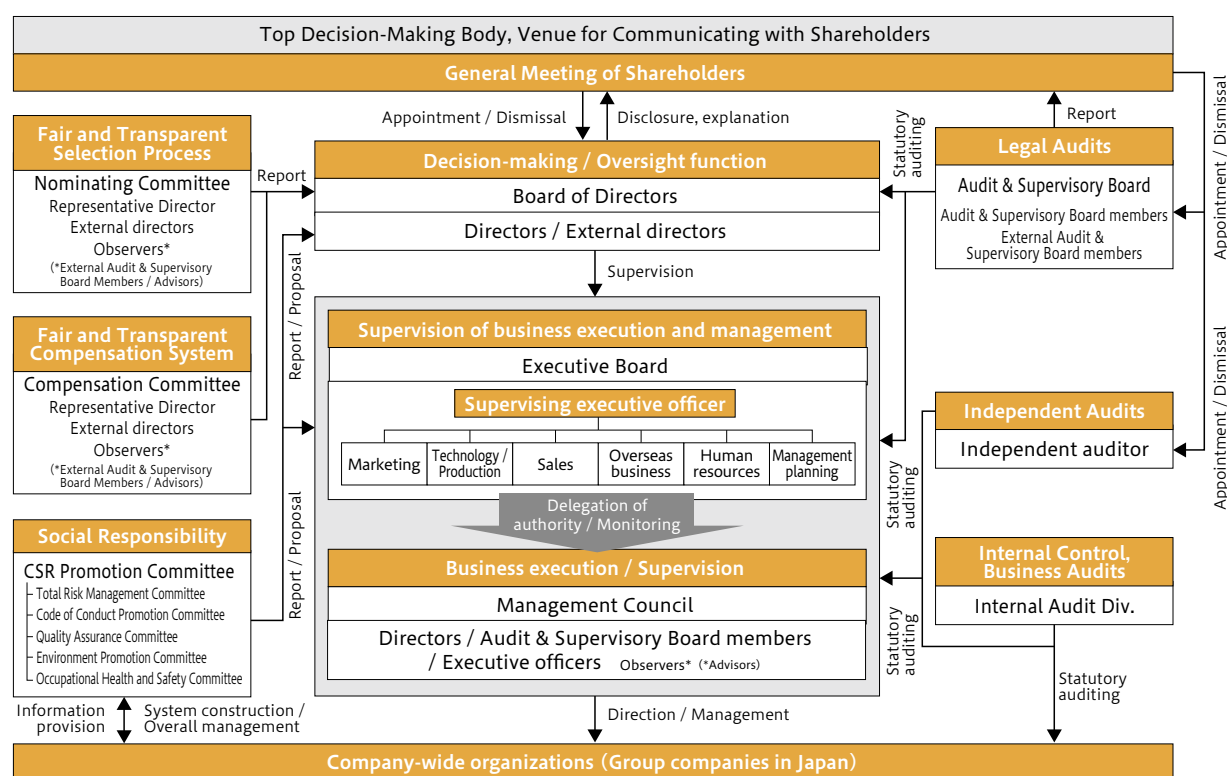
The activities of the Group are overseen by the Audit & Supervisory Board. With legal oversight from our auditors as the basis for corporate governance, we invite multiple external directors to sit on our board, to reinforce our monitoring and advisory functions. By clarifying responsibilities and delegating authority under a system of supervisory and executional officers in charge of specific operations, we have created a system for the proactive and expeditious execution of operations. This system ensures

soundness and transparency, and appropriately pursues efficiency.

The Group has also voluntarily established the Compensation Committee, more than half of whose members are external directors, as well as the Nominating Committee. Executive compensation and appointments are reviewed by these entities, and determined with close reference to the results of such reviews.

The Group's corporate governance structure is shown below.

Corporate Governance System



Reasons for Adopting the Governance Structure

To ensure management soundness and efficiency, the Group employs an extensive range of management monitoring functions. Moreover, based on our understanding of the importance of reflecting front-line management views in decision making, the Board of Directors includes not only senior management but also certain executive officers with special titles, who are responsible for overseeing certain supervisory execution domains, as well as external directors.

In addition to establishing an Audit & Supervisory Board, we have voluntarily established advisory panels for the Board of Directors, and apply mutual checks and oversight between executive officers on the board as well as oversight and supervision from external directors. This

structure is rigorously monitored by the Audit & Supervisory Board, and we believe this approach will contribute to strengthening corporate governance.

