

Corporate Governance Guidelines

SUBARU CORPORATION

Chapter 1. General Provisions

Article 1. Purpose

These guidelines set out the basic policy, framework and operating policy of the corporate governance of Subaru Corporation (hereinafter referred to as the “Company”) in order for the Subaru Corporation Group (hereinafter referred to as the “Group”) to achieve sustainable growth and improve its corporate value in the medium and long term.

Article 2. Basic policy of the corporate governance

1. Aspiring to the Subaru vision of being a “Delivering happiness to all” the Company shall work on the enhancement of corporate governance as one of the top priorities of management in order to gain the satisfaction and trust of all its stakeholders by achieving sustainable growth and improving its corporate value in the medium and long term based on the corporate philosophy and management philosophy outlined below
2. The Company shall clearly separate the function of decision making and the oversight of corporate management from that of the execution of business operations and aim to realize effective corporate management by expediting decision making.
3. The Company shall ensure proper decision making and the oversight of corporate management and the execution of business operations as well as enhance its risk management system and compliance system through the monitoring of its management and operations and advice provided by outside officers.
4. The Company shall implement proper and timely disclosure of information in order to improve the transparency of management.

Subaru’s vision, value statement, and corporate statement



Article 3. Revision and amendment and/or abolition

The Board of Directors shall consider reviewing these guidelines appropriately and amend and/or abolish them by its resolution as necessary, in order to realize effective corporate governance in view of changes in economic and social circumstances, etc.

Chapter 2. Ensuring Rights and Equal Treatment of Shareholders

Article 4. Ensuring equal treatment of shareholders

The Company shall treat its shareholders equally in accordance with the features and number of the shares they hold in order to ensure substantial equality of shareholders.

Article 5. General Meeting of Shareholders

1. The Company shall recognize that the General Meeting of Shareholders is an opportunity to hold constructive dialogue with shareholders and make efforts to improve the environment for the exercise of rights at the General Meeting of Shareholders.
2. The Company shall make efforts to send the notice of convocation of the Ordinary General Meeting of Shareholders about a week earlier than the date required by law so that its shareholders have adequate time to examine proposals for the meeting and exercise their voting rights appropriately. In addition, the Company shall post said notice of convocation on its website as well as the websites of stock exchanges before sending it by mail.
3. The Company shall make efforts to improve the environment for all its shareholders to exercise their voting rights appropriately through means such as participation in electronic voting platforms and publishing an English translation of the notice of convocation.
4. In principle, only shareholders whose names are recorded in the register, or proxies as stipulated in the Articles of Incorporation, are entitled to exercise their voting rights at the General Meeting of Shareholders; substantial shareholders, however, are allowed to listen to the proceedings of the General Meeting of Shareholders, if they have requested in advance to attend via shareholders recorded in the register, provided that they have followed the prescribed procedures.
5. The Company shall make efforts to set the date of the General Meeting of Shareholders in principle by avoiding the dates on which there is a concentration of other shareholder meetings.
6. If a proposal submitted by the Company is resolved but there are a considerable number of votes against it, the Board of Directors shall analyze the reasons for objection and the factors that prompted the votes against the proposal and examine the proper response to such objection.

Article 6. Basic capital policy

1. The Company shall conduct daily corporate management by recognizing “return on capital,” “financial soundness” and “return to shareholders” as the three key indicators of capital policy.
2. Specifically, the Company shall appropriately return profits to shareholders, while maintaining a balance at a high level between return on equity (hereafter, referred to as the “ROE”) and equity ratio in the medium and long term.
3. The Company shall basically return profit to shareholders by means of dividend payment, with the idea

of continuous and performance-linked dividend payment. However, the Company may buy back or retire its own stock according to the situation.

4. As for capital policies that would lead to a change of control or significant dilution, the Board of Directors shall judge whether or not such policies will contribute to the improvement in the Company's corporate value upon examining and verifying their impact on all the Company's stakeholders from various perspectives, and then determine a course of action.

Article 7. Basic policy regarding cross-shareholdings and the exercise of voting rights of shares in a cross-shareholding

1. Regarding listed stocks held by the Company as cross-shareholdings, the Company shall conduct dialogues with the corresponding companies and, each year, have the Board of Directors assess the purpose of the cross-shareholding and measure the benefits and capital cost thereof. If the Board of Directors judges based on said quantitative verifications, that a cross-shareholding will contribute to management and business strategies in the medium and long term, the Company shall continue to hold that shareholding.
2. Regarding the exercise of voting rights for listed stocks held by the Company as cross-shareholdings, the Board of Directors shall determine the criteria for the exercise of voting rights. The Company shall also exercise such voting rights appropriately, having made a comprehensive decision based on the above dialogues with the corresponding companies and efforts to improve corporate value from the viewpoints of the relevant companies' business performance, management policies, medium- and long-term management plans, corporate governance, social responsibility, and other considerations.

