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Takasago Thermal Engineering Co., Ltd.

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The corporate governance of Takasago Thermal Engineering (the “Company”) is described below.

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

1. Basic Views

The basic policy of corporate governance of the Company is to secure the legality, transparency and agility of corporate management and improve the management efficiency in order to earn the trust of society and improve corporate value in the medium and long terms. For details, see [Principle 3-1 Full Disclosure] (ii) below.

[Reasons for Non-Compliance with the Principles of the Corporate Governance Code]



[Supplementary Principle 5-2-1 Basic Policy and Status of Review of Business Portfolio]

In the Group, the equipment construction business currently accounts for approximately 98% of net sales.

At the Company, the status of initiatives in the equipment construction business, such as “by region” or “by customer market,” is ascertained by profitability, and is periodically evaluated by the Company’s Board of Directors.

For example, in the domestic business, in addition to the return on capital, the Company considers the establishment of a value chain, synergies, and growth potential.

Furthermore, the Company is reviewing its international business by adding the perspective of economic (market and country specific) growth potential to its return on capital.

Going forward, the Company will disclose the status of the review of the business portfolio, including the rearrangement of existing businesses, as necessary, in line with the progress of the consideration of new business fields.

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



[Principle 1-4 Cross-Shareholdings]

The Company’s basic policy is not to hold cross-shareholdings in order to achieve the sustainable enhancement of corporate value, except in cases where important strategic cooperation and the maintenance and development of business relationships are recognized. For shares that have already been held, the Company periodically and continuously judges the appropriateness of holding the same from the following viewpoints, and examines the results at meetings of the Board of Directors every year, and in principle, considers reducing stockholdings of which the significance of holding is not recognized.

- Whether or not it leads to the enhancement of the Company’s corporate value over the medium to long term, such as the maintenance of smooth and favorable business relationships and business synergy.

- Whether or not it has an adverse effect on the Company’s financial soundness.

- Whether or not the return from stockholdings, including related transaction profits, dividends, etc., exceeds the cost of capital.

Regarding the exercise of voting rights, the Company makes a decision on whether each agenda contributes to improving the corporate value of an issuer and to the interests of the Company as a shareholder and properly exercises voting rights.

In light of the above criteria, the Company sold part or all of 13 of the 55 listed stocks it held at the beginning of FY2021. As of the end of March 2022, the Company held 51 stocks with a market value of 26.9 billion yen (including unlisted stocks), 19.7% of the consolidated net assets of 136.8 billion yen.

[Principle 1-7 Related Party Transactions]

The Company, in conducting a transaction with any officer thereof, has the following system in place so that such transaction does not harm the interests of the Company and shareholders.

- In principle, internal rules prohibit all directors and executive officers from conducting a transaction or a competing transaction for themselves or others by using their position at work.

- However, internal rules also stipulate that reporting to the Board of Directors is required if an adequate reason exists, and that if a transaction is actually conducted, important matters concerning such transaction should be reported to the Board without delay.

- Internal rules require audit & supervisory board members to monitor and review competing transactions, conflict-of-interest transactions, provision of property benefits with no charge by the Company (including provision of property benefits with significantly limited counter-performance) and irregular transactions with subsidiaries and shareholders to see if there is any violation of the duties of directors.

- The Company requires its officers to submit a “Letter of Confirmation” concerning related party transactions at the end of every fiscal year, and the Board of Directors monitors if such transactions are conducted. If such transaction of high importance is conducted, the Company discloses it in accordance with the Companies Act and the Financial Instruments and Exchange Act.

There is no shareholder who owns 10% or more of the Company’s voting rights. However, in conducting a transaction with such shareholder, the Company, as with any regular transaction, judges the necessity thereof based on the decision-making standards stipulated by internal rules. The Company shall obtain prior approval of the Board of Directors for any transaction of high importance and non-regular ones.

[Supplementary Principle 2-4-1 Ensuring Diversity in the Promotion of Core Human Resources, etc.]

1. Approach to ensuring diversity in the promotion of core human resources, etc.

The Company’s Corporate Mission, Management Philosophy, and Takasago Way stipulate “personal harmony” and “mutual respect.” By respecting and gathering together various opinions and values of people, regardless of their gender, nationality, or other attributes, a wide range of officers and employees will share the idea of creating useful technologies, products, and services that contribute to society, as well as take a people-oriented approach to hiring and personnel evaluation, including ability and performance.

At present, the Company is actively recruiting female employees, and in the personnel system, the Company has abolished regular positions and replaced them with career-track positions, including so-called “regionally limited” positions, and taken other measures, so that almost all female employees can advance their careers to management positions.

In addition, a company-wide diversity promotion working team under the ESG Promotion Committee, chaired by the President, has been established to create a working environment in which all employees, regardless of gender, sexual orientation, gender identity, nationality, mid-career employment, the presence or absence of

disabilities, or other matters, can fully demonstrate their abilities and play an active role with enthusiasm.

On the other hand, the Company recognizes that it currently needs to take further measures to promote human resources, which play a central role in management, especially in the promotion of female managers, compared to the average of all industries and its own industry average. In light of this situation, the Company is working to develop various measures, such as considering the expansion of fields in which women can play an active role, such as construction site work, design work, and research and development work.

In order to achieve sustainable growth and enhance corporate value, the Company will continue to set and regularly monitor medium- to long-term targets for the ratio of women in management positions, based on the recognition that it is important to create management innovation and innovation by respecting and embracing diverse viewpoints and values.

In addition, the Company will also promote the recruitment, development, and promotion of mid-career employees and employees with foreign nationalities to human resources who will play a central role in the management of the Company, with a policy of increasing the ratio of management positions from the current level.

2. Voluntary and measurable targets to ensure diversity

In order to ensure diversity, the Company has set the following targets for the promotion of female managers, mid-career employees, and employees with foreign nationalities to management positions, and regularly monitors them.

(1) Female employees

As of April 2021, the ratio of female managers remains 1.5% of all employees, but this ratio is targeted to be raised to around 10% by around 2030, and then to around 15% by around 2035.

	April 2021	April 2022	Around 2030	Around 2035
Ratio of female managers	1.5%	1.9%	10%	15%

In order to steadily advance the above targets, the Company has set targets such as the ratio of female candidates for management positions as supplementary indicators and, by around 2030, aims to achieve such ratio of 30%, which is equivalent to the ratio of women to officers and employees. The Company is also working to promote the rate of male employees taking childcare leave and other measures and improve the working environment that enables female managers to play an active role.

	April 2021	April 2022	Around 2030
Ratio of female candidates for management positions (deputy section manager level)	5.5%	6.3%	30%
Ratio of women to officers and employees	16.6%	17.3%	30%
Rate of male employees taking childcare leave (1 week or more) *Results for the previous fiscal year	20.5%	15.6%	100%

(2) Mid-career employees and employees with foreign nationalities

The Company is also working to increase mid-career employees and employees with foreign nationalities from the current level, with the aim of increasing them in the ratio of officers and employees.

	April 2021	April 2022	In the future
Ratio of mid-career employees in management positions	8.9%	9.5%	Increase from the current level
Ratio of mid-career employees to officers and employees	15.8%	16.5%	Increase from the current level
Ratio of employees with foreign nationalities in management positions	0%	0%	Increase from the current level
Ratio of employees with foreign nationalities to officers and employees	1.5%	1.7%	Increase from the current level

As for employees with foreign nationalities, 1,681 of 1,703 employees at overseas subsidiaries of the Company are employees with foreign nationalities, and 348 employees with foreign nationalities account for 370 management positions.

By closely communicating at the Company alone between employees with foreign nationalities and staff with foreign nationalities at overseas subsidiaries, the Company aims to increase opportunities for employees with foreign nationalities to exercise their functions at the Company alone.

3. Human resource development policy to secure diversity, internal environmental development policy, and the status thereof

In light of the decline in the number of workers due to the declining birthrate and aging population, changes in the sense of value toward working, and other factors, the Company will continue to hire, train, and evaluate excellent human resources based on the concept of a people-oriented approach, such as ability and performance, regardless of gender, nationality, or other attributes. At the same time, the Company will continue to improve the working environment so that all employees can play an active role in all workplaces in a lively and rewarding manner.

