

# Corporate Governance Report

Last Update: June 29, 2020

**Sankyu Inc.**

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Stock Exchange Code: 9065

<https://www.sankyu.co.jp/en/>

The corporate governance of Sankyu Inc. (the “Company”) is described below.

## I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

### 1. Basic Views **UPDATED**

#### 1. Basic philosophy

As a listed company, the Company believes that the basis of corporate governance is to ensure management transparency for shareholders and other stakeholders, and to aim for continuous growth and development by improving management efficiency.

#### Corporate philosophy

##### (1) Management philosophy

<The Sankyu Group’s promise to the world>

With the guiding principle of valuing people, Sankyu will establish a presence that is indispensable to its customers. The Sankyu Group will contribute to the improvement of employee welfare and the development of society through its business growth.

##### (2) Management objectives

<The management’s promise to the world, Sankyu’s customers, and each and every one of its employees, for achieving the management philosophy>

- We will contribute to the development of the international community as a good corporate citizen.
- We will provide the best services in line with the evolution of industry.
- We will value the wisdom and hard work of our front-line employees and nurture their potential.

##### (3) Code of conduct – For actions based on morals and ethics

<Promise that each and every employee makes to the world and the company as a guideline for daily actions>

- We will put safety first in everything that we do.
- We will act based on compliance.
- We will act globally, correctly understanding cultures, religions, and values.
- We will proactively work on protecting the global environment.
- We will carry out work that impress the world.
- We will take pride and responsibility in our work.
- We will respect each other and grow together.
- We will aim to be a company where outstanding people grow.
- We will continue to be a strong company, by concentrating efforts in the field.

2. Systems for decision-making, execution of business, oversight, and auditing in corporate management
- (1) In order to ensure that Directors execute their duties efficiently, the Company shall hold regular meetings of the Board of Directors each month, as well as extraordinary meetings when necessary, to decide on important matters and mutually supervise the business execution status of Directors. In addition, important matters regarding items such as management policies and strategies are discussed at the Management Committee, and the Board of Directors makes executive decisions after these deliberations. The Company has adopted a corporate officer system to promote the separation of oversight and execution, as well as to enhance the oversight function of the Board of Directors over business execution and speed up its decision-making process.
- (2) Corporate Auditors attend meetings of the Board of Directors and the Management Committee, as well as other important meetings, receive reports from Directors, Corporate Officers, and employees, and investigate the status of the Company's business and assets, as necessary. In addition, Corporate Auditors are able to take necessary measures in a timely manner, such as presenting opinions, including advice and recommendations, to the Directors, etc., and prohibiting Directors from committing violations.
- (3) With regard to the internal audit, the Internal Audit Department audits the business, accounting, etc. of business sections and subsidiaries based on the annual internal audit plan, in accordance with the Audit Regulations. The results of the internal audit are reported to the Corporate Auditors, facilitating cooperation with the Corporate Auditors.
- (4) With regard to the accounting audit, the Company has appointed Deloitte Touche Tohmatsu LLC as its Accounting Auditor, and the Accounting Auditor executes the audit work based on the annual audit plan.

**[Reasons for Non-compliance with the Principles of the Corporate Governance Code] UPDATED**

- [Supplementary Principle 4.2.1] Setting appropriate proportions of performance-linked remuneration and stock-based remuneration
- The Company has a remuneration system that consists of basic remuneration and a bonus based on comprehensive consideration of single-year results, within the scope of remuneration determined by the General Meeting of Shareholders, and it functions as a healthy incentive for sustainable growth.
  - Going forward, the Company will consider introducing a remuneration system linked to its medium- to long-term results. As part of this process, the Company will also consider the balance of cash and stock.
- [Supplementary Principle 4.10.1] Use of optional approach
- The Company's Board of Directors makes decisions on particularly important matters, such as the nomination and remuneration of senior management and Directors, in accordance with their respective policies and procedures, and with the appropriate involvement of and advice from Independent External Directors, thus ensuring independence and objectivity. The Company also strives to enhance accountability by appropriately disclosing the details of these decisions.
  - Going forward, the Company will consider establishing advisory committees, etc., based on a comprehensive consideration of the environment surrounding the Company, including its size and business characteristics.

**[Disclosure Based on the Principles of the Corporate Governance Code] UPDATED**

- [Principle 1.4] Cross-shareholdings
- Basic policy on cross-shareholdings  
The Company believes that maintaining long-term, positive relationships with business partners and collaborators is essential to improving its corporate value, and it holds cross-shareholdings of other companies as necessary for this reason.
  - However, the Board of Directors specifically examines each cross-shareholding in terms of its economic rationality, benefits, risk as an asset, whether it covers the cost of capital, and other factors annually, in order to assess whether or not to hold the shares, based on the perspectives including medium- to long-term effects on the improvement of the Company's corporate value and the impact on business operations.

- The Company will sell or otherwise reduce the number of shares which it has deemed that it does not need to continue holding.
- Standards for exercising voting rights on cross-shareholdings  
When exercising voting rights on cross-shareholdings, the Company determines approval or disapproval of proposals based on the above policy, in consideration of whether or not it will lead to an improvement of the corporate value of the Company and the company concerned.