Article 8. Transactions with related parties

If the Company's directors conduct competition and conflict of interest transactions with the Company prescribed by laws and regulations, they shall report such transactions to and obtain approval from the Board of Directors in advance.

Chapter 3. Proper Cooperation with Stakeholders

Article 9. Conduct in accordance with the management vision

The Company shall conduct itself and put its business activities into practice in hopes of achieving the Subaru vision, value statement, and corporate statement as it strives to fulfill its management vision while fulfilling its social responsibilities in full compliance.

STEP: The Subaru Mid-Term Management Vision

Vision for 2025

1. Become a brand that is "different" from others by enhancing distinctiveness
2. Engage in business activities that resonate with customers by putting them center-stage
3. Fulfill corporate social responsibilities by contributing to diversifying social needs

Article 10. Sustainability initiatives

1. Through its business activities, the Company shall help to resolve various social issues and achieve a sustainable society according to the following Subaru Global Sustainability Policy, which has been approved by the Board of Directors.

Subaru Global Sustainability Policy

We, Subaru Group, are committed to sustainable business practices designed to promote harmony between people, society and the environment in the following ways:

1. Through our business activities, we will contribute to the resolution of various social issues, including the protection of the global environment, and to the creation of a sustainable society.
2. Respecting the quality and originality of our products, we will continue to provide Subaru's unique value using advanced technologies, and enrich the lives of all those involved with the Subaru Group.
3. As a good corporate citizen in the international community, we respect human rights, diverse values and individuality, and treat all stakeholders with sincerity in every interaction.
4. We strive to maintain and advance the workplace environment so that employees can work safely in peace, and with a sense of satisfaction.
5. We respect international rules and the laws and regulations of each country and region, as well as local culture and customs, and pursue fair and transparent corporate governance.
6. We make use of dialogue with stakeholders to management decisions, and disclose corporate information in a timely and proper manner.

(Subaru Group means Subaru Corporation and its all subsidiaries)

2. The Company shall enhance its CSR initiatives by establishing a Sustainability Committee presided over by a director appointed by the Board of Directors as an organization to promote CSR and taking into account societal perspectives when considering the Company's business.
3. The Company shall, according to the Subaru Global Sustainability Policy, strive to communicate appropriately with stakeholders by disclosing its sustainability approach, goals, and initiatives.

Article 11. Human rights initiatives

1. As part of its efforts to enhance CSR initiatives, the Company shall establish a human rights policy for the Subaru Group based on the United Nations Guiding Principles on Business and Human Rights, and respect for the rights and characteristics of individuals.
2. The Company shall clarify the Subaru Group's responsibilities to respect human rights, shall appoint Representative Director, President and CEO as a director who is responsible for leading the process of developing the Policy and assigning resources as needed for its implementation and continued improvement, and shall make ongoing efforts, in particular, to response to human rights risks and strive to implement remedies.

Article 12. Promotion of diversity

The Company shall respect the diversity of gender, age, nationality, culture, lifestyle, etc., and endeavor to provide a comfortable working environment to enable employees with different individual backgrounds and values fulfill their potential, in order to continue creating values that will satisfy customers. The Company shall promote diversity management to enable a broad range of employees, including female employees, mid-career recruits, and non-Japanese employees, to thrive as professionals.

Article 13. Environmental initiatives

1. The Company's Environmental Policy declares that "The earth, the sky and nature' are Subaru's fields of business." The Company considers that, to ensure the future sustainability of both society and its own organization, it is of utmost importance to preserve the earth's environment, comprising 'the earth, the sky and nature,' which are the fields in which our automotive and aerospace businesses—the pillars of our enterprise—operate. Accordingly, the Company shall pursue environmental initiatives in all its business activities.
2. To combine the sustainable growth of society and its own organization with preservation of the earth's environment, the Company shall establish an Environmental Committee chaired by the corporate vice president in charge of sustainability, as appointed by the Board of Directors, to deliberate and decide on overall medium- and long-term measures (comprising targets, etc.) aligned with the environmental standards that society will demand in future, and to assess the progress of those measures.
3. The Company shall work to enhance the quality and quantity of its disclosures of Subaru Group information relating to climate change in accordance with internationally established disclosure frameworks.