Status of current initiatives

- Planning of various measures by the company-wide diversity working group: Conducting study sessions on diversity for executives and managers, etc.
- Work style reform at construction sites (workplaces) (review of working hours)
- Introduction of hourly paid leave system
- Expansion of telework
- Promoting flexible working styles through no-overtime days and staggered working hours
- Promotion of male employees taking childcare leave

- Childcare and nursing care support system exceeding legal requirements
- Support system for accompanying family members (system for accompanying spouses when they are transferred)
- Promotion of health and productivity management
- Use of Sign language, subtitling, and digital signage etc. for internal documents (videos)

[Principle 2-6 Roles of Corporate Pension Funds as Asset Owners]

In operating the defined benefit corporate pension plan, the Company utilizes the knowledge of an external expert organization to conduct appropriate risk management and efficient reserve fund management so that it can fulfill the expected function as an asset owner. In addition, the Company strives to appoint personnel with expertise and qualifications in pension management in terms of personnel assignment. In addition to the establishment of such a system, the Corporate Pension Management Committee determines the management policy of the pension plan and monitors the status of management.

[Principle 3-1 Full Disclosure]

(i) Management Policy, Management Principles, Long-Term Management Vision and Medium-Term Management Plan

The management policy of the Company is "Contribution to society through personal harmony and creativity." Its management principles consist of "To serve society through the development of business activities that focus on the creation of the best product quality," "To develop technology that serves our customers' needs and utilizes the creativity of all employees" and "To enhance personal character and harmony between people by nurturing talent and promoting mutual respect."

The Group's long-term management vision "GReeN PR!DE 100," was formulated with a view to the 100th anniversary of its foundation in 2023. The vision intends to realize a "Corporate group continuously meeting customer expectations and always relied on and trusted by them," an "Environmental company whose presence is admired in the global market" and an "Environmental solution professional contributing to the global environment" and shift from an independent contractor to a general engineering company. In addition, the Company has been implementing each of its growth strategies under its new medium-term management plan "iNnovate on 2023 go beyond!" as the final step (FY2020 to FY2023). However, due to the recent prolonged impact of COVID-19 and changes in the global situation, it is anticipated that there will be a shortage of materials and equipment, a rise in the price of materials and equipment due to the impact of foreign exchange, delays in the construction process, a rise in labor costs due to a shortage of human resources, and other factors, resulting in deviations from the assumptions made when the above medium-term management plan was formulated. Taking advantage of the current situation in which initiatives for ESG and carbon neutrality are becoming more and more important, the Company, as an environmental creator, has decided to increase its corporate value by accelerating and promoting investment in environmental businesses for decarbonization and human capital as a source of competitiveness, with a sense of speed, and to withdraw the above-mentioned medium-term management plan and reconsider its future vision. The Company plans to announce the new vision again.

(ii) Basic Views on Corporate Governance and Basic Policy Based on the Principles of the Code

With "Contribution to society through personal harmony and creativity" as the corporate mission, the Company positions at its root ESG and CSR management that contributes to the resolution of issues faced by stakeholders, including shareholders, employees, customers, subcontractors and communities, and works to earn the trust of society through its corporate activities.

The Company also considers strengthening of corporate governance as one of the important management issues and works to achieve sustainable growth and medium- and long-term improvement of corporate value through enforcing effective corporate governance.

1. Securing the Rights and Equal Treatment of Shareholders
(Securing the Rights of Shareholders)

The Company recognizes that shareholders are important stakeholders and develops an environment where they can fairly exercise their rights. The Company also works to secure the equality of minority shareholders and foreign shareholders and ensure that they can properly exercise their rights as well.

(Basic Strategy for Capital Policy)

The Company enhances the trust of stakeholders such as shareholders, customers and suppliers by securing a stable financial base. At the same time, the Company works to realize efficient corporate management based on ROE with an awareness that efficiency and adequacy of capital such as effective use thereof is an important issue.

For profit allocation, the basic policy is to return profits to shareholders through dividends. Beginning with the interim and year-end dividends for the fiscal year ended March 31, 2022, the Company will not reduce the dividend during the period covered by the medium-term management plan (April 1, 2020 to March 31, 2024), and will increase the dividend in line with earnings growth. The Company intends to further enhance the return of profits to shareholders. Although the medium-term management plan has been withdrawn, there is no change to the dividend policy during the period of the plan.

For the sustainable growth of the Group and medium- and long-term improvement of corporate value, the Company uses internal reserves as funds to develop technology and reinforce the financial standing to strengthen its competitiveness and for business and capital alliances to expand its business domains and other purposes.

In addition, the Company promotes shareholder returns by flexibly implementing share buybacks that comprehensively take into account market conditions, capital levels, business investment opportunities, and other factors, while taking into account "soundness" and "capital efficiency."

2. Appropriate Cooperation with Stakeholders Other Than Shareholders
(Management Principles)

Based on the management principles, "Best product quality, unique technology development and human resource development and mutual respect," the Company believes that cooperation with all stakeholders is essential for sustainable growth and medium- and long-term improvement of corporate value. In order to do this, the management leads activities to nurture a corporate culture that respects the rights and positions of stakeholders and corporate ethics.

(Sustainability)

Given the recent growing awareness of social and environmental issues on a global level, the Company bears social responsibilities while striving to enhance its corporate value, engaging in ESG-oriented management in an effort to contribute to the realization of a sustainable society.

The Company actively promotes fair and transparent management, including thorough enforcement of corporate ethics, activities that contribute to environmental conservation, such as decarbonization as an environment creator and consideration of climate change initiatives, and activities that contribute to the provision of distinctive technologies and the highest quality based on customer needs, improvement of employee engagement, and the fostering of a corporate culture in which diverse human resources can thrive, and other measures.

3. Ensuring Appropriate Information Disclosure and Transparency
(Full Disclosure)

Regardless of whether required by law or not, the Company works to maintain timely and proper information disclosure from the perspective of protecting investors and earning the trust of the capital market.

In disclosing information, the Company works to be accurate and easy to understand so that it can have constructive dialogue with its shareholders.

(Accounting Auditors)

Accounting auditors, in collaboration with audit & supervisory board members and relevant departments such as Accounting & Finance and Internal Audit, work to secure an audit plan and a system and conduct a proper audit.

The Company promptly reports any event which affects accounting to the auditing firm and consults with and notifies it of an accounting policy. Accounting auditors work to understand accurate background information and the facts of such event to form an opinion.

4. Responsibilities of the Board (Roles and Responsibilities of the Board)

The Company develops and uses a system including an optional committee so that the Board of Directors can fully perform its main roles and responsibilities: "Presentation of directions such as corporate strategy," "Development of environment which supports risk taking" and "Highly effective supervision of the management and directors."

The Board of Directors makes important decisions for business execution and supervises performance of duties by directors to improve the efficiency of business management and secure the legality and validity of business execution.

(Use of Independent Outside Directors)

The Company utilizes judgments of outside directors independent from the management to promote "Segregation of supervision and execution of management" and secure the independence and objectivity of the Board of Directors in supervising business management.

The Company believes that independent outside directors can have discussions which contribute to the sustainable growth of the Company and medium- and long-term improvement of corporate value by offering useful advice and opinions on a management policy and improvement of business management from an independent perspective based on their expertise, abundant experience and knowledge. At the General Meeting of Shareholders held in June 2022, the Company raised the ratio of outside directors from 50% (5 of the 10 directors are independent outside directors) to 54.5% (6 of the 11 directors are independent outside directors).

(Evaluation of Effectiveness of the Board)

The Company checks whether the entire Board of Directors properly functions or not, so that it can effectively perform its roles and responsibilities. While regularly analyzing and evaluating the effectiveness of the entire Board of Directors based on self-assessment of the respective director and audit & supervisory board members, the Company directly obtains advice and opinions on this analysis and evaluation from outside directors and outside audit & supervisory board members, and takes proper measures to solve issues, if any.

The Company uses the results of analysis of this evaluation to improve the Board of Directors' decision-making/supervisory function. For details, see [Supplementary Principle 4-11-3 Analysis/Evaluation of Effectiveness of the Board, Disclosure of Summary of Results Thereof] below.

5. Dialogue with Shareholders (Dialogue with Shareholders)

The Company believes listening to shareholders and taking proper measures lead to the sustainable growth and medium- and long-term improvement of corporate value. Thus, the Company commits to building a constructive relationship with shareholders through dialogue with shareholders and disclosure of materials. For details, see [Principle 5-1 Policy for Constructive Dialogue with Shareholders] below.