[Principle 1.7] Related party transactions

- The Company's corporate rules, the Regulations of the Board of Directors, stipulate that approval on competing transactions by Directors, as well as approval on transactions between the Company and its Directors, are matters that require a resolution by the Board of Directors.
- These regulations also prescribe that, with regard to resolutions by the Board of Directors, Directors with special interests may not participate in the resolutions, and that any Director who has conducted a competing transaction or a transaction with the Company shall be required to report to the Board of Directors the material facts about the transaction.

[Principle 2.6] Roles of corporate pension funds as asset owners

- In order to ensure the proper management of the corporate pension plan, the Company has formulated a basic policy at its Management Committee, which is a business execution body, and has established an Asset Management Committee to determine a medium-term portfolio and discuss, review, and make proposals on asset management.
- In order to maximize the benefit of corporate pension beneficiaries, the Asset Management Committee conducts evaluation and monitoring, including stewardship activities for each asset manager, and periodically reports to the Management Committee.
- In addition, the Company carries out appropriate pension management to prevent conflicts of interest between the corporate pension beneficiaries and the Company.
- Furthermore, a committee secretariat is staffed with specialist finance and labor relations personnel. The expertise of these personnel is enhanced through participation in training sessions, various seminars, etc., in coordination with financial institutions.

[Principle 3.1] Full disclosure

In addition to making information disclosure in compliance with relevant laws and regulations, the Company discloses and provides the following information, in order to enhance transparency and fairness in its decision-making and ensure effective corporate governance.

(1) The following information on the Company's objectives is disclosed on the Company's website. (Please refer to the following URL.)

- Long-term vision of the Sankyu Group: [http://www.sankyu.co.jp/pdf/long\\_term\\_vision.pdf](http://www.sankyu.co.jp/pdf/long_term_vision.pdf) (Japanese only)
  - Corporate philosophy (management philosophy, management objectives, and code of conduct)
  - Long-term vision (direction that should be aimed for, basic policies, and direction of the business)
- Medium-term management strategy and medium- to long-term plan: <http://www.sankyu.co.jp/ir/plan.html> (Japanese only)
  - Basic management policy
  - Targeted management indicators
  - Medium- to long-term business strategy and issues to be addressed

(2) As a listed company, the Company believes that the basis of corporate governance is to ensure management transparency for shareholders and other stakeholders, and to aim for continuous growth and development by improving management efficiency.

(3) The Board of Directors determines the level of remuneration for officers commensurate with their positions and responsibilities, taking into consideration social trends on officer remuneration, the performance of the Company, balance with employee salaries, and other factors that should be taken into consideration when determining the level of remuneration.

(4) The Board of Directors selects the most suitable persons for the positions of Director or Corporate Auditor on each occasion, based on a comprehensive assessment of the candidate's background, character,

capabilities, insight, and other factors, and nominates the candidates to be proposed to the General Meeting of Shareholders.

- Senior management is appointed by the Board of Directors.
- The Board of Directors will dismiss senior management after adequate discussions, if circumstances arise that make it difficult for them to perform their responsibilities or duties.

(5) Reasons for the appointment, dismissal, and nomination of individual candidates for Directors and Corporate Auditors are explained in the Reference Documents for the General Meeting of Shareholders.

- In addition, the appointment and dismissal of senior management are explained in timely disclosure statements.

[Supplementary Principle 4.1.1] Scope of the matters delegated to the management

- The Board of Directors is responsible for deciding on matters that are legally required to be resolved by the Board of Directors, such as disposal and transfer of important assets, appointment and dismissal of important employees, and establishment, revision, and abolition of important organizations, as well as for mutually supervising the business execution status of Directors.
- The abovementioned matters to be resolved are specifically set forth in the Regulations of the Board of Directors, which are the Company's corporate rules. Decision-making on other matters are delegated to the President and other Executive Directors, based on the Company's corporate rules, which also stipulate the scope of decision-making by contents and the monetary amount of each case.
- As for execution after a decision has been made, the Company has adopted a corporate officer system to promote the separation of oversight and execution, as well as to enhance the oversight function of the Board of Directors over business execution and speed up its decision-making process, in an effort to ensure efficient execution of business.

[Principle 4.9] Independence standards and qualification for Independent Directors

- When appointing Independent External Directors, the Company appoints candidates for Independent External Directors in accordance with the independence standards established by the Tokyo Stock Exchange, taking into account their personal, business, and capital relationships with the Company, as well as other interests in the Company, in order to ensure their independence.
- The Company endeavors to select candidates for the position of Independent External Director who are capable of fulfilling their roles and responsibilities to contribute to the Company's sustainable growth and improvement of corporate value, based on a comprehensive assessment of their backgrounds, characters, capabilities, insights, and other factors, on each occasion.

[Supplementary Principle 4.11.1] Stance toward the balance of knowledge, experience, and capabilities; diversity; and scale for the Board of Directors as a whole

- It is the policy of the Board of Directors to ensure a balance of knowledge, experience, and capabilities, diversity, and size of the Board of Directors as a whole, such as by appointing Executive Directors who are well versed in the Company's business, in addition to appointing External Directors with deep insight who can be expected to provide valuable opinions and suggestions on the Company's management.
- The procedures for the appointment are as described in Principle 3.1 above.