Article 14. Risk management and compliance

1. The Company views risk management and compliance as a key responsibility of management and firmly believes that only through company-wide implementation of risk management and compliance can our business have a strong foundation. The Company shall strive to engage in fair and just corporate activities that comply with laws and regulations, its own internal rules, and the standards of society. It shall also conduct activities to avoid compliance and other risks and to minimize human, social, and economic loss caused by such risks.
2. The Company shall stipulate regulations relating to risk management and compliance. It shall establish a system to ensure that all its officers and employees comply with requirements including laws and regulations, the Articles of Incorporation, and internal rules, as well as a system for implementation of risk management.
3. The Company shall establish a Risk Management and Compliance Committee chaired by a director appointed by the Board of Directors as an organization to thoroughly manage risk and implement compliance. The committee shall conduct deliberations and discussions, make decisions, and engage in information exchange and communication with regard to important matters relating to risk management and compliance.

4. The Company shall establish an internal reporting system (Compliance Hotline) serving as an internal communication channel to report any illegal acts, etc., in business by the Group and its officers and employees should they discover such acts, in order to help create a transparent and fair corporate culture and thoroughly ensure compliance, and the Company shall operate the Compliance Hotline in an appropriate manner.

Chapter 4. Appropriate Information Disclosure and Securing of Transparency

Article 15. Information disclosure

1. The Company shall strive to ensure fair disclosure based on the Corporate Information Disclosure Regulations and Disclosure Policy. Accordingly, the Company shall undertake the disclosure of corporate information in accordance with the law, in a swift, fair and proper manner, in a way that stakeholders can fully understand the activities of the Company, including such information as management strategy and business activities.
2. The Company shall promote information disclosure and the provision of information in English to a reasonable extent from the viewpoint of achieving fairness of information disclosure.

Article 16. Accounting Auditor

1. The Company shall acknowledge that the accounting auditor plays an important role in ensuring the accuracy of financial reporting and implements proper measures to ensure appropriate audit practices.
2. The accounting auditor shall maintain its independence from the Company and perform business operations systematically to ensure quality control over its audit practices.
3. The Company shall endeavor to provide an environment that will enable the accounting auditor to perform high-quality audits through such means as providing opportunities to interview the chief executive officer (hereafter, referred to as the “CEO”) and the chief financial officer (hereafter, referred to as the “CFO”) and ensuring cooperation with the Internal Audit Department.
4. The Company shall have the Board of Corporate Auditors determine the appointment/dismissal or non-reappointment of the accounting auditor upon checking the appropriateness of the status of execution of its duties, the audit system and independence/expertise, etc., of the accounting auditor.

Chapter 5. Responsibilities of the Board of Directors, etc.

Article 17. Organizational design

1. The Company shall choose to be a company with a board of corporate auditors as its corporate governance structure, and the Board of Directors shall decide and supervise the execution of important business.
2. With regard to the business operation system, the Company shall establish the Executive Management Board Meeting as a preliminary consultation body to conduct deliberations on companywide management strategies and the execution of important business before their presentation at the Board of Directors Meeting. In addition, the Company shall adopt a corporate vice president system and establish the Executive Board Meeting as the decision-making body of each business department, and convert Aerospace divisions into internal companies, in order to clarify responsibilities and accelerate the execution of business operations.

Article 18. Roles and responsibilities of the Board of Directors

1. The Board of Directors shall be responsible for helping the Company achieve the Subaru vision, value statement, and corporate statement, an effort through which the Company shall work to attain sustainable growth and maximize corporate value in the medium and long term, for the Company's shareholders and all other stakeholders.
2. In order to fulfill the responsibilities prescribed in the preceding paragraph, the Board of Directors shall perform the oversight function for overall management to ensure fairness and transparency of management. The Board of Directors shall also make the best decisions possible for the Company through appointment, evaluation and resolution regarding the compensation of its CEO and other management team members, the assessment of material risks faced by the Company and the development of measures to deal with such risks, and decisions on the execution of important business of the Company, etc.
3. The Board of Directors shall set forth matters to be resolved by itself in the Regulations of the Board of Directors and clarify those decisions on matters that do not fall under the category of matters to be resolved, etc., are entrusted to corporate vice presidents appointed by the Board of Directors.
4. The Board of Directors formulates the basic policy for the establishment of the internal control system and endeavors to achieve the optimal operation and improvement of the internal control system to maintain the effectiveness and efficiency of internal control.
5. The Board of Directors shall oversee the Risk Management and Compliance Committee that conducts deliberations and discussions, makes decisions, and engages in information exchange and communication with regard to important matters relating to risk management and compliance, and endeavor to implement risk management and compliance fairly and effectively.
6. The Board of Directors and executive officers make their best efforts towards the achievement of targets set in the mid-term management plan. They appropriately check the progress towards targets at Executive Management Board Meetings and Executive Board Meetings and implement proper measures as necessary. If targets need to be revised, the Board of Directors and senior management adequately analyze factors requiring revision and clearly disclose the results to shareholders.