(i) Policy and Procedures for the Board of Directors to Determine Remuneration of Executives and Directors

With regard to the individual remuneration, etc. of the Company's directors, for the purpose of growing its business over the medium to long term and continuously and sustainably improving its corporate value and the common interests of its shareholders, the Company has decided, by resolution of the Board of Directors, to adopt a policy of having a remuneration system that functions as one of the sound incentives (motivation) in consideration of trends in corporate governance, survey data from external specialist organizations, the remuneration levels of other companies, and other factors. In addition, the individual remuneration, etc. for audit & supervisory board members are determined through discussion by audit & supervisory board members within the maximum amount of the total remuneration, etc. of audit & supervisory board members determined by a resolution of the General Meeting of Shareholders.

The following is a summary of the policy for determining the content of individual remuneration for officers of the Company.

The Company determines, based on a resolution of a shareholder meeting, the maximum limit of total remuneration of each director and audit & supervisory board member.

To enhance the independence, objectivity and transparency of officer remuneration, the Company established, as an optional advisory body, the Nomination and Remuneration Committee. After discussions at a meeting of the Committee, the Company determines, based on a resolution of the Board of Directors, the director remuneration. The majority of the Committee consists of independent outside directors [in the most recent fiscal year, the Nomination and Remuneration Committee consisted of eight members, six of whom were independent outside directors; the Nomination and Remuneration Committee in the most recent fiscal year: Chairman and Representative Director, President and Representative Director, and six independent outside directors].

The remuneration of directors consists of basic remuneration, a bonus as a short-term (annual) incentive, and a stock compensation plan (Directors' Compensation BIP Trust) as a medium- and long-term incentive, and the composition ratio is set in consideration of this policy.

The Company's policy is to reduce the proportion of basic remuneration and increase the proportion of bonuses and a stock compensation plan (Directors' Compensation BIP Trust) as the rank increases. The proportion of basic remuneration, bonuses, and a stock compensation plan (Directors' Compensation BIP Trust) on the basis of the Representative Director's standard payment ratio is 60%: 20%: 20%.

The Company only pays basic remuneration to independent outside directors and pays no bonus or stock compensation plan (Directors' Compensation BIP Trust) to them.

Basic remuneration is fixed remuneration determined according to one's title and a certain amount is paid monthly.

For bonuses, from April 1, 2019, for the purpose of boosting the motivation to achieve a single-year performance goal, etc., the Company introduced a system where bonuses fluctuate between 50% to 150% depending on the base amount by position, according to the previous year's earnings (profit attributable to owners of parent from the viewpoint of sharing performance with shareholders, ratio of net income to consolidated sales from the viewpoint of profitability, and consolidated sales from the viewpoint of the sustainable growth of the Group) as well as qualitative evaluation of each officer (degree of achievement of individual goal, training of successors, improvement of corporate value, efforts toward SDGs, vitalization of the Board of Directors and compliance). Bonuses are paid at a certain time each year.

In addition, the purpose of the stock compensation plan (Directors' Compensation BIP Trust) is to further motivate them to contribute to higher profits and improve corporate value in the medium and long terms. In June of each year, points are granted based on base points that are predetermined according to one's position and multiplied by a performance-linked coefficient that varies according to the degree of achievement against the target values of the performance indicators for the fiscal year ending on the last day of March of the same year. Shares of the Company equivalent to the cumulative points are delivered at the time of retirement. The performance-linked coefficient is designed to vary within the range of 0% to 150%, depending on the degree of achievement of targets, etc. for financial indicators (consolidated sales, consolidated ordinary income, consolidated ROE, etc.) and non-financial indicators (CO2 emissions, etc.) for each fiscal year.

Number of points granted = Base amount of stock compensation by position / Average acquisition price of shares of the Company (*1) × Performance-linked coefficient of financial indicators (*2) × Performance-linked coefficient of non-financial indicators (*3)

*1. Average acquisition unit price of shares of the Company through a trust. If the trust period is extended, the average acquisition price of shares of the Company acquired through the trust after the extension.

*2. Performance-linked coefficient of financial indicators = Consolidated sales coefficient × 30% + Consolidated ordinary income coefficient × 60% + Consolidated ROE coefficient × 10%

*3. CO2 emissions are used as a non-financial indicator.

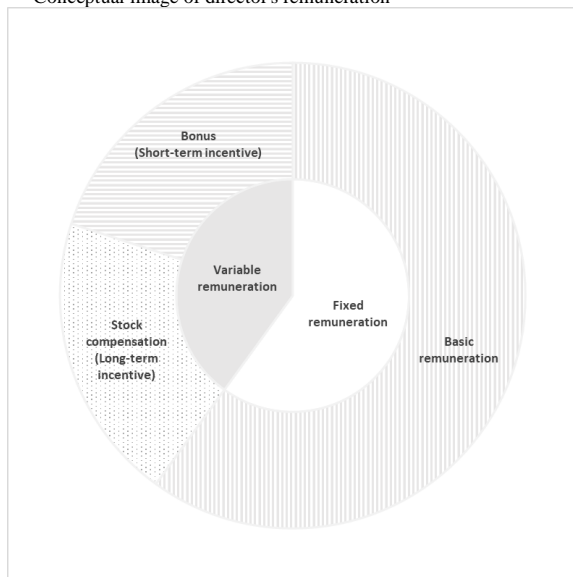
As with directors, remuneration of executive officers consists of basic remuneration, bonus as a short-term (annual) incentive and stock compensation plan (Directors' Compensation BIP Trust) as a medium- and long-term incentive, and is determined based on a resolution of the Board of Directors after discussion by the Nomination and Remuneration Committee.

Each director (except for independent outside directors) and executive officer endeavor to acquire shares of the Company by way of optional contribution through the director shareholding association.

The remuneration of audit & supervisory board members only consists of basic remuneration whose amount is determined through discussions by audit & supervisory board members by considering the details, volume and difficulty of the duties of each audit & supervisory board member and the extent of responsibilities in a comprehensive manner. No bonus or stock-related remuneration such as a stock compensation plan (Directors' Compensation BIP Trust) is paid to audit & supervisory board members in light of their duties.

The amount of individual remuneration for directors for the most recent fiscal year was determined by the Board of Directors in consideration of the content of the report submitted by the Nomination and Remuneration Committee after confirming the consistency with the decision policy. Therefore, the Board of Directors has determined that the content is in line with the decision policy.

Conceptual image of director's remuneration



<Date of resolution by shareholders' meeting and details thereof concerning officers' remuneration>

1) Directors

Type of remuneration	Date of resolution	Eligible person	Amount	Number of members at the time of resolution
Basic remuneration and bonus	June 29, 2010	Director	¥550 million or less (in one fiscal year)	12
Stock compensation	June 22, 2021	Director (except for outside director) and executive officer	¥769 million or less (in three fiscal years) 158,200 shares or less (in one fiscal year)	5 directors and 23 executive officers who do not concurrently serve as a director

2) Audit & Supervisory Board Members

Type of remuneration	Date of resolution	Eligible person	Amount	Number of members at the time of resolution
Basic remuneration	June 26, 2018	Audit & Supervisory Board Member	¥120 million or less in a year	5

<Methods of determination of performance-linked compensation in the most recent fiscal years>

The Company determines the bonus paid to each director based on his/her performance, duties, degree of contribution, etc. in a comprehensive manner. For the purpose of boosting the motivation to achieve a single-year performance goal, etc., performance indicators for the recent fiscal year are composed of the results for the previous year's earnings (profit attributable to owners of parent from the viewpoint of sharing performance with shareholders, ratio of net income to consolidated sales from the viewpoint of profitability, and consolidated sales from the viewpoint of sustainable growth of the Group) as well as qualitative evaluation of each director (degree of achievement of individual goal, training of successors, improvement of corporate value, efforts toward SDGs, vitalization of the Board of Directors and compliance). The actual results related to indicators for the most recent fiscal year are as follows:

Indicator	Actual results (compared with published achievement ratio)
Profit attributable to owners of parent	11,535 million yen (105%)
Ratio of net income to consolidated sales	3.8% (103%)
Consolidated sales	302,746 million yen (101%)

<Name(s) of those with decision-making authority>

The Board of Directors determines the amount of remuneration of directors after discussions at the Nomination and Remuneration Committee. For an overview of the Committee, see "2. Matters on Functions of Business Execution, Auditing/Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)."

<Details of authority and scope of discretion>

The Company determines the amount of each type of remuneration within the limit stipulated by shareholders' meetings.

As basic remuneration is determined based on the amount by position stipulated by resolutions of the Board of Directors, there is no room for discretion of Representative Directors or the Nomination and Remuneration Committee in principle. Bonus is calculated by the formula by position stipulated by resolutions of the Board of Directors. The Board approves its amount after the Nomination and Remuneration Committee verifies the appropriateness. Stock compensation is determined based on the formula by position stipulated by resolutions of the Board of Directors.