[Supplementary Principle 4.11.2] Concurrent positions of officers serving concurrently as an officer of another listed company

- Directors and Corporate Auditors perform their duties while ensuring that they can devote the sufficient time and effort required to fulfill their roles and responsibilities.
- The concurrent positions of the Company's Directors and Corporate Auditors are stated in the Annual Securities Report.

[Supplementary Principle 4.11.3] Analysis and evaluation on the effectiveness of the Board of Directors as a whole

In order to enhance the effectiveness of the Board of Directors as a whole, each Director reports on the status of business execution and other matters at least once every three months, in accordance with laws and regulations. Mutual oversight is conducted during this process to ensure the effectiveness of the Board of Directors.

[Supplementary Principle 4.14.2] Policy on training for Directors and Corporate Auditors

The Company provides information on legal affairs and other matters anew to Directors and Corporate Auditors upon their appointment, for the purpose of helping them understand their responsibilities. In addition, in the event of amendments to laws and regulations, the Board of Directors thoroughly disseminates these revisions as needed.

The Company will consider formulating a policy on training for Directors and Corporate Auditors going forward.

[Principle 5.1] Policies for constructive dialogue with shareholders

- The Company considers dialogue with shareholders and investors to be instrumental in ensuring the appropriate evaluation of and trust in the Company, as well as contributive to the sustainable growth and improvement of corporate value over the medium- to long-term. The Company accommodates requests for interviews from shareholders and investors, taking into account the purpose of the interviews and the importance of the contents thereof.
- In addition, the Company voluntarily makes proactive efforts to provide opportunities for dialogue with analysts and institutional investors, such as financial results briefings, overseas IR activities, and on-site briefings. The Company strives to appropriately reflect the opinions gained through the dialogue in its corporate activities.
- While the Company has put in place a system to promote constructive dialogue with its shareholders, the policies regarding the initiatives will be approved by the Board of Directors and disclosed in the future.
- Insider information is appropriately managed in accordance with the corporate rules, the Rules for Prevention of Insider Trading.

## 2. Capital Structure

Foreign Shareholding Ratio	From 20% to less than 30%
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[Status of Major Shareholders] **UPDATED**

Name / Company Name	Number of Shares Owned	Percentage (%)
Japan Trustee Services Bank, Ltd. (Trust account)	5,017,400	7.69
The Master Trust Bank of Japan, Ltd. (Trust account)	4,770,700	7.31
NIPPON STEEL CORPORATION	2,061,280	3.16
Japan Trustee Services Bank, Ltd. (Trust account 9)	1,964,400	3.01
Nibiki Scholarship Foundation	1,960,000	3.00
Mizuho Bank, Ltd.	1,662,024	2.54
Sankyu Employee Shareholdings Association	1,307,282	2.00
Japan Trustee Services Bank, Ltd. (Trust account 4)	1,205,700	1.84
Meiji Yasuda Life Insurance Company	1,200,000	1.84
J.P. MORGAN BANK LUXEMBOURG S.A. 380578	1,140,200	1.74

Controlling Shareholder (except for Parent Company)	—
Parent Company	None

Supplementary Explanation

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### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange, First Section Fukuoka Stock Exchange, Existing Market
Fiscal Year-End	March
Type of Business	Land transportation
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From 100 billion yen to less than 1 trillion yen
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 50 to less than 100

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

The Company does not have a parent company or listed subsidiaries.
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## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Organization Form	Company with the Board of Corporate Auditors
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation <b>UPDATED</b>	20
Term of Office Stipulated in Articles of Incorporation	2 years
Chairperson of the Board <b>UPDATED</b>	Company Chairperson (excluding cases in which he/she concurrently serves as President)
Number of Directors <b>UPDATED</b>	16
Appointment of External Directors	Appointed
Number of External Directors	3
Number of Independent Directors	3

#### External Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Terukazu Okahashi	From another company								△			
Keijiro Hori	From another company								△			
Makoto Ogawa	Other											

\* Categories for "Relationship with the Company"

\* "○" when the Director presently falls or has recently fallen under the category;

"△" when the Director fell under the category in the past

\* "●" when a close relative of the Director presently falls or has recently fallen under the category;

"▲" when a close relative of the Director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive Director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the Company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a Director/Corporate Auditor

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the Director himself/herself only)

i. Executive of a company, between which and the Company External Directors/Corporate Auditors are mutually appointed (the Director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the Director himself/herself only)

k. Others

External Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Terukazu Okahashi	○	Although Mr. Terukazu Okahashi is a former employee of the Company's business partner, MITSUI & CO., LTD., he retired from the company in March 2011. In addition, the company is not a specified associated service provider given the size and nature of the transactions.	The Company has appointed him as an External Director because he has abundant experience and excellent insights as a corporate manager, and is expected to provide valuable opinions and suggestions on the Company's management as an External Director. In addition, the Company has designated him as an Independent Director as he does not fall under any of the independence standards set forth by the Tokyo Stock Exchange, and the Company believes that there is no risk of conflicts of interest between him and general shareholders.
Keiji Hori	○	Although Mr. Keiji Hori is a former employee of the Company's business partner, Sojitz Corporation, he retired from the company in March 2004. In addition, the company is not a specified associated service provider given the size and nature of the transactions.	The Company has appointed him as an External Director because he has abundant experience and excellent insights as a corporate manager, and is expected to provide valuable opinions and suggestions on the Company's management as an External Director. In addition, the Company has designated him as an Independent Director as he does not fall under any of the independence standards set forth by the Tokyo Stock Exchange, and the Company believes that there is no risk of conflicts of interest between him and general shareholders.
Makoto Ogawa	○	—	The Company has appointed him as an External Director because he has abundant experience and excellent insights, having been engaged in labor administration at the Ministry of Health, Labour and Welfare, and is expected to provide valuable opinions and suggestions on the Company's management as an External Director. In addition, the Company has designated him as an Independent Director as he does not fall under any of the independence standards set forth by the Tokyo Stock Exchange, and the Company believes that there is no risk of conflicts of interest between him and general shareholders.



Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Not Established
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#### [Corporate Auditors]

Establishment of the Board of Corporate Auditors	Established
Maximum Number of Corporate Auditors Stipulated in Articles of Incorporation <b>UPDATED</b>	7
Number of Corporate Auditors	4

#### Cooperation among Corporate Auditors, Accounting Auditors and Internal Audit Section

In order to ensure that audits by Corporate Auditors are conducted effectively, the Corporate Auditors work closely with the Accounting Auditor, such as by exchanging information and opinions as needed. With regard to the internal audit, the Internal Audit Department audits the business, accounting, etc. of business sections and subsidiaries based on the annual internal audit plan, in accordance with the Audit Regulations. The results of the internal audit are reported to the Corporate Auditors, facilitating cooperation with the Corporate Auditors.

Appointment of External Corporate Auditors	Appointed
Number of External Corporate Auditors	2
Number of Independent Corporate Auditors	2

#### External Corporate Auditor's Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Keiichiro Takeda	From another company										△			
Norihisa Ogawa	Lawyer													

\* Categories for "Relationship with the Company"

- \* "○" when the Corporate Auditor presently falls or has recently fallen under the category;
- "△" when the Corporate Auditor fell under the category in the past
- \* "●" when a close relative of the Corporate Auditor presently falls or has recently fallen under the category;
- "▲" when a close relative of the Corporate Auditor fell under the category in the past

- a. Executive of the Company or its subsidiaries
- b. Non-executive Director or accounting advisor of the Company or its subsidiaries
- c. Non-executive Director or executive of a parent company of the Company
- d. Corporate Auditor of a parent company of the Company
- e. Executive of a fellow subsidiary company of the Company
- f. A party whose major client or supplier is the Company or an executive thereof
- g. Major client or supplier of the Company or an executive thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a Director/Corporate Auditor
- i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

- j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Corporate Auditor himself/herself only)
- k. Executive of a company, between which and the Company External Directors/Corporate Auditors are mutually appointed (the Corporate Auditor himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the Corporate Auditor himself/herself only)
- m. Others

#### External Corporate Auditor's Relationship with the Company (2)

Name	Designation as Independent Corporate Auditor	Supplementary Explanation of the Relationship	Reasons of Appointment
Keiichiro Takeda	○	- Full-time Corporate Auditor Although Mr. Keiichiro Takeda is a former employee of Mitsubishi UFJ Trust and Banking Corporation, which is a partner bank of the Company, he is currently a non-executive member of the bank. The bank holds 0.99% of the Company's shares, and conducts financial transactions with the Company.	The Company has appointed him as an External Corporate Auditor because he has many years of experience at financial institutions and abundant knowledge of finance and other matters, and can be expected to fulfill the role of External Corporate Auditor from a professional perspective. In addition, the Company has designated him as an Independent Corporate Auditor as he does not fall under any of the independence standards set forth by the Tokyo Stock Exchange, and the Company believes that there is no risk of conflicts of interest between him and general shareholders.
Norihisa Ogawa	○	Lawyer	The Company has appointed him as an External Corporate Auditor because he has abundant knowledge of corporate legal affairs as a lawyer and excellent insights into management, and can be expected to fulfill the role of External Corporate Auditor by utilizing his experience. In addition, the Company has designated him as an Independent Corporate Auditor as he does not fall under any of the independence standards set forth by the Tokyo Stock Exchange, and the Company believes that there is no risk of conflicts of interest between him and general shareholders.

#### [Independent Directors/Corporate Auditors]

Number of Independent Directors/Corporate Auditors	5
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#### Matters relating to Independent Directors/Corporate Auditors

The Company has designated all external officers who meet the qualifications of Independent Directors/Corporate Auditors (three External Directors and two External Corporate Auditors) as Independent Directors/Corporate Auditors.

The main activities during the fiscal year ended March 31, 2020 were as follows.