7. The Board of Directors regards enhancing corporate managers as an important issue for the Company to achieve sustainable growth, and conducts proper oversight of the successor plan for the CEO and other top executives based on the requirements for officers, etc., derived from the Company's management philosophy and management strategy, etc. Its oversight entails conducting continuous deliberations taking into account factors such as changes in the business environment, as well as ensuring that the training of prospective successors is undertaken systematically with adequate time and resources invested.

Article 19. Structure of the Board of Directors

1. The Board of Directors shall be structured to ensure the balance of knowledge, experience, and ability within its organization as a whole that is essential for sustainable growth and medium- to long-term improvement in corporate value of the Company. Furthermore, consideration shall be given to such attributes as gender and international experience thereby ensuring substantial diversity.
2. To ensure the balance of knowledge, experience, and ability, as well as diversity, as detailed in the preceding paragraph, the Board of Directors shall select two or more outside directors from among corporate managers, experts, etc., in view of their experience, insight, and expertise.
3. Internal directors shall be selected, after comprehensive evaluation and judgment of their experience, insight, expertise, etc., in light of the requirements for officers derived from the Company's corporate statement and management strategy, etc.
4. The number of directors shall be limited to fifteen or less (combined total of directors and outside directors) as prescribed in the Articles of Incorporation.

Article 20. Roles and responsibilities of independent outside directors

1. Independent outside directors of the Company shall fulfill the roles of the monitoring function from a position independent from the management team and provide appropriate advice to the Company's management based on a wide range of sophisticated knowledge.
2. The Company shall appoint two or more independent outside directors with the wide-ranging viewpoints of stakeholders, in order to contribute to the attainment of sustainable growth and the enhancement of corporate value in the medium and long term, as well as improvement in the social value of the Company.
3. Independent outside directors must allocate the time and effort that are necessary to fulfill their roles and responsibilities for performing the duties of the Company's directors.
4. The Company shall provide a working environment that enables outside directors to perform their duties efficiently through such means as the preliminary arrangement of meeting dates, etc. In addition, the Company shall check continuously the detailed status of execution of duties, etc., such as the number of companies in which outside directors are concurrently holding positions and the status of attendance and the remarks of outside directors at meetings, and disclose the results in business reports.
5. Independent outside directors, upon assuming the post, shall understand relevant laws and regulations, the Company's Articles of Incorporation and other internal regulations, such as the Board of Directors Regulations, in order to adequately fulfill their responsibilities.
6. The Company shall create opportunities for independent outside directors and independent outside corporate auditors to exchange opinions, with the aim of having independent outside directors

proactively contribute to discussions at the Board of Directors Meeting to help the Company achieve sustainable growth and improve corporate value in the medium and long term.

7. The Company shall create opportunities for sharing information and exchanging opinions with directors, corporate auditors and corporate vice presidents, in order for independent outside directors to communicate or coordinate with the management team or enhance cooperation with corporate auditors or the Board of Corporate Auditors.

Article 21. Appointment of independent outside directors

Outside director candidates shall satisfy the requirements of the following items.

- (1) Persons who play a leadership role in the fields of company management, legal circles, accounting, public administration, consulting, education, etc., and have extensive experience and expert knowledge.
- (2) Persons who are deeply interested in the Company's business, understand the essence of the issues faced by the Company from the position of observing the overall management of the Company and have the ability to express opinions and provide guidance and oversight to the management team in a timely and appropriate manner.
- (3) Persons who meet the independence requirements set forth by stock exchanges, as well as criteria for independence prescribed by the Company.