The scope of employees discussed by the Nomination and Remuneration Committee concerning remuneration includes directors (except for outside directors) and executive officers.

<Overview of procedures performed by the Committee involved in policy determination>

The Office of the Nomination and Remuneration Committee is established in the Corporate Planning Division and convenes meetings and provides prior explanation in accordance with the “Rules for Nomination and Remuneration Committee.” What is discussed in those meetings is reported to the Board of Directors at the discretion of the chairperson.

<Activities of the Board of Directors and the Committee>

The Nomination and Remuneration Committee held nine meetings during the most recent fiscal year and discussed validity of the remuneration to each director proposed by the Company given the level of fulfillment of one’s function while discussing the method of calculating performance-linked compensation. The Board of Directors received reports on discussions at the Committee. In addition to the remuneration of directors, the Nomination and Remuneration Committee deliberated on matters related to the appointment and dismissal of executives and reported the results to the Board of Directors. All directors who are members of the Committee attended all nine meetings of the Committee.

(ii) Policy and Procedures for the Board of Directors to Appoint/Dismiss Executives and Nominate Candidates for Directors and Audit & Supervisory Board Members

To enhance the objectivity and transparency of appointment/dismissal of executives as well as nomination of candidates for directors and audit & supervisory board members, the Company, as an optional advisory body, established the Nomination and Remuneration Committee which consists of the Chairman and Director, the President and Director, and independent outside directors. After discussions at the Committee, candidates are submitted to the Board of Directors for further deliberation. However, for audit & supervisory board members, approval of the Audit & Supervisory Board is obtained when submitting candidates to the Board of Directors for deliberation. As of the submission of this Report, six out of eight members of the Committee are independent outside directors.

The criteria for appointment of directors include knowledge of business operation with excellent foresight, insight and objective judgment, ability to exercise leadership for sustainable growth of the Group and improvement of corporate value, ability to make an active and positive contribution to development of the next-generation executives, great character with popularity, high ethical standards and courage, ability to perform one’s duty with no physical or mental problem and freedom from any problem such as having a vested interest. In addition to the above criteria, for directors who are not outside directors, sufficient experience and knowledge to manage the area he or she is in charge of and a sense of balance as well as leadership to execute business from the perspective of total optimization are required. For outside directors, an ability to supervise and check business management from an independent perspective by using abundant experience and knowledge of the area of expertise and corporate management is required. For the standards to secure the independence of independent outside directors, see [Principle 4-9 Independence Standards and Qualification for Independent Outside Directors] below.

The criteria for appointment of audit & supervisory board members include quality to fulfill responsibilities of audit & supervisory board members with high ethical standards, physical and mental fitness and freedom from any problem such as having a vested interest. In addition to the above criteria, for audit & supervisory board members who are not outside audit & supervisory board members, sufficient experience and knowledge of the Company’s businesses and ability to conduct a proper audit are required. For outside audit & supervisory board members, an ability to conduct a proper audit from an independent perspective by using abundant experience and knowledge of the area of expertise and corporate management is required. For the standards to secure the independence of independent outside audit & supervisory board members, see [Principle 4-9 Independence Standards and Qualification for Independent Outside Directors] below.

The criteria for appointment of executive officers include an ability to perform important management in terms of corporate strategy supported by a high level of professionalism and track record, ability to exercise leadership for sustainable growth of the Group and improvement of corporate value, ability to make an active and positive contribution to development of the next-generation executives, great character with popularity, high ethical standards and courage, ability to perform one’s duty with no physical or mental problem and freedom from any problem such as having a vested interest.

When executives are considered to lack aptitude in light of the above-mentioned standards, the Nomination and Remuneration Committee may discuss dismissal of such executives.

(iii) Explanation of Each Appointment/Dismissal and Nomination When the Board Appoints/Dismisses Executives and Nominates Candidates for Directors and Audit & Supervisory Board Members Based on (ii) Above

The Company, in nominating candidates for directors and audit & supervisory board members, specifies the reason for selecting each candidate in a notice of a general shareholder meeting. The explanations for nomination of current directors and audit & supervisory board members as candidates therefor are shown below.

Atsushi Ouchi: Chairman and Representative Director, CEO

Having served as President and Representative Director since April 2010 and Director, Chairman and President since April 2016, Atsushi Ouchi engages in management by exercising his leadership as the Group CEO. We believe that, as Chairman and CEO, he can be expected to achieve the Group’s sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Kazuhito Kojima: President and Representative Director, COO; Global Business Planning Headquarters, and Research and Development Headquarters

Through the execution of the air conditioning equipment business, Kazuhito Kojima has gained abundant experience and deep insight in the design/construction of building equipment relating to the Group’s businesses. He has also fulfilled his executive responsibilities through the development of the Group’s medium-term/annual business plans and through structural reforms and ESG/SDG-conscious corporate planning operations. We believe that, as President, he can be expected to achieve the Group’s sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Tadashi Kamiya: Director and Managing Executive Officer; Chief Executive Officer of Business Management Headquarters; Director in Charge of Quality Environment & Safety Control, Total Engineering, Group Companies

Through the execution of the air conditioning equipment business, Tadashi Kamiya has gained abundant experience and deep insight in the design/construction of building equipment relating to the Group’s businesses. He has also fulfilled his executive responsibilities through business management and productivity improvement in the air conditioning equipment business. We believe that, as Director in Charge of Quality Environment & Safety Control including core business management, he can be expected to achieve the Group’s sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Toshikazu Yokote: Director and Managing Executive Officer, CDXO; Director in Charge of Risk Compliance, Corporate Operations Headquarters, and DX Management Headquarters

Through the execution of the air conditioning equipment business, Toshikazu Yokote has gained abundant experience and deep insight in the design/construction of building equipment relating to the Group’s businesses. He has also fulfilled his executive responsibilities through the enhancement of the management foundation, as Officer in charge of human resources, general affairs, legal-related operations and DX management. We believe that, as Director in Charge of Compliance including overall corporate management, he can be expected to achieve the Group’s sustainable growth as well as medium and long-term improvement in corporate value and to revitalize and strengthen the functions of the Board of Directors.

Hiroshi Kubota: Director and Managing Executive Officer; Chief Executive Officer of Sales & Marketing Headquarters; In Charge of Sales & Marketing Headquarters

Hiroshi Kubota has been involved in the Sales Department for many years and currently serves as the Chief Executive Officer of the Sales & Marketing Headquarters, overseeing sales of the air conditioning equipment business. With such a background, he has excellent capabilities and insight. We believe that he can be expected to contribute to the sustainable growth of the Group and the enhancement of its corporate value over the medium to long term, as well as to invigorate and strengthen the

functions of the Board of Directors, based on his abundant experience.

Kazuo Matsunaga, Director

An explanation is shown below in “Reasons for Appointment” of the said Outside Director.

Yoko Seki, Director

An explanation is shown below in “Reasons for Appointment” of the said Outside Director.

Makio Fujiwara, Director

An explanation is shown below in “Reasons for Appointment” of the said Outside Director.

Hideka Morimoto, Director

An explanation is shown below in “Reasons for Appointment” of the said Outside Director.

Shuma Uchino, Director

An explanation is shown below in “Reasons for Appointment” of the said Outside Director.

Atsushi Takagi, Director

An explanation is shown below in “Reasons for Appointment” of the said Outside Director.

Yukitoshi Yamamoto, Full-time Audit & Supervisory Board Member

We believe Yukitoshi Yamamoto can supervise and check business management by using his knowledge of construction, overall technology such as technological administration and general administration such as general affairs and human resources.

Hiroshi Yamawake, Full-time Audit & Supervisory Board Member

We believe Hiroshi Yamawake can supervise and check business management by using his knowledge of construction, technological development and new businesses in the Company.

Masahiro Seyama, Audit & Supervisory Board Member

An explanation is shown below in “Reasons for Appointment” of the said Outside Audit & Supervisory Board Member.

Shigeharu Kawahara, Audit & Supervisory Board Member

An explanation is shown below in “Reasons for Appointment” of the said Outside Audit & Supervisory Board Member.

Kazuo Sakakibara, Audit & Supervisory Board Member

An explanation is shown below in “Reasons for Appointment” of the said Outside Audit & Supervisory Board Member.

[Supplementary Principle 3-1-3 Initiatives for Sustainability]

The Company believes that addressing sustainability issues through its business activities will lead to the enhancement of its corporate value and has revised its existing Basic CSR Policy, and the Company has established the Basic Principles of Sustainability as a new policy in December 2021.

