

Corporate Governance

Basic Approach

The Company and the company group comprising its subsidiaries (hereinafter called the “Group”) consider that their corporate governance is based on improvements and the implementation thereof to ensure that actions are taken pursuant to the Group’s corporate philosophy and code of conduct, decisions are made in a transparent, fair and efficient manner, laws and regulations are strictly observed, and corporate performance is monitored appropriately.

Governance Highlights

Number of Directors (Outside Directors Included in Total)
(As of January 2021)

> **8 (5)**

Average Attendance Rates at Board of Directors’ Meetings
(Fiscal year ended September 2020)

Directors > **100%** (13 meetings)

Auditors > **98%** (13 meetings)

Number of Auditors (Outside Auditors Included in Total)
(As of January 2021)

> **4 (3)**

Average Auditor Attendance Rate at Board of Auditors’ Meetings
(Fiscal year ended September 2020)

> **98%** (14 meetings)

Evaluation of the Effectiveness of the Board of Directors

The Company analyzes and evaluates the effectiveness of the Board of Directors once a year in principle with the goal of enhancing its effectiveness. The evaluation for the fiscal year ended September 2020 was based largely on the results of interviews and surveys regarding the operation of the Board that we conducted in accordance with the advice of third-party institutions as well as discussions by the Board and among corporate officers at training sessions. As a result, it was confirmed that the Board of Directors operates appropriately and that its effectiveness has been ensured through specific, voluntary initiatives for improvement based on clearly defined goals.

Moreover, recognizing that there is room for improvement in balancing discussions, in decision-making and in reporting, among other matters, the Board of Directors is actively working to enhance its effectiveness by implementing initiatives that address outstanding issues.

Officer Compensation Plan

In the fiscal year ended September 2017, the Group introduced a new compensation plan (a board incentive plan (BIP) trust) to more clearly define the relationship between the compensation of the Company’s directors (excluding outside directors and non-residents of Japan) and executive officers (excluding non-residents of Japan; collectively, “Directors, etc.”) and the Group’s business results in the medium-to-long term as well as the Company’s shareholder value, while creating a strong incentive to enhance business results and corporate value in the medium-to-long term. As a result, compensation for directors of the Company consists of monthly compensation and stock compensation, and compensation for outside directors who are

independent from business execution consists of monthly compensation only.

Director and Auditor Compensation

(Fiscal Year Ended September 2020)

Category	Number of Recipients	Officer Compensation	Remarks
Directors	7	¥158,966 thousand	4 outside directors included in left ¥39,200 thousand
Auditors	4	¥43,800 thousand	3 outside auditors included in left ¥12,600 thousand

Notes:

1. Certain directors of the Company concurrently serve as directors of Group subsidiaries, which pay part of the compensation expense for their service as subsidiary directors. The total of director compensation paid by the Company and by Group subsidiaries was ¥194,852 thousand.
2. The number of recipients includes one outside director who retired on August 31, 2020 and one outside auditor who retired at the close of the 29th Ordinary General Meeting of Shareholders held on December 18, 2019.
3. In addition to the above compensation, the Company is paying a retirement benefit of ¥266 thousand to an outside auditor who retired at the close of the 29th Ordinary General Meeting of Shareholders held on December 18, 2019. This payment is based on the resolution to make termination payments upon the abolition of the retirement allowance system for officers approved at the 13th Ordinary General Meeting of Shareholders held on December 18, 2003.

BIP Trust

This is a performance-linked stock compensation plan that aims to establish a clearer relationship between compensation for Directors, etc. and the value of the Group’s stock. The Company’s shares are purchased from the market as officer compensation, kept in a trust account, and delivered in accordance with the recipient’s position and degree of achievement of the performance targets in the Midterm Business Policies.



Outline of the Group's Corporate Governance Structure

Group management involves a holding company structure in which the Company is a holding company and the ultimate parent company for Group operating companies. This system separates Group-wide management and administration from execution in discrete Group businesses by delegating authority to Group operating companies while enhancing the holding company's ability to supervise and monitor Group businesses.

Outside directors involved in Board deliberation supervise the execution of duties, and independent corporate auditors who are not involved in executive decisions conduct audits. The Company employs this system because both of these functions help ensure more effective corporate governance.

Board of Directors

- Introduced an entrustment-type executive officer system in January 2017 with a monitoring-oriented model that focuses primarily on monitoring Group Executive Officers.
- Presents the overall direction of basic policies and other management matters, creates an environment that supports appropriate risk-taking by the management team, and takes responsibility for monitoring the business execution of the management team.
- Consists of eight directors, a majority of five of whom are independent outside directors.
- In principle, meetings are held once a month and on extraordinary occasions as required.

Group Management Meeting

- In charge of decision-making on execution of business matters throughout the Company and the Group's operating companies, and those that involve multiple operating companies.
- The Board of Directors appoints Group Executive Officers in charge of businesses. The Group President and Chief Executive Officer,

who is concurrently a representative director, oversees the business execution of Group Executive Officers.

- The Group Management Meeting supports decision-making by the Group President and Chief Executive Officer, and discusses important management matters for the Group.
- In principle, meetings are held twice a month and on extraordinary occasions as required.

Board of Auditors

- Conducts audits of directors' execution of duties based on audit policies, audit plans and other criteria established by the Board of Auditors.
- The Company has adopted a Board of Auditors system consisting of four auditors, three of whom are highly independent outside auditors.