Article 22. Management of the Board of Directors

1. The Board of Directors shall endeavor to improve the management of meetings in order to promote the respect for free, vigorous and constructive discussion and exchange of opinions, including raising issues by outside directors, and stimulate deliberations.
2. The Board of Directors shall distribute materials for its meetings in advance to ensure the time necessary for prior examination by directors and corporate auditors according to the contents of such materials. In addition, the Board of Directors shall provide materials other than materials for the Board of Directors Meetings, which are necessary to understand the conditions of management as needed.
3. The Board of Directors shall disseminate the annual schedule of its meetings and matters expected to be discussed and reported at such meetings in advance, to the maximum extent possible.
4. The Board of Directors shall set the agendas, time for deliberation and frequency of its meetings to enable necessary and adequate discussion, in order to decide on the execution of important business and oversee the performance of duties.
5. The Board of Directors shall endeavor to have a preliminary organization of the Board of Directors conduct sufficient deliberations on agenda items to be discussed and matters to be reported at the Board of Directors Meeting, and send materials and provide explanations to outside directors in advance as necessary, so that meaningful opinions, comments or questions will be provided at the Board of Directors Meeting.

Article 23. Evaluation of the Board of Directors

The Board of Directors shall conduct an analysis and evaluation of its effectiveness and other criteria based on periodical interviews of each director, etc., and disclose the outline of the results of analysis and evaluation in a timely and appropriate manner.

Article 24. Roles and responsibilities of corporate auditors and the Board of Corporate Auditors

1. The Board of Corporate Auditors, as an independent organization entrusted by shareholders, shall be responsible for ensuring the sound and sustainable growth of the Company and establishing a high-quality corporate governance system that can be trusted by society by performing audits of the execution of duties by directors, passing resolutions on the contents of proposal items regarding the appointment and dismissal, or non-reappointment, of accounting auditor that will be submitted to the General Meeting of Shareholders, and performing business audits, accounting audits and other matters prescribed by the laws and regulations.
2. Corporate auditors must attend the Board of Directors Meeting and other important meetings, verify the content of reports received from directors, employees or accounting auditor, etc., and implement necessary measures, such as expressing opinions by giving advice or recommendations to directors or employees, in a timely manner.
3. The Board of Corporate Auditors shall establish the Regulations of the Board of Corporate Auditors and Code of Corporate Auditor's Auditing Standards to perform its duties and comply with them.
4. Outside corporate auditors must allocate the time and effort that are necessary to fulfill their roles and responsibilities for performing the corporate auditor's duties of the Company.
5. The Company shall provide a working environment that enables corporate auditors to perform their duties efficiently through such means as the preliminary arrangement of meeting dates, etc. In addition, the Company shall check continuously the detailed status of the execution of duties, etc., such as the number of companies in which outside corporate auditors are concurrently holding positions and the status of attendance and the remarks of outside corporate auditors at meetings, and disclose the results in business reports.

Article 25. Policy and procedures for decision on nomination

1. The Board of Directors, when nominating candidates for directors and corporate auditors and appointing/dismissing the CEO or corporate vice presidents, shall consider whether or not the person in question has extensive experience, high levels of ability and insight, and advanced expertise commensurate with a position as the Company's director, corporate auditor, or corporate vice president in order to contribute to achieving Subaru's vision, value statement, and corporate statement and effective corporate governance, as well as sustainable growth and improvement in corporate value in the medium and long term.
2. When nominating candidates for directors, the Board of Directors shall nominate two or more independent outside directors from the viewpoints of giving consideration to diversity, etc., within the Board of Directors, and improving the transparency of management and shareholder value by serving the oversight functions of management from an independent position.
3. The nomination of candidates for directors and corporate auditors and the appointment/dismissal of the CEO or corporate vice presidents shall be determined by a resolution at the Board of Directors Meeting. To ensure the fairness and transparency of decisions on executive appointment the Executive Nomination Meeting shall submit to the Board of Directors proposals of nomination and appointment/dismissal approved following full deliberation by committee members including independent outside directors, based on advice from the Board of Directors.

4. Each director can request that a meeting of the Board of Directors be convened at any time for the purpose of appointment/dismissal of the CEO, etc.
5. To ensure transparency and effectiveness of the executive nomination decision process, the Executive Nomination Meeting shall, by a resolution of the Board of Directors, be structured so that the majority of its members are outside directors, and its chairman shall be appointed by a resolution of the Board of Directors.
6. When nominating candidates for corporate auditors, the approval of the Board of Corporate Auditors shall be obtained.
7. When nominating candidates for directors and corporate auditors and appointing/dismissing corporate vice presidents, in each case explanations shall be required on matters such as background, the status of concurrent holding of positions, insights and expected roles at the Company of the candidate, and the reasons for the nomination or appointment/dismissal.