In terms of specific activities, the ESG Promotion Committee, chaired by the President and composed of internal directors and general managers, is the core of the Company’s activities, which are based on the following three pillars.

- (i) ESG promotion activities to address issues listed by all stores and each department of the head office
- (ii) Working group activities established under the Committee
- (iii) Other company-wide cross-sectional activities due to the important nature of individual issues, mainly by committee secretariat

With regard to (i) above, in each branch and each department of the head office:

- Efforts to reduce CO2 and waste in response to environmental issues
- In response to social issues, initiatives for quality improvement and human resource development (improvement of the working environment for employees such as improvement of employee engagement, health and productivity management, and promotion of diversity), education regarding human rights, etc.
- Fairness and transparency of management as governance issues

The Company has set target levels (KPIs) for each of the above 37 items and is working on them.

With regard to (ii) above:

- CO2 Working Group mainly to promote the consideration of CO2 reduction in Scope 3.
- Engagement Improvement Working Group to examine and share measures to improve employee engagement throughout the company.
- Diversity Promotion Working Group to create a workplace where females, foreign nationals, and mid-career employees play an active role.

The above three working groups have been established and are being considered.

The content under consideration in the above working groups is discussed by the ESG Promotion Committee and presented and reported to the Board of Directors.

With regard to (iii) above, the Company considered the TCFD disclosure.

The Company will continue to resolve sustainability issues through initiatives led by the ESG Promotion Committee.

With regard to investment in human capital, based on the philosophy that “people are the greatest asset” set forth in the Basic Policy for Human Resource Development, the Takasago Academy provides practical and multifaceted educational programs by purpose and level with the aim of fostering human resources who will create the future. In addition, the Company is working to create an open workplace by encouraging communication between employees and supervisors, including senior management. In the future, in addition to enhancing training programs to improve the skills of employees, the Company is also considering improving the workplace environment to improve employee engagement and promote diversity, expanding programs to enable all human resources to play an active role, assigning human resources to appropriate positions, fostering successors in important positions, and other measures.

With regard to investments in intellectual property, the Company annually invests in research and development to create new business pillars and improve the productivity in design, procurement, and construction. The Company works to accumulate intangible assets related to design, procurement, and construction, and the Intellectual Property Strategy Office strives to maintain and acquire intellectual property rights for new technologies and products and services to be introduced to the market. The Company has secured a competitive advantage in the market through the accumulation of intangible assets through such investments in research and development and the number of intellectual property cases at the top level in the industry. At the same time, the Company has established a system to prevent patent infringement.

In addition, in recent years, as the Company works to disseminate and expand the Group’s technologies in collaboration with value chains, the Company’s intellectual

property revenues have also been steadily increasing.

Going forward, the Company will continue to position intangible assets and intellectual property rights as important management resources and refine its management strategies.

[Supplementary Principle 4-1-1 Scope of Delegation to Management]

The “Rules for the Board of Directors” and the “Regulations for the Management Council” stipulate matters to be discussed by the Board and the Management Council.

The Board of Directors supervises performance of duties by Representative Directors and other directors, improves the efficiency of business management and secures the legality and validity of business execution while making a decision on matters stipulated by laws and the Articles of Incorporation, the basic policy for business management and other important matters for business execution. For matters to be resolved by the Board of Directors, clear procedures are in place by developing certain quantitative criteria for disposal/transfer of important assets and large borrowings.

The Management Council consists of directors and Chief Executive Officers of Headquarters excluding outside directors, working to have full discussions on important matters for business management and expedite decision-making on allocation of management resources. After the Management Council discusses important matters for business management, they are submitted to the Board of Directors for further discussion. For matters concerning allocation of management resources, they are reported to the Board after being discussed by the Management Council. Also, for these matters, clear procedures are in place by developing quantitative decision-making standards for each item such as acquisition of property, plant and equipment.

[Supplementary Principle 4-1-3 Plan for Successor to Director and CEO]

To secure the transparency and objectivity of the Director and CEO’s succession to a successor, in a plan for successor to the Director and CEO, a policy and a plan to develop a successor and the progress thereof shall be reported to the Nomination and Remuneration Committee which in turn discusses these matters. The Director and CEO proposes the most qualified person as a candidate for successor when appointing a new director and CEO. The Committee deliberates on the candidate and reports its results to the Board of Directors.

[Principle 4-8 Effective Use of Independent Outside Directors]

The Company appointed six out of eleven directors as independent outside directors.

Independent outside directors fulfill their management oversight and checking functions from an independent perspective at the meetings of the Board of Directors or the Nomination and Remuneration Committee, by drawing on their abundant experience and deep insight in their fields of expertise or corporate management.

[Principle 4-9 Independence Standards and Qualification for Independent Outside Directors]

The Independence Standards for Outside Officers of the Company are shown below.

Standards for Independence of Outside Officers

1. He or she is not a party whose major client or supplier (Note) is the Company or an executive thereof
(Note) A party whose major client or supplier is the Company is a business entity whose transactions with the Company in each target fiscal year (previous fiscal year and last three fiscal years) account for 2% or more of its net sales in principle.
2. He or she is not a major client or supplier (Note) of the Company or an executive thereof
(Note) A major client or supplier of the Company is a business entity whose transactions with the Company in each target fiscal year (previous fiscal year and last three fiscal years) account for 2% or more of the net sales of the Company in principle.
3. He or she is not a consultant, an accountant or a legal professional who receives a large amount of monetary consideration or other property (Note) from the Company besides compensation as a director/audit & supervisory board member (when a party that receives such property is an organization such as a corporation or an association, a person who belongs to such organization)
(Note) A large amount of monetary consideration or other property is defined as those whose total value is 10 million yen or more in a given fiscal year in principle.
4. He or she was not recently applicable to any of (1) through (4) below
 - (1) A party set forth in 1, 2 or 3
 - (2) Executive or a non-executive director of the parent company of the Company
 - (3) Audit & supervisory board member of the parent company of the Company (only when appointing an outside audit & supervisory board member as independent officer)
 - (4) Executive of a fellow subsidiary company of the Company
5. He or she is not a close relative (Note) of a party applicable to any of (1) through (8) below (except for a party who is not important (Note)).
 - (1) A party set forth in 1 through 4 above
 - (2) An accounting advisor of the Company (when the accounting advisor is a corporation, including an employee who performs that duty; the same applies hereafter) (only when appointing an outside audit & supervisory board member as independent officer)
 - (3) Executive of a subsidiary of the Company
 - (4) Non-executive director or an accounting advisor of a subsidiary of the Company (only when appointing an outside audit & supervisory board member as independent officer)
 - (5) Executive or a non-executive director of the parent company of the Company
 - (6) Audit & supervisory board member of the parent company of the Company (only when appointing an outside audit & supervisory board member as independent officer)
 - (7) Executive of a fellow subsidiary company of the Company
 - (8) A party that recently served as (3), (4) above or executive of a listed company (including non-executive director when appointing an outside audit & supervisory board member as independent officer)

(Note) An “important” party is an officer or a manager of each company/supplier in the case of the executive in 1. Or 2. And a certified public accountant affiliated with each auditing firm or a lawyer affiliated with each law firm (including so-called associate) in the case of a person who belongs to an organization in 3. Close relative means relatives within the second degree of kinship.

[Supplementary Principle 4-10-1 Establishment of Nomination and Remuneration Committee]

With the aim of establishing a fair corporate governance system and ensuring management transparency, the Company has established the Nomination and Remuneration Committee, consisting of six independent outside directors (one of whom is a female) and two internal directors. The Committee deliberates on the following matters regarding the nomination, remuneration, etc. of directors, Audit & Supervisory Board members, and executive officers, and presents and reports them to the Board of Directors.

- Policy on the election and dismissal of directors, representative directors, executive officers, and Audit & Supervisory Board members*

*As for Audit & Supervisory Board members, the consent of the Audit & Supervisory Board is required.

- Proposals for the election and dismissal of directors and Audit & Supervisory Board members to be submitted to the General Meeting of Shareholders

- Succession plans for the President and directors
- Policy for the remuneration of directors and executive officers and the calculating method draft
- Other important management matters deemed necessary by the Board of Directors

At present, the Nomination and Remuneration Committee consists of a majority of independent outside directors in order to ensure independence and objectivity, and the chairperson is elected from among the committee members, including independent outside directors, by mutual vote at each committee meeting. The Company considers ways to further enhance independence and objectivity.