- Mr. Terukazu Okahashi, an External Director, attended 15 of the 15 meetings (100%) of the Board of Directors held during the fiscal year under review, and provided comments on the Company's business execution from the perspective of ensuring appropriateness, as appropriate, from his professional standpoint as a corporate manager.
- Mr. Keijiro Hori, an External Director, attended 15 of the 15 meetings (100%) of the Board of Directors held during the fiscal year under review, and provided comments on the Company's business execution from the perspective of ensuring appropriateness, as appropriate, from his professional standpoint as a corporate manager.
- Mr. Masayuki Ikuta, an External Director, attended 10 of the 10 meetings (100%) of the Board of Directors held during his term of office in the fiscal year under review, and provided comments on the Company's business execution from the perspective of ensuring appropriateness, as appropriate, from his professional standpoint as a person with a background in government.
- Mr. Keiichiro Takeda, an External Corporate Auditor, attended 15 of the 15 meetings (100%) of the Board of Directors and 16 of the 16 meetings (100%) of the Board of Corporate Auditors held during the fiscal year under review, and provided comments on the Company's business execution from the perspective of ensuring appropriateness, as appropriate, by utilizing his many years of experience at financial institutions.
- Mr. Norihisa Ogawa, an External Corporate Auditor, attended 15 of the 15 meetings (100%) of the Board of Directors and 16 of the 16 meetings (100%) of the Board of Corporate Auditors held during the fiscal year under review, and provided comments on the Company's business execution from the perspective of ensuring appropriateness, as appropriate, from his professional standpoint as a lawyer.

#### [Incentives]

Incentive Policies for Directors	None
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Supplementary Explanation

Regarding officer remuneration the Company has adopted a system of granting fixed amounts for many years, and it does not grant performance-linked remuneration or other incentives such as indeterminate amounts.

Recipients of Stock Options	
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Supplementary Explanation

#### [Director Remuneration]

Disclosure of Individual Directors' Remuneration	Selected Directors
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Supplementary Explanation **UPDATED**

The remuneration for the Company's Directors and Corporate Auditors for FY2019 was as follows.  
 Remuneration paid to Directors: 17 Directors, 969,400 thousand yen  
 Remuneration paid to Corporate Auditors: 5 Corporate Auditors, 123,200 thousand yen

\* The above amounts of remuneration, etc. include remuneration paid to three Directors and one Corporate Auditor who retired during the fiscal year under review.

\* The amounts of remuneration, etc. include bonuses for officers totaling 455,700 thousand yen (including bonuses for 14 Directors totaling 416,500 thousand yen and bonuses for four Corporate Auditors totaling 39,200 thousand yen).

**Policy on Determining Remuneration Amounts and Calculation Methods**

Established

**Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods**

The Company has stipulated a policy on determining amounts of remuneration, etc. for officers, which is to determine the level of remuneration for officers commensurate with their positions and responsibilities, taking into consideration social trends on officer remuneration, the performance of the Company, balance with employee salaries, and other factors that should be taken into consideration when determining the level of remuneration.

**[Supporting System for External Directors and/or Corporate Auditors]**

External Directors and External Corporate Auditors receive the agenda materials in advance when the meetings of the Board of Directors and other important meetings are held, and each person in charge provides detailed explanations and answers to any questions they may have in advance.

**2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) UPDATED**

(1) Regular meetings of the Board of Directors are held once a month, and extraordinary meetings are held as necessary, to decide on important matters and mutually supervise the status of business execution by the Directors.

- Activities of the Board of Directors

■ Number of times held: 15 times per year

■ Main topics discussed

69 matters resolved

51 matters reported

The Board of Directors reviewed and deliberated on the execution and supervision of business operations, including important business execution matters, important management matters, and matters related to financial statements and surplus.

■ Attendance of individual officers

Name of Director	Attendance	Attendance rate
1. Kimikazu Nakamura	14	93%
2. Kimihiro Nakamura	15	100%
3. Yasuto Ago	15	100%
4. Hideki Miyoshi	15	100%
5. Takashi Ogawa	15	100%
6. Tetsuro Yonago	15	100%
7. Masao Inoue	15	100%
8. Masahiko Okuda	15	100%

9.	Toshio Yuki	15	100%
10.	Katsuaki Morofuji	14	93%
11.	Masafumi Taketa	15	100%
12.	Hiroshi Otobe	15	100%
13.	Terukazu Okahashi	15	100% (External)
14.	Keijiro Hori	15	100% (External)
15.	Masayuki Ikuta	10	100% (External) (during his tenure)

\* Director Masayuki Ikuta has resigned as of October 31, 2019 for personal reasons.

Name of Corporate Auditor	Attendance	Attendance rate
1. Nobuyuki Yoshida	15	100%
2. Hiroshi Arita	15	100%
3. Keiichiro Takeda	15	100% (External)
4. Norihisa Ogawa	15	100% (External)

Important matters regarding items such as management policies and strategies are discussed in advance at the Management Committee, and the Board of Directors makes executive decisions after these deliberations. The Company has adopted a corporate officer system to promote the separation of oversight and execution, as well as to enhance the oversight function of the Board of Directors over business execution and speed up its decision-making process. For the execution of business based on the decisions of the Board of Directors, the Regulation on Job Responsibility and Authority and the Allocation of Job Duties set forth the details of each responsible party, their responsibilities, and execution procedures.

(2) Corporate Auditors attend meetings of the Board of Directors and the Management Committee, as well as other important meetings, receive reports from Directors, Corporate Officers, and employees, and investigate the status of the Company's business and assets, as necessary. In addition, Corporate Auditors are able to take necessary measures in a timely manner, such as presenting opinions, including advice and recommendations, to the Directors, etc., and prohibiting Directors from committing violations.

(3) With regard to the accounting audit, the Company has appointed Deloitte Touche Tohmatsu LLC as its Accounting Auditor, and three members of Deloitte Touche Tohmatsu LLC, Mr. Masayuki Masumura, Mr. Hideki Aramaki, and Mr. Kazutaka Yoshihara, as the Accounting Auditor, execute the audit work based on the annual audit plan.