Article 26. Policy and procedures for determining compensation

1. The Board of Directors shall design a compensation system via an objective, transparent process, determine a policy for determining details of compensation for individual directors, and disclose said policy in order to ensure that the compensation for management team members effectively functions as an appropriate incentive for fostering sustainable growth and improving corporate value in the medium and long term.
 - (1) Compensation, etc., shall be of levels commensurate with the roles and responsibilities of directors and corporate vice presidents, as well as being proper, fair and balanced.
 - (2) The compensation structure shall be determined by giving consideration to generating motivation for sustainable improvement in corporate performance and corporate value and securing excellent human resources.
2. The Executive Compensation Meeting, by a resolution of and upon delegation by the Board of Directors, determines specific amounts of compensation, etc. of individual directors, following sufficient deliberation by its members including outside directors.
3. To ensure transparency and effectiveness of the executive compensation determination process, the Executive Compensation Meeting shall, by a resolution of the Board of Directors, be structured so that the majority of its members are outside directors, and its chairman shall be appointed by a resolution of the Board of Directors.

Article 27. Support system for directors and corporate auditors

1. Directors and corporate auditors shall gather information for effectively fulfilling their roles and responsibilities, while the Company shall endeavor to improve the system for properly providing necessary information.
2. Directors and corporate auditors, including outside directors and outside corporate auditors, shall request the Company to provide additional information if deemed necessary to adequately fulfill their roles and responsibilities.
3. The Company shall establish a system that enables directors and corporate auditors to obtain assistance from external experts, such as lawyers and certified public accountants, as needed, and bear the necessary costs for the system.

4. The Internal Audit Department and other operating departments shall ensure cooperation with directors and corporate auditors and proactively provide information if directors and corporate auditors request the provision of information necessary for performing their duties.

Article 28. Training of directors and corporate auditors

1. The Company shall continuously provide directors and corporate auditors with information and knowledge on its business activities necessary for the oversight of corporate management so that they can adequately fulfill their responsibilities.
2. The Company shall provide outside officers with opportunities to obtain reports on business operations from operating departments and for plant tours, etc., with the aim of continuously providing information on the Company's management philosophy, corporate culture and business environment, etc. The Company shall also cultivate an environment for enhancing information sharing and exchanging opinions between officers.
3. The Company shall bear the costs necessary for directors and corporate auditors to fulfill their roles.

Chapter 6. Dialogue with Shareholders

Article 29. Policy for constructive dialogue with shareholders

1. The Company shall endeavor to develop a long-term relationship of trust with shareholders by holding constructive dialogue with them in order to contribute to the achievement of sustainable growth and improvement in corporate value in the medium and long term.
2. The overall constructive dialogue with shareholders shall be supervised by the CEO and CFO and taken charge by the Investor Relations Department. In addition, relevant departments, including the Corporate Planning Department, Secretarial Office, Finance & Accounting Department, Legal Department and Audit Department, shall cooperate organically in order to enhance dialogue.
3. The Company shall proactively disseminate clear information to shareholders through such means as timely holding various briefing meetings and utilizing its website, in order to deepen shareholders' understanding about management strategy, description of business, products, performance, etc.
4. The Company shall periodically update directors, corporate auditors and corporate vice presidents, as well as relevant departments, on the details of opinions and concerns of shareholders obtained through dialogue with them.
5. The Company shall implement information management thoroughly in accordance with the Insider Trading Prevention Rules, in order to prevent the leakage of undisclosed important internal information (insider information) through dialogue with shareholders. In addition, the Company shall hold appropriate dialogue with shareholders through fair disclosure in accordance with the Corporate Information Disclosure Regulations and Disclosure Policy specified separately.

End

Supplementary provisions

Effective on November 5, 2015

Revised on June 28, 2016

Revised on October 1, 2016

Revised on June 23, 2017

Revised on November 5, 2018

Revised on April 1, 2019

Revised on April 1, 2020

Revised on November 5, 2021

<Criteria for Independence of Outside Officers>

The Company considers that it is desirable for outside directors and outside corporate auditors (hereafter, collectively referred to as “outside officers”) to maintain independence to the maximum extent possible, in order to ensure corporate management with high levels of objectivity and transparency and a strong management oversight function, and to improve corporate value.

Accordingly, the Company shall set the criteria for independence and conduct an investigation to the extent reasonably possible. If any of the following items apply to an outside officer, the Company deems that the relevant outside officer does not maintain adequate independence.