The standards for ensuring the independence of independent outside directors are described in [Principle 4-9 Independence Standards and Qualification for Independent Outside Directors] below.

[Supplementary Principle 4-11-1 Views of the Board as a whole on Balance of Knowledge/Experience/Capability, Diversity and Size]

The Board of Directors of the Company works to improve the efficiency of business management and secure the legality and adequacy of business execution by making important decisions for business execution and supervising the performance of duties by executive directors. To do that, the Company believes the Board of Directors consisting of an appropriate number of diverse personnel is required to have active discussions and perform swift decision-making. Executive directors should have abundant experience and knowledge of their respective field of expertise and have a sense of balance as well as leadership to execute business from the perspective of total optimization. On the other hand, we believe outside officers can hold discussions which contribute to the sustainable growth of the Company and medium- and long-term improvement of corporate value by offering useful advice and opinions from an independent perspective based on abundant experience and knowledge of the respective field of expertise (outside directors) and from a professional standpoint and abundant experience and knowledge of corporate management (outside audit & supervisory board members).

In order to realize the Group's medium- to long-term management strategy, the Company has identified the following as particularly important areas: (i) corporate management and management strategy, (ii) technology, innovation, and DX, (iii) environment, (iv) global, (v) sales strategy and marketing, (vi) finance and accounting, (vii) legal and risk management, and (viii) human resources development and labor.

The skills of the current members of the Company's Board of Directors are not excessive or inadequate and are appropriately assigned, and the list is as follows:

<Director's knowledge, experience, and ability>

	Corporate management and management strategy	Technology, innovation, and DX	Environment	Global	Sales strategy and marketing	Finance and accounting	Legal and risk management	Human resources development and labor
Atsushi Ouchi	●	●	●	●				
Kazuhito Kojima	●	●	●		●			
Tadashi Kamiya		●	●	●	●			
Toshikazu Yokote		●				●	●	●
Hiroshi Kubota					●			
Kazuo Matsunaga	●			●			●	
Yoko Seki						●	●	
Makio Fujiwara	●		●					
Hideka Morimoto			●				●	●
Shuma Uchino	●					●	●	
Atsushi Takagi	●			●		●		

<Audit & Supervisory Board members' knowledge, experience, and ability>

	Corporate management and management strategy	Technology, innovation, and DX	Environment	Global	Sales strategy and marketing	Finance and accounting	Legal and risk management	Human resources development and labor
Yukitoshi Yamamoto		●					●	
Hiroshi Yamawake		●	●	●				
Masahiro Seyama				●	●			
Shigeharu Kawahara				●		●	●	
Kazuo Sakakibara							●	

[Supplementary Principle 4-11-2 Status of Concurrent Posts Held by Directors and Audit & Supervisory Board Members]

When outside directors or outside audit & supervisory board members serve as an officer of any other listed company, the Company ensures that they would spend the time and energy required to fulfill their roles and responsibilities the Company expects them to perform. The Company checks and adjusts in advance a schedule of meetings of the Board of Directors and the Audit & Supervisory Board to increase the attendance rate. The Company discloses the status of important concurrent posts in its business report, reference documents for shareholders meetings and securities reports. Directors that are not outside directors and audit & supervisory board members that are not outside audit & supervisory board members do not hold any important concurrent post.

[Supplementary Principle 4-11-3 Analysis/Evaluation of Effectiveness of the Board, Disclosure of Summary of Results Thereof]

The Company evaluates the effectiveness of the Board of Directors annually based on the self-evaluation of each director and audit & supervisory board member to secure the efficacy and effectiveness of the Board.

Each director and audit & supervisory board member performs a self-evaluation based on the "Self-Evaluation Sheet," and the results are analyzed and evaluated by the Board of Directors after being discussed by Representative Directors and outside officers.

The summary results of this analysis and evaluation are shown below, and we believe the efficacy and effectiveness of the entire Board of Directors is secured. Given the results, the Company will work to further improve the supervisory and decision-making function of the Board.

- As a result of promoting more in-depth discussions at the meetings of the Management Council and the Internal Control Committee, which are organized under the Board of Directors, as well as enhanced internal controls, it was confirmed that the appropriate development of highly effective oversight and risk management systems, which is one of the responsibilities of the Board of Directors, has been conducted on a continuous basis.
- It was confirmed that active, wide-ranging and constructive discussions and full and multifaceted reviews were conducted at the Board of Directors, showing that the Board was vitalized. In addition, there was an opinion that we should deepen more multilateral discussions to further enhance debates about the direction of medium and long-term management.
- There were comments saying that it is necessary to clarify discussion points and simplify explanation of materials in order to activate discussion at the Board of Directors meeting.
- In addition, there were comments saying that mutual exchange of opinions should be further invigorated by further expanding venues and opportunities for information-sharing between internal and external officers.

[Supplementary Principle 4-14-2 Policy for Training of Directors and Audit & Supervisory Board Members]

The Company believes that the knowledge required of directors and audit & supervisory board members mainly consists of knowledge unique to the Company such as knowledge of the businesses, finance and organization of the Company and general knowledge such as the roles required of directors and audit & supervisory board members and responsibilities including legal ones.

Executive directors, through discussions at the Management Issue Review Committee, work to gain a better understanding of general matters such as the businesses, finance and organization of the Company every year. Executive directors and audit & supervisory board members that are not outside audit & supervisory board members work to understand the roles and responsibilities required of directors and audit & supervisory board members by participating in training by outside experts.

The Company provides an explanation of matters such as the businesses, finance and organization of the Company to outside directors and outside audit & supervisory board members when they assume their posts and as required, to facilitate acquisition of knowledge required of the Company's outside directors and outside audit & supervisory board members. As such, the Company develops an environment for them to fulfill their roles.

The Company provides opportunities and services and pays necessary expenses to acquire and properly update the knowledge required of each director and audit & supervisory board member. The Board of Directors regularly checks the progress of training of executive directors.

[Principle 5-1 Policy for Constructive Dialogue with Shareholders]

The Company works to secure an opportunity to give explanations to the stock market and have constructive dialogue with shareholders to facilitate understanding of the Company's management. The Company continues to share information obtained through such dialogue within the Company and reflect it as required.

(i) Appointment of Management and Directors Who Supervise Matters to Be Included in (ii) Through (v) Below for Overall Dialogue with Shareholders and Ensure Constructive Dialogue Is Held

The President and Executive Officer supervises the dialogue with shareholders, and CFO or the Manager supervising IR serves as the person in charge of handling information. The Manager of the Corporate Communication Division serves as the person in charge of timely information disclosure while the Manager of the Accounting Division serves as the person in charge of securities report, etc. (see the "Schematic Diagram of the Overview of System for Timely Disclosure" at the end of the Report).

(ii) Measures for Organic Collaboration of Departments in Charge of IR, Corporate Planning, General Affairs, Finance, Accounting and Legal That Assist Dialogue

All these departments belong either to the Global Business Planning Headquarters, the Finance & Investor Relations Department, or the Corporate Operations Headquarters and share information and issues on a daily basis at regular meetings and on other occasions to collaborate and ensure proper operations.

(iii) Initiatives for Strengthening of Means of Dialogue Other Than Individual Interview (e.g., Investor briefings and IR activities)

In addition to a financial results briefing held twice a year, the Company plans and holds dialogue such as investor briefings as appropriate. The Company also participates in an external event for investors.

(iv) Measures for Proper and Effective Feedback of Opinions and Concerns of Shareholders Collected from Dialogue to Management and the Board of Directors

Directors and executives directly obtain information by attending investor briefings and circulating analyst reports and also receive reports from departments in charge on a regular basis and as required.

(v) Measures for Management of Insider Information for Dialogue

The Company, from the perspective of preventing insider trading, ensures full compliance with the "Rules for Management of Insider Trading" which stipulate matters concerning the Financial Instruments and Exchange Act and other laws and management of internal information. In having dialogue, the Company carefully manages information so that others will not suspect it of communicating insider information, and discloses information in a non-selective and fair manner. The Company designates the period from the day following the last day of an accounting period (quarterly/full year) to the date of announcement of financial results as a "quiet period." The Company provides training to acquire and update knowledge of prevention of insider trading.