Committees

The Company has established various committees to create a system that enables clarification of authority and responsibility, as well as prompt and appropriate decision-making.

Group Risk Management Committee

Responds promptly and effectively to the increasingly diverse, complex and decentralized risks faced by the Group, and oversees risk management for the entire Group.

Financial Results and Disclosures Committee

In charge of reviewing and evaluating financial information and timely disclosure information.

CSR Committee

In charge of fulfilling social responsibility through CSR activities.

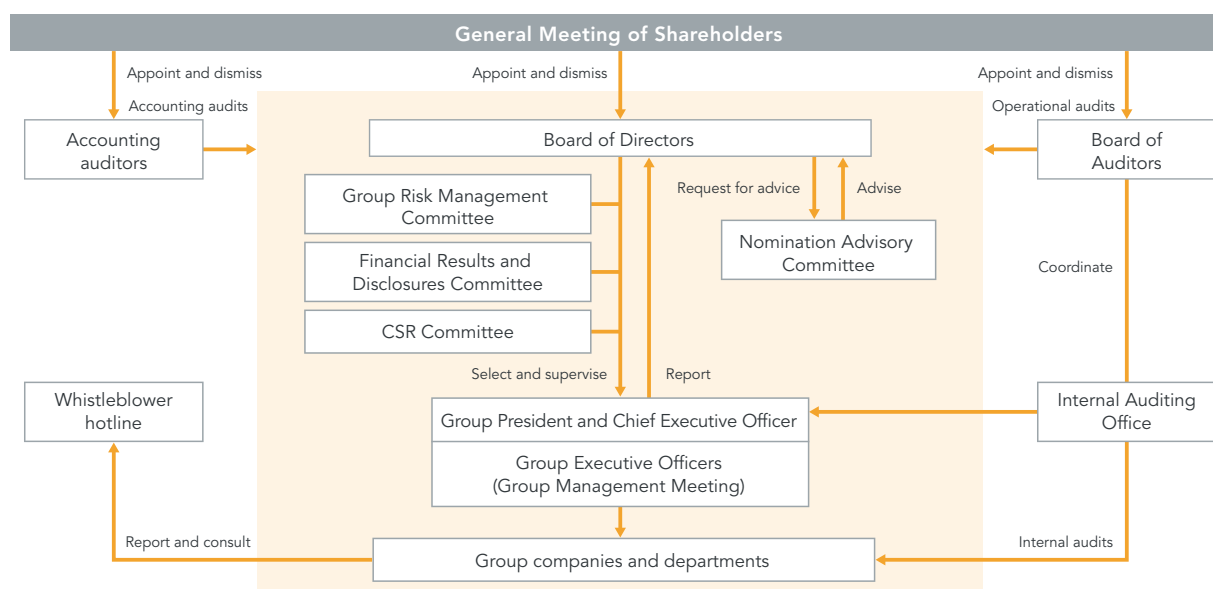
Nomination Advisory Committee

Ensures independence, objectivity and accountability in the deliberation process for matters related to the appointment and dismissal of management team personnel (including Company directors and Group Executive Officers) as a discretionary committee of the Board of Directors.

Executive Sessions

- Attended only by outside directors to ensure an opportunity for exchanging information and sharing understanding based on independent and objective standpoints.
- Other independent external parties, including outside auditors and accounting auditors, may attend the sessions, which also provides increased opportunities for cooperation among participants.
- In principle, meetings are held once every quarter.

Corporate Governance System (As of December 23, 2020)



Structuring a Management Team Using FFS Theory

The Company has incorporated the Five Factors & Stress (FFS) theory into its AI-based personnel system and other aspects of human resource management. Developed by Human Logic Laboratory, Inc., this theory can be used to scientifically build teams of people. It quantifies five factors as well as stress levels for individuals to understand their thought processes and behavior.

By examining the characteristics of Board members based on the FFS theory, the Company has structured a Board of Directors with leaders who drive a team that can readily adapt to emerging situations and relationships. This enables operational flexibility in a rapidly changing business environment. Following here are a personality matrix of the Company's Board of Directors and the results of an individual member personality analyses.

Name	Personality Profile
Koki Sato	A leader who embraces change. Has excellent judgment and determination. Good at missions that require pushing the boundaries.
Isamu Ueno	A team-builder who embraces change. Persuades others to get on board and cooperate. Good at reconnaissance missions for innovation.
Tadahiro Matsuda	Multi-skilled with excellent judgement. Balances offense and defense well. Good at missions that require resourcefulness.
Etsuko Okajima	A team-builder who embraces change. Persuades others to get on board and cooperate. Good at reconnaissance missions for innovation.
Yusuke Asakura	A rationalist and team-builder. Persuades others to get on board and cooperate. Good at missions that require planning.
Yoshiki Ishikawa	A team-builder who embraces change. Persuades others to get on board and cooperate. Good at reconnaissance missions for innovation.
Akie Iriyama	Multi-skilled with excellent flexibility. Balances offense and defense well. Good at missions that require resourcefulness.
Mio Takaoka	A rationalist and team-builder. Persuades others to get on board and cooperate. Good at missions that require planning.

Note: Personality profiles provided with the consent of each director.

Management Team Personality Matrix