1. A person engaged in business execution^{*1} of the Company and its current consolidated subsidiaries (hereafter, referred to as the “Group”)
2. A major shareholder^{*2} of the Company or a person engaged in business execution of a major shareholder
3. A major business partner^{*3} of the Group or a person engaged in business execution of such business partner, or a business partner for whom the Group is a major business partner^{*4} or a person engaged in business execution of such business partner
4. A person engaged in business execution of the Group’s major lender^{*5}
5. A party whose shares corresponding to 5% or more of the voting rights the Group holds, or a person engaged in business execution of such party
6. A person who belongs to the accounting firm that performs statutory audits of the Company
7. A consultant, accounting professional or legal professional obtaining large amounts^{*6} of money or other financial benefits other than officers’ compensation from the Company (if such financial benefits are obtained by an organization, such as an incorporated entity and union, a person belonging to such organization)
8. A person or a person who belongs to a corporation or association receiving a large donation^{*6} from the Group and who is directly engaged in the activity for the donation.
9. If a person engaged in business execution of the Group is concurrently holding the position of outside officer at another company, a person engaged in business execution of such company
10. Close relatives^{*7} of a person who fall within any of items 1. through 9. above.
11. A person who fall within any of items 2. through 10. above during the past 5 years
12. A person who has been holding the position of outside officer of the Company for a cumulative total of eight or more years
13. A person for whom a substantial conflict of interest may constantly occur with the Company’s general shareholders as a whole for reasons other than those considered in items 1. through 12. above

*1 A person engaged in business execution refers to executive directors, executive officers, corporate vice presidents or other persons performing an equivalent function and employees who belong to the Group currently.

*2 A major shareholder refers to a shareholder holding 5% or more of the voting rights of the Company in their own name or another person’s name as of the end of the most recent fiscal year. If a major shareholder is an organization such as an incorporated entity and union, a person engaged in business execution of item 2. refers to such person who belongs to said organization.

*3 A major business partner of the Group refers to a business partner with which the Company conducts business transactions for which net sales, etc., in any one fiscal year of the three fiscal years immediately preceding the most recent fiscal year exceed 2% of the Group’s annual consolidated net sales, etc., in the relevant fiscal year.

*4 A business partner to which the Group is a major business partner refers to a business partner with which the Company or its consolidated subsidiaries conduct business transactions for which net sales, etc., in any one fiscal year of the three fiscal years immediately preceding the most recent fiscal year exceed 2% of the annual net sales, etc., of the said company group.

*5 A major lender refers to a financial institution from which the Group borrows funds for which the outstanding borrowings as of the end of the most recent fiscal year exceed 2% of the consolidated total assets of the Company.

*6 A large amount refers to a case in which the amount of consideration or donation received from the Company exceeds 10 million yen for an individual and either higher amount of followings 10 million yen or 2% of annual gross income or consolidated net sales for an incorporated entity or association per year.

*7 Close relatives refer to spouses and first- and second-degree relatives.

< The Policy for Determining Details of Compensation for Individual Directors >

1. Basic policy

As a basic policy, compensation for directors of the Company is determined in view of the following items:

- (1) Compensation is at a level commensurate with the roles and responsibilities of directors and is appropriate, fair, and balanced.
- (2) The compensation structure is determined by giving consideration to providing motivation for sustained improvement in corporate performance and corporate value and securing excellent human resources. Specifically, compensation for Directors, excluding Outside Directors, will consist of base compensation, annual performance-linked bonus, and compensation in restricted stock (for non-residents, phantom stock, instead of restricted stock). For outside directors, the Company pays only basic compensation in view of their roles of fulfilling monitoring and oversight functions of corporate management from an independent position. The total amount of compensation for individual directors and the levels of each compensation item are set for every position depending on difference in responsibility by utilizing the research data compiled by outside specialized agencies.

2. Policy for determining the amount of monetary compensation excluding performance-linked compensation (hereinafter, the “Fixed Monetary Compensation”), performance-linked compensation, and non-monetary compensation (including the policy for determining the timing or conditions for granting such compensation)

(1) Policy for the Fixed Monetary Compensation

Directors receive the Fixed Monetary Compensation monthly as basic compensation. The amount for individual directors is determined based on their positions, taking into consideration elements such as the business environment.

(2) Policy for performance-linked compensation

Directors, excluding Outside Directors, shall receive annual performance-linked compensation by cash at a certain time of the year. The specific amount is determined according to a compensation table by position prepared based on the consolidated profit before tax for the current fiscal year as a key performance indicator (KPI).