2. Capital Structure

Foreign Shareholding Ratio From 10% to less than 20%

[Status of Major Shareholders] [Update](#)

Name/Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,976,300	11.85
Nippon Life Insurance Company	4,560,540	6.78
The Dai-ichi Life Insurance Company, Limited	4,231,587	6.29
Takasago Thermal Engineering Employee Shareholding Association	3,377,294	5.02
Takasago Kyoeikai	2,886,471	4.29
Custody Bank of Japan, Ltd. (Trust Account)	2,072,800	3.08
MUFG Bank, Ltd.	1,439,246	2.13
STATE STREET BANK AND TRUST COMPANY 505001	1,328,707	1.97
Mizuho Bank, Ltd.	1,210,092	1.79
Keiokaku, Ltd.	1,016,820	1.51

Controlling Shareholder (except for Parent Company) -

Parent Company None

Supplementary Explanation [Update](#)

(Note) The shareholding ratio is calculated net of treasury stock (2,985,145 shares).

Treasury stock does not include the Company's shares (564,914 shares) held by the Directors' Compensation BIP Trust.

3. Corporate Profile

Listed Stock Market and Market Section Tokyo Prime

[Update](#)

Fiscal Year-End March

Type of Business Construction

Number of Employees (consolidated) as of the End of the Previous Fiscal Year More than 1,000

Sales (consolidated) as of the End of the Previous Fiscal Year From ¥100 billion to less than ¥1 trillion

Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year From 10 to less than 50

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

5. Other Special Circumstances Which May Have Material Impact on Corporate Governance

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 Audit & Supervisory Board Members
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[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	12
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Chairman (except interlocking President)
Number of Directors Update	11
Appointment of Outside Directors	Appointed
Number of Outside Directors Update	6
Number of Outside Directors appointed as Independent Officers Update	6

Outside Directors' Relationship with the Company (1) Update

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k		
Kazuo Matsunaga	Other													○
Yoko Seki	Lawyer													○
Makio Fujiwara	From another company								△					
Hideka Morimoto	Other													○
Shuma Uchino	From another company								△					
Atsushi Takagi	From another company								△					

* Categories for "Relationship with the Company"

* ○: the director presently falls or has recently fallen under the category, △: the director fell under the category in the past.

* ●: a close relative of the director presently falls or has recently fallen under the category, ▲: 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/an audit & supervisory board member
- 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 for which outside directors/audit & supervisory board members of the Company are 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. Other

Name	Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Kazuo Matsunaga	○	<p>Outside Director Kazuo Matsunaga served as part-time adviser from July 2012 to June 2013 when he was appointed outside director of the Company at an ordinary general meeting of shareholders on the condition that he would serve as outside director of the Company. The duty of adviser was to offer advice as an independent outsider and the fee was not substantial (less than 10 million yen). Hence, the effect on the judgment of shareholders and investors is considered nothing, so the Company omits a description of these transactions.</p>	<p>Outside Director Kazuo Matsunaga has abundant experience and knowledge of public administration and economy, and we expect that he can supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge. While he was not involved in corporate management by any other method than serving as outside officer, we believe he can adequately perform his duty as outside director given the reason mentioned above such as offering advice and opinions useful to business management of the Company.</p> <p>As he is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in terms of independence.</p> <p><Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.</p>
Yoko Seki	○	-----	<p>Yoko Seki has abundant experience and knowledge as a lawyer and certified public accountant, and we expect that she can supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge. While she was not involved in corporate management by any other method than serving as outside officer, we believe she can adequately perform her duty as outside director given the reason mentioned above such as offering advice and opinions useful to business management of the Company.</p> <p>As she is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in terms of independence.</p> <p><Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed her as independent officer.</p>
Makio Fujiwara	○	<p>Outside Director Makio Fujiwara is from Tokyo Electric Power Company, Incorporated (currently, Tokyo Electric Power Company Holdings, Incorporated), and the Company maintains a regular business relationship with the said company, such as contracts for receiving orders for construction work and purchasing equipment. As the ratio of these transactions to the Company's sales is 0.01% (rounded off to the nearest hundredth) and their effect on the judgment of shareholders and investors is considered nothing, the Company omits a description of these transactions.</p>	<p>Outside Director Makio Fujiwara has abundant experience and knowledge as director and corporate auditor of Tokyo Electric Power Company, Incorporated (currently, Tokyo Electric Power Company Holdings, Incorporated). In addition, since June 2014, as an outside audit & supervisory board member of the Company, and since June 2021, as a director of the Company, he has provided advice and opinions useful to the business management of the Company. We expect that he will be able to supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge.</p> <p><Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.</p>
Hideka Morimoto	○	<p>Outside Director Hideka Morimoto served as part-time adviser from April 2020 to June 2021, when he was appointed as outside director of the Company at an ordinary general meeting of shareholders, on the condition that he would serve as outside director of the Company. His duty as adviser was to offer advice as an independent outsider and his fee was not substantial (less than 10 million yen). Hence, the effect on the judgment of shareholders and investors is considered nothing, so the Company omits a description of these transactions.</p>	<p>Outside Director Hideka Morimoto has abundant experience and knowledge of public administration and the environment, and we expect that he can supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge. While he was not involved in corporate management by any method other than serving as outside officer, we believe he can adequately perform his duties as outside director given the reason mentioned above, such as offering advice and opinions useful to the business management of the Company.</p> <p>As he is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in terms of independence.</p> <p><Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.</p>
Shuma Uchino	○	<p>Outside Director Shuma Uchino is from Mitsubishi Corporation, and the Company maintains a regular business relationship with the said company, such as contracts for receiving orders for construction work and purchasing equipment. As the ratio of these</p>	<p>Outside Director Shuma Uchino has abundant experience and knowledge as a representative director and CFO of a general trading company, and we expect that he will be able to supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge and adequately perform his</p>

		transactions to the Company's sales is 0.05% (rounded off to the nearest hundredth) and due to other factors, and because their effect on the judgment of shareholders and investors is considered to be insignificant, the Company omits a description of these transactions.	duties as outside director given the reason mentioned above, such as offering advice and opinions useful to the business management of the Company. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.
Atsushi Takagi	○	Outside Director Atsushi Takagi served as part-time adviser from April 2021 to June 2022, when he was appointed as outside director of the Company at an ordinary general meeting of shareholders, on the condition that he would serve as outside director of the Company. His duty as adviser was to offer advice as an independent outsider and his fee was not substantial (less than 10 million yen). Hence, the effect on the judgment of shareholders and investors is considered to be insignificant, so the Company omits a description of these transactions.	Outside Director Atsushi Takagi has work experience as an analyst at a securities company, high knowledge of finance and deep insight in the construction section, and we expect that he can supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge and can adequately perform his duties as outside director given the reason mentioned above, such as offering advice and opinions useful to the business management of the Company. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee

Established

Committee's Name, Composition, and Attributes of Chairperson (Chair) Update

	Committee's Name	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Outside Experts	Other	Chairperson (Chair)
Committee Corresponding to Nomination Committee	Nomination and Remuneration Committee	8	0	2	6	0	0	Other
Committee Corresponding to Remuneration Committee	Nomination and Remuneration Committee	8	0	2	6	0	0	Other

Supplementary Explanation

The Company, as an optional advisory body for nomination of and remuneration for officers including subsidiaries, established the Nomination and Remuneration Committee which consists of the Chairman and Director, the President and Director, and independent outside directors. After discussions at the Committee, the Company determines, based on a resolution of the Board of Directors, nomination of candidates for directors and audit & supervisory board members and remuneration of directors. The Chairman is appointed by a mutual vote of members. Independent outside directors who are members of the Committee are expected to provide useful advice and opinions from an independent perspective and enhance the objectivity and transparency. The Committee holds at least one meeting in a fiscal year.

[Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board	Established
Maximum Number of <i>Audit & Supervisory Board Members</i> Stipulated in Articles of Incorporation	5
Number of <i>Audit & Supervisory Board Members</i>	5

Cooperation among *Audit & Supervisory Board Members*, Accounting Auditors and Internal Audit Departments

Audit & supervisory board members discuss an audit system/plan at the beginning of a year, regularly receive a report from KPMG AZSA LLC (accounting auditor) on the status and results of audits and observe an audit conducted by accounting auditors as required. By collaborating with accounting auditors by exchanging information and opinions, audit & supervisory board members improve the effectiveness of audits. They facilitate mutual collaboration through sharing of information and improve the effectiveness of audits while receiving a report from the Internal Audit Office on the status and results of audits regularly and as appropriate.

Appointment of Outside <i>Audit & Supervisory Board Members</i>	Appointed
Number of Outside <i>Audit & Supervisory Board Members</i>	3
Number of Outside <i>Audit & Supervisory Board Members</i> appointed as Independent Officers	3

Name	Attribute	Relationship with the Company*														
		a	b	c	d	e	f	g	h	i	j	k	l	m		
Masahiro Seyama	From another company													△		
Shigeharu Kawahara	Certified public accountant															○
Kazuo Sakakibara	Lawyer															○

* Categories for "Relationship with the Company"

* ○: the director presently falls or has recently fallen under the category, △: the director fell under the category in the past.