Internal Control System

Under the governance structure outlined above, the Board of Directors has established basic policies to ensure appropriate operations, including the establishment and revision of internal regulations, their promulgation and thorough implementation, and the establishment of special advisory panels. Executives and employees strive to implement these regulations, with the Internal Control Division and the Audit & Supervisory Board exercising rigorous oversight and supervision.

In particular, the Group's Code of Conduct Promotion

Committee helps to ensure management compliance by promulgating awareness of, and adherence to, our compliance standards. Our Helpline System for whistleblowers also helps to avoid and minimize risk.

In addition, our Internal Audit Division ensures the trustworthiness and accuracy of our financial reporting. The division is responsible for establishing and monitoring the management of internal control systems relating to financial reporting and for carrying out internal audits. The division also submits reports as appropriate to the Board of Directors and the Audit & Supervisory Board, which review the reports on an ongoing basis and work to devise structures to implement recommendations for improvement.

Risk Management Structure

The Total Risk Management Committee, chaired by the president executive officer, is the principal vehicle for the Group's total risk management system. This committee prioritizes the management of risks that may materially impact business continuity. Accordingly, the committee promotes the preparation of manuals and focuses on identifying, analyzing and evaluating signs of the materialization of risks to detect such risks quickly and introduce preventive measures.

Limitation of Liability for Damages

- (1) The Company has concluded agreements with external directors Satoshi Nakajima and Satoshi Nagao, based on Article 427-1 of the Companies Act and Article 24-2 of the Company's Articles of Incorporation, to limit the liability for damages as defined in Article 423-1 of the Companies Act. The amount of limitation of liability for damages pursuant to these agreements is ¥10 million or the minimum amount for external directors as specified in Article 425-1 of the Companies Act, whichever is higher.
- (2) The Company has concluded agreements with external Audit & Supervisory Board members, Masatoshi Tsuda and Yukihiro Tsujimura, based on Article 427-1 of the Companies Act and Article 32-2 of the Company's Articles of Incorporation, to limit the liability for damages as defined in Article 423-1 of the Companies Act. The amount of limitation of liability for damages pursuant to these agreements is ¥10 million or the minimum amount for auditors as specified in Article 425-1 of the Companies Act, whichever is higher.

Status of Internal Audits and Audits by Corporate Auditors

Internal Audits

The Company has in place an Internal Audit Division to ensure the appropriateness of business processes, the efficiency of organizational management and the effectiveness of internal controls, including for affiliated companies in Japan and overseas, as well as to audit the appropriateness of accounting. The Internal Audit Division's audit activities include conducting operational audits of the Company's various departments and affiliated companies in Japan and overseas and auditing the state of compliance with laws and internal regulations. The division submits reports of each of its audits to the president executive officer and directors in charge, and reports the content of these audits to the Board of

Directors and the Audit & Supervisory Board. With regard to accounting audits, the division verifies the monthly, quarterly and year-end financial statements submitted by the Financial Management Department. In addition, the person responsible for the Internal Audit Division serves as a standing member of the Audit & Supervisory Board Member Liaison Council (described below), exchanging information with the Audit & Supervisory Board members, liaising with other departments, and verifying the establishment and operational status of internal control systems.

Audits by Audit & Supervisory Board Members

The Company's Audit & Supervisory Board comprises three members, one of whom is a standing Audit & Supervisory Board member from within the Company and two of whom are external Audit & Supervisory Board members. In principle, the Audit & Supervisory Board meets monthly; during the fiscal year under review, the board met 13 times.

Audit & Supervisory Board members perform their audit activities in accordance with the audit policies defined in the Audit & Supervisory Board Regulations and the Standards for Audits by Audit & Supervisory Board Members, attend important meetings (Board of Directors, Management Meeting, Executive Board), express opinions as necessary, visit principal business locations in Japan and affiliated companies overseas, and offer advice to the representative director. With regard to accounting audits, members conduct required audits of monthly financial materials submitted by the Financial Management Department, and receive audit planning reports (annual) and regular accounting audit reports from the accounting auditor.

The Company has formulated Regulations for Ensuring the Effectiveness of Audits by Audit & Supervisory Board Members. These regulations clearly state the reporting obligations and methods for reporting by directors and employees to Audit & Supervisory Board members, as well as their obligation to cooperate with audits by the Audit & Supervisory Board members. The regulations therefore establish a framework for effective audits by Audit & Supervisory Board members. In addition, the Audit & Supervisory Board Member Liaison Council (attended by members of the Audit & Supervisory Board, Internal Audit Division, General Administration Division, Legal Office, Management Planning Department and Financial Management Department) convenes monthly. As necessary, members also exchange information and conduct hearings with the accounting auditor, directors of affiliated companies, Internal Audit Division and heads of other departments to boost audit efficiency and effectiveness.

