

## Policies and Procedures for Election and Dismissal of Executives and Nomination of Director and Audit & Supervisory Board Member Candidates

### 1. Policy for Nomination of Director Candidates

The Board of Directors of the Company, in order to respond to the trust placed by the shareholders, shall have the responsibility to respect the corporate philosophy, promote sustainable corporate growth and the improvement of the medium- to long-term corporate value, and enhance profitability and capital efficiency. Concerning the election of directors, the Board of Directors has set forth the following criteria through which the persons deemed capable of fulfilling these responsibilities are nominated as candidates.

(Inside director)

- (1) Must respect the corporate philosophy of the Company and embody its values.
- (2) Must possess abundant knowledge on domestic and international market trends concerning the Group business.
- (3) Must have a strong ability for objective managerial judgment and business execution that will contribute beneficially to the Group's management direction.

(Outside director)

- (1) Must provide a guiding role in particular fields, such as legal affairs, corporate management, overseas business, human resource development, and CSR and have abundant experience and expertise in these fields.
- (2) Must have a keen interest in the corporate philosophy and business of the Company, and possess the ability to express opinions, provide guidance and advice, and carry out supervision with respect to the inside directors in a timely and appropriate manner.
- (3) Must secure sufficient time to perform his or her duties as an outside director of the Company

### 2. Policy for Nomination of Audit & Supervisory Board Member Candidates

The audit & supervisory board members (the "Corporate Auditors"), in order to respond to the trust placed by the shareholders, have responsibilities to prevent violations of laws and regulations and the Articles of Incorporation and maintain and improve the soundness of the Group's management and its trust from society. Concerning the election of Corporate Auditors, the Board of Directors has set forth the following criteria through which the persons deemed capable of fulfilling these responsibilities are nominated as candidates.

(Inside Corporate Auditor)

- (1) Must respect the corporate philosophy of the Company and embody its values.
- (2) Must maintain a fair and unbiased stance and possess the capability to fulfill auditing duties.

- (3) Must understand the Group operations in general and be able to propose management tasks.

(Outside Corporate Auditor)

- (1) Must provide a guiding role in particular fields, such as legal affairs, corporate management, accounting, overseas business, human resource development, and CSR and have abundant experience and expertise in these fields.
- (2) Must have a keen interest in the corporate philosophy and business of the Company, and possess the ability to express opinions, provide guidance, and carry out supervision with respect to the directors from an objective and fair standpoint.
- (3) Must secure sufficient time to perform his or her duties as an outside Corporate Auditor of the Company.

### 3. Policies for Nomination of Corporate Officer Candidates

The Company has adopted the corporate officer system, in order to promote the segregation of duties and delegation of authority for directors and corporate officers, to enhance the management efficiency and expedite decision-making and business execution, to strengthen the corporate competitiveness and improve operating performance, and to nurture the next generation of managers. Corporate officer candidates are nominated in accordance with the following criteria:

- (1) Must possess abundant business experience.
- (2) Must have superior leadership skills and the ability to take action.
- (3) Must have an excellent sense of management balance.
- (4) Must possess appropriate personalities and insight for corporate officers.
- (5) Must maintain physical and mental health.

### 4. Procedures for Nomination of Directors, Corporate Auditors, and Corporate Officers

The proposal for nomination of candidates for directors, corporate auditors and corporate officers is submitted to the Nomination and Remuneration Committee (an advisory body to the Board of Directors, which shall be chaired by an outside director and have a composition where at least half of members are outside officers who meet the independence criteria as described below). Subsequently, the candidates recommended by the committee are reviewed and decided upon at a Board of Directors meeting.

As for the candidates for Corporate Auditors, election propositions for the General Meeting of Shareholders must be approved by the Audit & Supervisory Board pursuant to stipulations in the Companies Act.

### 5. Policies and Procedures for Dismissal of Corporate Officers

The Board of Directors of the Company may seek resignation or otherwise dismiss a corporate officer (including corporate officers with special titles such as President at the top) in the event that any one of the following items applies. Matters involving dismissal of a corporate officer are to be deliberated on and decided by the Board of Directors, subsequent to discussion in a meeting of the Nomination and Remuneration Committee.

- (1) The individual has engaged in an act of fraud, impropriety, perfidy or breach of trust as a corporate officer;
- (2) The individual has shown a lack of competence as a corporate officer;
- (3) The professional duties of a corporate officer performed by the individual have been insufficient in terms of implementation or results thereof, and the Board of Directors has deemed that it would be inappropriate for him or her to continue performing his or her duties as a corporate officer; or
- (4) The individual has behaved or otherwise engaged in language and conduct unbecoming to a corporate officer.