(4) In determining the amount of remuneration, the total amounts for Directors and Corporate Auditors are determined by the resolution of the General Meeting of Shareholders.

### 3. Reasons for Adoption of Current Corporate Governance System **UPDATED**

The Company has adopted a corporate auditor system, and has a Board of Directors and a Board of Corporate Auditors. Important matters are discussed at the Management Committee, and the Board of Directors makes executive decisions after these deliberations.

The Board of Directors consists of 16 members, three of whom are External Directors (three Independent Directors), and the Board of Corporate Auditors consists of four members, two of whom are External Corporate Auditors (two Independent Corporate Auditors). The Company believes that it has developed a well-functioning system to monitor management.

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

**UPDATED**

	Supplementary Explanations
Early Notification of General Shareholder Meeting	For this year's 111th Annual General Meeting of Shareholders, the Notice of the General Meeting of Shareholders was sent out 14 days prior to the date of the meeting. * The sending date was moved back by seven days this year, in light of the impact of COVID-19.
Other	The General Meeting of Shareholders is a meeting for the shareholders to come together and discuss and make resolutions on corporate management. The Company strives to invigorate the meeting such as by giving shareholders in attendance an opportunity to speak, providing sufficient explanations, and ensuring a structure in which information, as required by law, is fully disclosed.

#### 2. IR Activities

	Supplementary Explanations	Availability of Explanations by the Representatives Themselves
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds financial results briefings twice a year, at the time of the announcement of the second quarter financial results and at the time of the announcement of the year-end financial results, at which explanations are provided by the President (Representative Director), and by an officer in charge of finance, and others. The Company also holds small meetings with institutional investors and others, hosts periodic individual visits and company visits, and conducts on-site tours, etc.	Yes
Regular Investor Briefings for Overseas Investors	The Company hosts periodic individual visits and company visits by overseas institutional investors, and in some cases, the President (Representative Director) makes individual visits to overseas institutional investors. The Company also participates in conferences sponsored by securities firms.	Yes
Posting of IR Materials on Website	Posted on the Company's website	
Establishment of Department and/or Manager in Charge of IR	The Company has established Public Relations & IR Group, Corporate Planning Department. The Director & Corporate Officer in charge of Corporate Planning is responsible for this function.	

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	In the Company's management philosophy, it is stipulated that "With the guiding principle of valuing people, Sankyu will establish a presence that is indispensable to its customers. The Sankyu Group will contribute to the improvement of employee welfare and the development of society through its business growth."
Implementation of Environmental Activities, CSR Activities, etc.	The Company has established the Environmental Management Regulations in order to reinforce and thoroughly instill environmental compliance. In addition, the Environmental Policy is based on the common recognition that "the global environment is irreplaceable to humanity," and in recognition of this, the Company pledges to strive for reduction in the environmental impact of its business activities, and proactively promote ongoing environmental protection activities. Furthermore, the Company is continuing its efforts to contribute to society and local communities as part of its CSR activities. For more details, please refer to the "Environmental and Social Contribution" section of the Company's website. <a href="https://www.sankyu.co.jp/csr/">https://www.sankyu.co.jp/csr/</a> (Japanese only)
Development of Policies on Information Provision to Stakeholders	The Company's Basic Rules for Information Management provide for appropriate information management within the Company and for the methods of disclosing information disseminated to the public. In addition, the Company complies with the Companies Act, the Financial Instruments and Exchange Act, and other various laws and regulations, as well as the regulations of Tokyo Stock Exchange, Inc. and Fukuoka Stock Exchange. By promptly disclosing information that falls under the Securities Listing Regulations of the two exchanges, the Company discloses information in a timely, accurate, and fair manner to its shareholders, investors, and all other stakeholders.



## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development

The following is an overview of the Company's basic policy on the development of systems to ensure the appropriateness of its operations (hereinafter, "internal control system").

(1) System to ensure that the execution of duties by Directors complies with laws and regulations as well as the Articles of Incorporation

- The Company follows the Code of Ethics and Compliance Rules as a code of conduct for Directors and employees, and strives for compliance with these rules.
- The appropriate operation of the Board of Directors is ensured by the Regulations of the Board of Directors. Its meetings are held once a month in principle, and other meetings, including written resolutions, are held as needed. The Board of Directors strives to prevent violations of laws and regulations as well as the Articles of Incorporation by facilitating communication among Directors, mutually supervising business execution, and hearing opinions of certified public accountants, lawyers, and others, as necessary. In addition, the Company is a company with a board of corporate auditors, and audits on the execution of duties by the Directors are conducted in accordance with the Regulations of the Board of Corporate Auditors, striving to strengthen the supervision of management functions. If a Director discovers a violation of laws and regulations or the Articles of Incorporation by another Director, he or she shall immediately report the violation to the Board of Directors and Corporate Auditors, and take corrective measures.
- With regard to antisocial forces, the Code of Ethics prohibits any relationship with antisocial forces and groups that pose a threat to the order and safety of citizens' lives and that may interfere with economic activities. In addition, the Code of Ethics stipulates that no action that would facilitate their activities shall be taken. Furthermore, the Company is a member of the Council for Prevention of Special Violence, and collects related information from the competent police departments and the administrator of the shareholders registry, etc., in an effort to prepare for unforeseen circumstances and keep abreast of the latest trends.