Status of Accounting Audits

The Company has commissioned Deloitte Touche Tohmatsu LLC to conduct accounting audits based on the Companies Act and the Financial Instruments and Exchange Act. No special-interest relationship exists between the Company, this accounting auditor and its employees assigned to conduct audits of the Company. The Company and Deloitte Touche Tohmatsu have a contract in place concerning audits according to the Companies Act and the Financial Instruments and

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Exchange Act, and the Company provides audit compensation in accordance with this agreement. Furthermore, Deloitte Touche Tohmatsu has measures in place to ensure that the people it assigns to perform the Company's accounting audits do so for no more than a specified period of time.

The names of the certified public accountants assigned to conduct activities for the Company during the fiscal year under review, as well as the structure of personnel assisting in audit activities, are described below.

Names of Certified Public Accountants Assigned to Audit Operations

Designated limited liability partner: Shojiro Yoshimura, Engagement Partner

Designated limited liability partner: Hideyuki Hirata, Engagement Partner

Structure of Personnel Assisting with Accounting Audit Operations

Six certified public accountants, five others

External Directors and External Audit & Supervisory Board Members

The Company has two external directors and two external Audit & Supervisory Board members. Other than ownership of the Company's shares as described in information on the status of executives, no special-interest relationships exist between any of these external executives and the Company.

Satoshi Nakajima, External Director, is the Chairman of the Board of Directors of OGIS-RI Co., Ltd. The Company engages in operational outsourcing transactions with OGIS-RI in relation to information systems, but as the value of these transactions was less than 1% of consolidated net sales in fiscal 2014, we judge that this situation does not represent an issue for Mr. Nakajima's independence, nor do any special-interest relationships exist.

There are no equity or business relationships between Satoshi Nagao, External Director, and the Company, nor any other special relationships.

Masatoshi Tsuda, External Audit & Supervisory Board Member, is a management consultant. There are no capital ties between Mr. Tsuda and the Company, nor are there any significant business relationships or any other special relationships.

Yukihiro Tsujimura, External Audit & Supervisory Board Member, is an attorney and the representative director of the Yukihiro Tsujimura Law Office. No capital ties, significant business relationships or other special relationships exist between the Company and this law office.

By appointing external directors and external Audit & Supervisory Board members who have no special-interest relationships with the Company and are highly independent of the Company, the Company aims to reinforce its corporate governance and augment the Group's overall management quality. Although the Company does not have in place specific standards or policies for independence when appointing external directors and external Audit & Supervisory Board members, the Corporation refers to independence standards such as those provided by the Tokyo Stock

Exchange and strives to appoint people who have no conflicts of interest with the general shareholders. We have notified the Tokyo Stock Exchange that the Company's currently appointed external directors and external Audit & Supervisory Board members are all independent executives who satisfy the Tokyo Stock Exchange's standards for independence.

The external directors provide recommendations and advice on such broad-ranging items as management strategy and corporate governance based on an abundance of experience in practical operations and management. The external Audit & Supervisory Board members, meanwhile, provide appropriate remarks from an independent perspective about audit methods and the execution of operations by Audit & Supervisory Board members.

Where necessary, the external directors and external Audit & Supervisory Board members request reports from related institutions and related departments on the content of internal audits, audits by Audit & Supervisory Board members and accounting audits, and exchange information appropriately. Furthermore, the Audit & Supervisory Board Member Liaison Council provides a venue for forging close ties among internal control departments and conducting hearings as necessary and appropriate.

Content of Executive Compensation

Total Amount of Compensation by Executive Category, Total Amount by Type of Compensation, and Eligible Number of Executives

Executive category	Total amount of compensation (millions of yen)	Total amount by type of compensation (millions of yen)		Eligible number of executives
		Fixed	Variable	
Directors (excluding external directors)	¥252	¥180	¥72	5
Audit & Supervisory Board members (excluding external Audit & Supervisory Board members)	33	33	—	2
External executives	35	35	—	5

Policies and Methods of Determining Executive Compensation Amounts and Calculation Methods

(1) Method of Determining Compensation Amounts for Company Executives

The Company's compensation for operational executive directors is aimed at strengthening the links between the Company's operating performance and performance by individual operational executive directors, thus heightening their motivation to boost operating performance on an ongoing basis and over the medium to long term, as well as fostering increases in corporate value. In the interest of ensuring a steady devotion to their duties, compensation for operational executive directors includes a certain amount of fixed compensation as basic compensation for performing

their duties that does not reflect short-term operating performance. In addition, a certain amount of variable compensation is provided to serve as an incentive for executing operations and reflect short-term operating performance. The Company sets fixed compensation amounts at appropriate levels by referring to third-party data. These amounts differ according to executive rank and Group management responsibilities. Variable compensation reflects business performance with reference to the preceding fiscal year and achievement of planned targets, and payment amounts are set for each fiscal year.