#### 6. Independence Criteria for Outside Officers

To judge the independence of outside directors and outside corporate auditors as stipulated in the Companies Act, we check the requirements for independent directors and independent corporate auditors stipulated by the Tokyo Stock Exchange, Inc. as well as checking whether the following items apply.

- (1) A major shareholder of the Company (holding 10% or more of voting rights either directly or indirectly), or a person who executes business for a major shareholder of the Company (\*1)
- (2) A person/entity for which the Group is a major client, or a person who executes business for such person/entity (\*2)
- (3) A major client of the Group or a person who executes business for such client (\*3)
- (4) A person who executes business for a major lender of the Group (\*4)
- (5) A senior partner or partner of the accounting auditor for the Company
- (6) A provider of expert services, such as a consultant, attorney at law, or certified public accountant, who receives cash or other financial benefits exceeding ¥10 million in one business year other than officer compensations from the Company
- (7) A person/entity receiving contributions from the Group exceeding ¥10 million in one business year, or a person who executes business for such person/entity
- (8) A person to whom any one of (1) to (7) above has applied in the past three business years
- (9) Where any of (1) to (8) above apply to a key person, and his or her immediate relatives, which includes his or her grandparents, grandchildren, siblings, spouse and his or her grandparents, siblings and grandchildren (\*5)

(10) A special reason other than the preceding items that will prevent the person from performing their duties as an independent outside officers, such as the potential for a conflict of interest with the Company.

- \*1 A person who executes business means an executive director, executive officer, corporate officer, or other employee, etc.
- \*2 A person/entity for which the Group is a major client means a person/entity who receives payments from the Group amounting to at least the higher of either 2% of the consolidated net sales of the client or ¥100 million.
- \*3 A major client of the Group means a client that makes payments to the Group amounting to at least the higher of either 2% of the Company's consolidated net sales or ¥100 million.
- \*4 A major lender of the Group means a lender named as a major lender in the Group's business report.
- \*5 A key person means a director (excluding outside directors), corporate auditor (excluding outside corporate auditor), executive officer, corporate officer, or other person in the rank of senior general manager or above, or a corporate officer corresponding to these positions.

# Rationale for Compensation of Directors, Audit & Supervisory Board Members, and Corporate Officers

## **1. Rationale and procedures for compensation of directors, audit & supervisory board**

### **members (the “officers”), and corporate officers**

- (1) The Company institutes a compensation system for compensation of directors and corporate officers that consists of monthly remuneration and bonuses, which is linked with the Company’s performance and reflects their responsibilities and achievements.
- (2) The Company discusses the rationale (system design) at the meeting of Nomination and Remuneration Committee (an advisory body to the Board of Directors, which shall be chaired by an outside director and have a composition where at least half of members are outside officers who meet the independence criteria as described below), and improves its objectivity, appropriateness and transparency.
- (3) The total amount of bonuses paid to directors must be approved at a General Meeting of Shareholders.
- (4) The amounts of compensations paid to outside directors and audit & supervisory board members (inside and outside corporate auditors) shall respectively be fixed and no bonuses will be paid.

## **2. Calculation method for monthly remuneration**

- (1) A monthly remuneration for director duties of inside directors will be paid at a flat rate; provided, however, that a separate, additional remuneration be paid to the persons with representative authority.
- (2) The monthly remuneration as corporate officers should be set at a suitable level that takes into consideration the Company’s management environment, etc. and correspond to the rank (President, Senior Executive Corporate Officer, Executive Corporate Officer, and Senior Corporate Officer).

## **3. Calculation method for bonuses**

- (1) The bonus amount is calculated according to the rank of the directors and corporate officers, using the consolidated operating income and the goal attainment levels of the individual and the division for which they are responsible, as an indicator.
- (2) During the respective fiscal years covered under the Ninth Medium-term Business Plan (the fiscal year ending November 30, 2019 to the fiscal year ending November 30, 2021), the Company has set the weight of bonuses to no less than 30% of the basic amount of total annual remuneration with the aim of achieving sustainable growth of the Group. In addition, criteria and allocations with respect to performance evaluation indicators

set on an individual basis are to align with intent of the Ninth Medium-term Business Plan.

- (3) The Company may increase or decrease the bonus amount paid for the final fiscal year of the Ninth Medium-term Business Plan, depending on an individual progress made in achieving the performance goals previously set for the final fiscal year on an individual basis.