(2) System for preservation and management of information concerning the execution of duties by Directors  
With respect to the retention and management of information concerning the execution of duties by Directors, the Company strives to appropriately and smoothly protect, manage, and utilize all information of the Company in accordance with the Basic Rules for Information Management. In addition, appropriate and reliable retention and management are carried out in accordance with the Document Management Regulations, Digital Information Management Regulations, and Regulation on Internal Approval, which are subordinate regulations of the Basic Rules for Information Management. Statutorily stored documents are maintained in an accessible condition for the period of time specified by laws and regulations as well as the Document Management Regulations.

(3) Rules and other systems concerning risk management

- In accordance with the Risk Management Regulations, each responsible department identifies, assesses, and evaluates the potential risks with regard to risk cases (including affiliates) related to management, quality, legal, accidents, disasters, earthquakes, wind and flood damage, human rights, individuals, the environment, IT information, finance, and overseas/country risks that the Company faces on a daily basis, formulates appropriate measures, and reports regularly to the Corporate Planning Department in accordance with the prescribed reporting line, if reporting or deliberation on a case is deemed necessary.
- Each risk case reported to the Corporate Planning Department that is determined to require deliberation is reported at the Management Committee, which consists of the President, Representative Directors, and those appointed by the President, twice a year, for comprehensive consideration of countermeasures. In particular, important matters are reported to the Board of Directors.
- In the event that the Company takes emergency action in response to a crisis involving the Company's management (including affiliates) or officers and employees, the Company responds to the crisis and prevents its expansion in accordance with the Crisis Management Regulations. As part of its organizational response, the Company establishes a special task force headed by a Representative Director, and puts in place a system to prevent damage from escalating by taking prompt action under an organization that includes external advisors, as necessary.



- For emergency situations, especially natural disasters such as earthquakes, where business continuity is threatened, a business continuity plan (BCP) that incorporates measures for recovery from the time of occurrence has been formulated.
- (4) System to ensure that Directors efficiently execute their duties
- In order to ensure that Directors efficiently execute their duties, the Company holds regular meetings of the Board of Directors once a month, as well as extraordinary meetings as necessary, to decide on important matters and mutually supervise the status of business execution by Directors. In addition, important matters regarding items such as management policies and strategies are discussed in advance at the Management Committee, and the Board of Directors makes executive decisions after these deliberations. The Company has adopted a corporate officer system to promote the separation of oversight and execution, as well as to enhance the oversight function of the Board of Directors over business execution and speed up its decision-making process.
  - For the execution of business based on the decisions of the Board of Directors, the Regulation on Job Responsibility and Authority and the Allotment of Job Duties set forth the details of each responsible party, their responsibilities, and execution procedures.
  - The Board of Directors has established the Regulation on Internal Approval in advance, and efficient operations are carried out through delegation of authority for matters that do not require resolution by the Board of Directors.
- (5) System to ensure that the execution of duties by employees complies with laws and regulations as well as the Articles of Incorporation
- The Company has established the Code of Ethics as the code of conduct for compliance, and has established the Compliance Rules to ensure compliance with the letter and spirit of all laws and international rules, regardless of whether in Japan or overseas. The Board of Directors establishes and maintains a compliance system, and works to achieve and ensure compliance. In order to promote this system, the Company has established a Compliance Committee that oversees the entire Group, chaired by a Representative Director, and Compliance Subcommittees chaired by officers in charge of each section as a subordinate structure, to enhance the promotion system. In addition, in order to reinforce and thoroughly instill environmental compliance, the Company promotes ongoing environmental protection activities in accordance with the Environmental Management Regulations.
  - The Company has established the Sankyu Hotline, which is an internal reporting system for the Company and the Group, in order to prevent expansion of damage caused by legal violations.
  - In order to ensure thorough compliance, training sessions are held for each officer, position, and job title.
  - With regard to the internal audit, the Internal Audit Department audits the business, accounting, etc. of business sections and subsidiaries based on the annual internal audit plan, in accordance with the Audit Regulations. The results of the internal audit are reported to the Corporate Auditors, facilitating cooperation with the Corporate Auditors. In addition, the Internal Audit Department has been placed under the direct control of the President, in an effort to further enhance audits.
  - In the event of amendments or changes to laws and regulations, mainly the Legal Department and General Affairs & Corporate Social Responsibility Department implement necessary measures regarding contents that are relevant to the Company, including the new creation and revision of regulations, internal announcements, and internal training to ensure thorough implementation.
  - In order to ensure the reliability of financial reporting based on the Financial Instruments and Exchange Act, the Company has established the Basic Policy for Internal Control, as well as the Internal Control Regulations based on this Basic Policy, to clarify the system of internal control in relation to financial reporting, and to ensure proper operation by defining basic items such as the system, the person in charge, and the details of implementation.
- (6) System to ensure the appropriateness of business conducted by the corporate group comprising the Company, its parent company, and subsidiaries
- In order to ensure the appropriateness of business for the Group as a whole, the Company and its affiliates cooperate with each other in accordance with the Regulations on Affiliate Management and Operations, thereby demonstrating their collective strength. In terms of management control, a basic policy for group management has been established, and the Company implements a thorough system for approval of and reporting to the Company, in accordance with the Regulations on Affiliate Management and Operations.