In addition, amounts paid to individual operational executive directors are based on an evaluation of their individual performance.

Compensation for non-executive directors (excluding external directors) is composed solely of fixed compensation.

Compensation for Audit & Supervisory Board members is set at an appropriate level that reflects their important role and responsibility for conducting rigorous legal audits that form the basis of corporate governance for the Group and improve corporate value. As the role and responsibility of Audit & Supervisory Board members is to conduct rigorous legal audits unrelated to the Company's operating performance, their compensation is composed only of fixed compensation, which is not affected by operating performance.

(2) Compensation Amounts for Company Executives and Policies for Determining Compensation Amounts

The Compensation Committee, a majority of whose members are external executives, deliberates and recommends director compensation amounts. Based on these results, the Board of Directors resolves compensation amounts within the scope approved by the General Meeting of Shareholders. The Compensation Committee also deliberates and makes recommendations on policies related to determining director compensation amounts. The Board of Directors then resolves the amounts based on these results.

Audit & Supervisory Board member compensation amounts are determined according to the capabilities and audit experience of individual Audit & Supervisory Board members on a rational basis and referring to third-party data. These amounts are determined through deliberation among the members of the Audit & Supervisory Board, including the two external Audit & Supervisory Board members. Policies for determining Audit & Supervisory Board member compensation amounts are also decided through deliberation among the Audit & Supervisory Board members, including the two external Audit & Supervisory Board members.

Set Number of Directors

The Company's Articles of Incorporation provide that the number of directors shall be 12 or fewer.

Resolution Requirements for Director Appointments

To resolve a director's appointment, a meeting must be held that is attended by one-third or more of shareholders

with exercisable voting rights. The Articles of Incorporation provide that appointments must be approved by a majority of these voting rights and not through cumulative voting.

General Meeting of Shareholders Resolution Items That May Be Resolved by the Board of Directors

Acquisition of Treasury Stock

The Company's Articles of Incorporation provide that "in accordance with Article 165-2 of the Companies Act, treasury stock may be acquired in the market by resolution of the Board of Directors." This measure is intended as a component of expeditious capital policy.

Exemption of Liability for Directors and Audit & Supervisory Board Members

With regard to the exemption of liability for directors, the Company's Articles of Incorporation provide that "in accordance with Article 426-1 of the Companies Act, by resolution of the Board of Directors the Company may set limitations on liability for damages for directors (including former directors)." This measure is in place to ensure superior director personnel and provide an environment for proactive decision making and execution of operations, without causing directors to refrain from such duties. Furthermore, with regard to the exemption of liability for Audit & Supervisory Board members, the Company's Articles of Incorporation provide that "in accordance with Article 426-1 of the Companies Act, by resolution of the Board of Directors the Company may set limitations on liability for damages for Audit & Supervisory Board members (including former Audit & Supervisory Board members)." This measure is in place to ensure superior personnel as Audit & Supervisory Board members and provide an environment that enables Audit & Supervisory Board members to adequately fulfill the duties expected of them.

Bodies for Determining Dividends from the Surplus

The Company's Articles of Incorporation provide that "in accordance with Article 459-1 of the Companies Act, dividends of surplus may be determined by resolution of the Board of Directors except as otherwise provided by laws and ordinances." This measure is intended as a component of expeditious capital measures and dividend policy and does not eliminate the General Meeting of Shareholders' rights related to resolving dividends from the surplus.

Items Requiring Extraordinary Resolution by the General Meeting of Shareholders

The Company's Articles of Incorporation provide that items requiring extraordinary resolution by the General Meeting of Shareholders are "to be determined in accordance with Article 309-2 of the Companies Act, at a meeting attended by one-third or more of shareholders with exercisable voting rights, and approved by two-thirds or more of shareholder voting rights attending." The aim in mitigating the number of people required for extraordinary resolutions by the General Meeting of Shareholders is to ensure expeditious decision making and execution of operations.