In addition, in order to facilitate the achievement of the Group's medium- and long-term strategy targets, a portion of the restricted stock compensation to be granted as non-monetary compensation (see (3) below) will be set as Performance Share Units (hereafter, "PSUs"), in which the number of shares granted is linked to the degree to which target business results are achieved. To set KPIs for PSUs, consolidated return on equity, a key financial indicator in the mid-term strategy, as well as employee engagement as a non-financial indicator, will be adopted.

The Company will appropriately review the KPIs for annual performance-linked bonuses and PSUs based on changes in the environment and reports from the Executive Compensation Meeting.

(3) Policy for non-monetary compensation

The Company grants restricted stock units to Directors (excluding Outside Directors) for the purpose of providing them an incentive for sustained improvement of the Company's corporate value and further value sharing with the shareholders

A portion of the restricted stock compensation shall be granted as fixed compensation and the remainder as variable compensation, both of which shall be prohibited from being transferred during the term of office and the restriction on transfer shall be lifted upon retirement.

Restricted stock compensation in the form of fixed compensation (RS) shall be granted as shares of the Company's common stock that are equivalent to a standard amount determined by taking into consideration the Company's business performance, the scope of each Director's responsibilities, and various other circumstances at a certain time of the year.

At a certain time of the year, the Company shall grant restricted stock compensation in the form of fixed compensation (PSU) in a number of units (1 unit = 1 share) that are equivalent to a standard amount determined by taking into consideration the Company's performance, the scope of each Director's responsibilities, and various other circumstances. After the evaluation period, shares of the Company's common stock shall be granted in a number calculated by multiplying the number of units by a payment ratio (50% to 100%) that is determined in conjunction with the degree to which the target business performance indicators have been achieved.

The total number of shares of the Company's common stock to be allocated to Directors as restricted stock compensation as part of RS and PSUs shall be limited to 150,000 shares per year. In addition, the Company and Directors shall enter into a restricted stock allotment agreement that includes an overview and provisions that state (1) Directors shall not, for a set period of time period during his/her term of office as an officer of the Company, transfer, create a security interest on, or otherwise dispose of the shares of the Company's common stock that have been allotted to them, and (2) the Company may acquire the said shares of its common stock without compensation if certain events occur.

Compensation for a Director who is a non-resident at the time of granting shares will be paid in the form of a phantom stock equivalent to the said stock compensation instead of restricted stock compensation, thereby being treated in accordance with the restricted stock allotment agreement.

3. Policy for determining the proportion of the Fixed Monetary Compensation, performance-linked compensation, and non-monetary compensation to the total amount of compensation, etc. for individual directors

The Company shall appropriately determine the proportion of compensation by type of directors excluding outside directors in reference to the compensation levels and compensation mix of companies of a similar scale to the Company or industry peers obtained through an external research company, and in consideration of factors such as the Company's overall salary level and social situations. The following proportions are generally used as rough standards (for performance-linked compensation, the proportions are those of the base amount).

	Breakdown				Rate	
	Basic compensation	Annual performance-linked Compensation	Restricted stock Compensation		President	Directors other than the President
			RS	PSU		
Fixed Monetary Compensation	●				45%	50%
Performance-linked Compensation		●		●	45%* ¹	40%* ²
Non-monetary Compensation			●	●	25%* ¹	20%* ²

The Company shall appropriately review the compensation level and compensation mix in consideration of the Company's business environment, as well as the situation of companies of a similar scale to the Company or industry peers, and other circumstances based on reports from the Executive Compensation Meeting.

4. Matters concerning the determination of details of compensation, etc. for individual directors

The Executive Compensation Meeting, by a resolution of and upon delegation by the Board of Directors, determines specific amounts of compensation, etc. of individual directors, following sufficient deliberation by its members including outside directors. Its authorities include the determination of specific amounts of basic compensation, annual performance-linked bonuses, and restricted stock compensation, and their payment schedule. For restricted stock units, the number of shares allotted to individual directors is determined by the resolution of the Board of Directors based on decisions of the Executive Compensation Meeting.

With regard to revisions of the compensation system and other matters pertaining to compensation overall, proposals approved by the Executive Compensation Meeting are deliberated and decided on by the Board of Directors.

To ensure transparency and effectiveness of the executive compensation determination process, the Executive Compensation Meeting shall, by a resolution of the Board of Directors, be structured so that the majority of its members are outside directors, and its chairman shall be appointed by a resolution of the Board of Directors.

*1: Each of the performance-based compensation (45%) and non-monetary compensation (25%) includes restricted stock unit compensation (PSU) (15%).

*2: Each of the performance-based compensation (40%) and non-monetary compensation (20%) includes restricted stock unit compensation (PSU) (10%).