Monitoring is also carried out, as necessary. In addition, meetings of the presidents of affiliates are held to exchange information and share information.

- The Company has established a coordination system with its subsidiaries, including information and personnel exchanges with the subsidiaries.
- A person in charge (including the Chief Compliance Officer) at the Company, who believes that a subsidiary has disobeyed the Company's management control and management guidance, violated laws and regulations, or has any other compliance issues, shall promptly report to the relevant department and request corrections, while reporting to the Compliance Committee and the Corporate Auditors (of the subsidiary and the Company). In addition, the Corporate Auditors of both parties will express their opinions, and request for formulation of improvement measures as necessary.
- A person in charge (including the Chief Compliance Officer), who believes that the Company's management control and management guidance have violated laws and regulations or have any other compliance issues, shall promptly report to the Compliance Committee and the Corporate Auditors (of the Company and the subsidiary) and request corrections. In addition, the Corporate Auditors of both parties will express their opinions, and request for formulation of improvement measures as necessary.
- The Company has positioned the internal reporting system as a system that covers the entire Group, and operates it appropriately.

(7) Matters related to employees placed to assist Corporate Auditors' duties upon their request

In the event that the Board of Corporate Auditors requests the assignment of employees to assist them, the selection of such employees shall be made after consultation with the Board of Corporate Auditors, and the assignment shall be made with the consent of the Board of Corporate Auditors.

(8) Matters related to ensuring the independence of the employees in the preceding item from Directors and the effectiveness of instructions to such employees

In the event that employees are assigned to assist the Board of Corporate Auditors, the execution of their duties shall be subject to the instructions of the Corporate Auditors, in order to ensure their independence from Directors. In addition, personnel transfers, evaluations, disciplinary actions, etc., pertaining to such employees must be approved by the Board of Corporate Auditors.

(9) System for reporting to the Board of Corporate Auditors

- System for Directors and employees of the Company to report to Corporate Auditors
  - a. Directors and employees shall report to Corporate Auditors on any important matters that may affect the Company's business or business performance on each occasion, and must make further reports if requested by the Corporate Auditors.
  - b. Corporate Auditors attend meetings of the Board of Directors and the Management Committee, as well as other important meetings, receive reports from Directors, Corporate Officers, and employees, and investigate the status of the Company's business and assets, as necessary. In addition, Corporate Auditors are able to take necessary measures in a timely manner, such as presenting opinions, including advice and recommendations, to the Directors, etc., and prohibiting Directors from committing violations.
  - c. Violations of laws and regulations as well as other compliance issues obtained through the internal reporting system shall be reported to the Corporate Auditors.
- System for Directors and employees of subsidiaries to report to the Corporate Auditors of the Company
  - Directors and employees of subsidiaries or any person who received reports from such persons shall report to Corporate Auditors on any important matters that may affect the business or business performance of subsidiaries on each occasion, and must make further reports if requested by the Corporate Auditors.

(10) System to ensure that the person who made the report referred to in the previous item will not be treated disadvantageously for the reason of making the said report

No disadvantageous treatment shall be given to a whistleblower or any person who reports to a Corporate Auditor for making such a report.

(11) Matters relating to procedures for prepayment or reimbursement of expenses incurred in the performance of duties by Corporate Auditors, and matters relating to policies for the treatment of other expenses or liabilities incurred in the performance of such duties

Corporate Auditors shall be entitled to receive prepayments or reimbursement from the Company for expenses incurred in the performance of their duties. In addition, Corporate Auditors may charge the Company for the cost of receiving external professional advice as necessary.

(12) Other systems to ensure that audits by Corporate Auditors are conducted effectively

- The results of internal audits conducted by the Internal Audit Department shall be reported to the Corporate Auditors to enhance the effectiveness of the audits by the Corporate Auditors, and the Corporate Auditors shall ensure the effectiveness of the audits by hearing the opinions of external experts, such as certified public accountants and lawyers, as necessary.
- Corporate Auditors will meet regularly with the Representative Directors to confirm their management policies, exchange opinions on issues to be addressed by the Company, risks surrounding the Company, and other important auditing issues, and strive to deepen the mutual understanding and trust with the Representative Directors.

## **2. Basic Views on Eliminating Antisocial Forces**

With regard to antisocial forces, the Code of Ethics prohibits any relationship with antisocial forces and groups that pose a threat to the order and safety of citizens' lives and that may interfere with economic activities. In addition, the Code of Ethics stipulates that no action that would facilitate their activities shall be taken. Furthermore, the Company is a member of the Council for Prevention of Special Violence, and collects related information from the competent police departments and the administrator of the shareholders registry, etc., in an effort to prepare for unforeseen circumstances and keep abreast of the latest trends.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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#### Supplementary Explanation

Although the Company has not adopted specific anti-takeover measures at this time, the Company believes that continued efforts to improve the profitability and enhance the financial strength of the Company will improve the value of the Company, thereby increasing its reputation in the marketplace, which will serve as a defensive measure.

### 2. Other Matters Concerning to Corporate Governance System

Nothing in particular.

( —————> indicates reports, instructions, audits, appointments, etc.)