* ●: a close relative of the director presently falls or has recently fallen under the category, ▲: 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 accounting advisor of the Company or its subsidiaries
- c. Non-executive director or executive of a parent company of the Company
- d. Audit & supervisory board member 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/an audit & supervisory board member
- 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 audit & supervisory board member himself/herself only)
- k. Executive of a company for which outside directors/audit & supervisory board members of the Company are appointed (the audit & supervisory board members himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the audit & supervisory board members himself/herself only)
- m. Other

Name	Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Masahiro Seyama	○	Outside Audit & Supervisory Board Member Masahiro Seyama is from Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation), and the Company maintains a regular business relationship with Panasonic such as contracts for construction work and purchase of equipment. As the ratio of these transactions to the Company's sales is 0.14% (rounded off to the nearest hundredth) and their effect on the judgment of shareholders and investors is considered nothing, the Company omits a description of these transactions.	Outside Audit & Supervisory Board Member Masahiro Seyama has abundant experience and knowledge as president and corporate auditor of overseas affiliates of Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation), and we believe he can continue to supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge and can adequately perform his duties as Outside Audit & Supervisory Board Member given the reason mentioned above, such as offering advice and opinions useful to the business management of the Company. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.
Shigeharu Kawahara	○	Outside Audit & Supervisory Board Member Shigeharu Kawahara was previously employed by the Company's accounting auditor, KPMG AZSA LLC. However, he does not currently have any relationship with KPMG AZSA LLC, and nine years have passed since his retirement. Hence, the effect on the judgment of shareholders and investors is considered nothing, so the Company omits a description of these transactions.	Outside Audit & Supervisory Board Member Shigeharu Kawahara has abundant experience and knowledge as a certified public accountant, and we believe he can supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge and can adequately perform his duties as Outside Audit & Supervisory Board Member given the reason mentioned above, such as offering advice and opinions useful to the business management of the Company. In addition, as he is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in terms of independence. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.
Kazuo Sakakibara	○	-----	Outside Audit & Supervisory Board Member Kazuo Sakakibara has abundant experience and knowledge as a prosecutor and lawyer for many years, and we believe he can supervise and check business management from an objective perspective independent from business execution based on such experience and knowledge and can adequately perform his duties as Outside Audit & Supervisory Board Member given the reason mentioned above, such as offering advice and opinions useful to the business management of the Company. While he was not involved in corporate management by any other method than serving as outside officer, we believe he is qualified as an Outside Audit & Supervisory Board Member for the above reasons. In addition, as he is not from a parent company, a fellow subsidiary, a major shareholder or a major client or supplier of the Company, we believe there is no particular problem in

			<p>terms of independence. <Reason for Appointing as Independent Officer> As mentioned above, we believe there is no particular problem in terms of independence and no possible conflict of interest with general shareholders, and so we appointed him as independent officer.</p>
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[Independent Officers]

Number of Independent Officers 9

Matters relating to Independent Officers

The Company appoints all outside directors and outside audit & supervisory board members who satisfy the requirements for independent officers as such.

For standards and a policy for independence from the Company in appointing outside directors and outside audit & supervisory board members, the Company refers to the standard for judgment of the independence of independent officers as stipulated by the guideline on listing management of TSE. The standard for judgment of independence of outside officers is described in [Principle 4-9 Independence Standards and Qualification for Independent Outside Directors].

[Incentives]

Incentive Policies for Directors Other

Supplementary Explanation for Applicable Item **Update**

For the purpose of clarifying the link between directors' remuneration and the financial performance/stock value of the Company and further motivating directors to contribute to the medium- and long-term improvement of performance and corporate value, the Company introduced a stock compensation plan (Directors' Compensation BIP Trust) for directors except for outside directors.

The new compensation covers three consecutive fiscal years and directors of the Company (except for outside directors and expats), executive officers the Company signed an engagement agreement with (except for expats), deputy executive officers the Company signed an engagement agreement with (except for expats) and directors of three consolidated subsidiaries of the Company (except for outside directors and expats). The Company contributes up to 769 million yen for the three fiscal years to directors. Points are granted to each director/officer based on their title and the degree of achievement against the target values of the performance indicators, and the Company's stock will be granted to them according to their cumulative points when retiring.

Recipients of Stock Options

Supplementary Explanation for Applicable Item

[Director Remuneration]

Disclosure (of Individual Directors' Remuneration) No Individual Disclosure

Supplementary Explanation for Applicable Item **Update**

FY2021: From April 1, 2021 to March 31, 2022

Total remuneration by officer category, total amount of each type of remuneration and number of eligible officers

Category	Total remuneration (million yen)	Total amount of each type of remuneration (million yen)			Number of eligible officers
		Basic remuneration	Performance-linked compensation, etc.	Non-monetary compensation, etc. (stock compensation)	
Director (except for outside director)	323	222	55	46	7
Outside director	57	57	-	-	6
Audit & supervisory board member (except for outside audit & supervisory board member)	54	54	-	-	2
Outside audit & supervisory board member	47	47	-	-	4
Total	483	382	55	46	19

(Notes)

- 1 The stock compensation is the amount recorded as a provision of allowance for share-based remuneration during the most recent fiscal year under review under the BIP (Board Incentive Plan) trust.
- 2 The BIP trust is separately established from the remuneration limit of 550 million yen determined by the resolution of the 130th ordinary general meeting of shareholders.

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

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The Company determines, based on a resolution of a shareholder meeting, the maximum limit of total remuneration of each director and audit & supervisory board member.

The Company, as an optional advisory body to the Board of Directors, established the Nomination and Remuneration Committee which consists of the Chairman and Director, the President and Director, and independent outside directors. After discussions at the Committee, the Company determines, based on a resolution of the Board of Directors, remuneration of directors.

Remuneration of directors of the Company consists of basic remuneration, bonus and stock compensation (Directors' Compensation BIP Trust).

Remuneration of audit & supervisory board members only consists of basic remuneration whose amount is determined through discussions by audit & supervisory board members by considering the details, volume and difficulty of duties of each audit & supervisory board members and the extent of responsibilities in a comprehensive manner. No bonus or stock-related remuneration such as stock compensation (Directors' Compensation BIP Trust) is paid to audit & supervisory board members in light of their duties.

For details, see [Principle 3-1 Full Disclosure] (iii) "Policy and Procedures for Board of Directors to Determine Remuneration of Executives and Directors" above.

[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]

Outside directors receive information as appropriate mainly from the persons in charge at the Global Business Planning Headquarters or at the Corporate Operations Headquarters, and are briefed in advance on agendas when a board meeting is held. In addition, outside audit & supervisory board members directly receive information from a person in charge at each department and are also briefed in advance on agendas mainly by full-time audit & supervisory board members when a meeting of the Audit & Supervisory Board is held (usually held prior to a board meeting).

[Status of Person(s) Who Retired from the Position of President and Representative Director]

Name and Other Information of Senior Adviser(s) or Adviser(s) Who Is Former President and Representative Director, etc.

Name	Title/Position	Duty	Work Arrangements/Terms (Full-time/Part-time, Remuneration, etc.)	Date of Retirement as President, etc.	Term of Office
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Total Number of Senior Advisers or Advisers Who Are Former President and Representative Director, etc.

0

Other matters

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

The Company has a "Board of Directors" and "Audit & Supervisory Board" in place. The Company also has a system of executive officers in place to clarify the function of making a decision and supervising business management and the function of executing business, and to promote agile and efficient business management while keeping an adequate number of directors and shortening their term of office.

The Board of Directors currently consists of 11 members (of those, six are outside directors) and holds a meeting each month in principle and as required. The Board of Directors passes a resolution for important matters based on the Rules for the Board of Directors as well as matters stipulated by laws and the Articles of Incorporation, and supervises the directors' performance of their duties.

The term of directors is one year with specified management responsibility. Outside directors provide useful advice and opinions from an objective perspective independent from business execution while outside audit & supervisory board members provide useful advice and opinions from an objective and professional perspective by attending board meetings. As such, they try to fulfill the roles expected of outside officers.

The Board of Directors improves the efficiency of business management and secures the legality and validity of business execution by making important decisions on business execution and supervising the performance of duties by directors.

The Company signed a limited liability agreement for liability stipulated by Paragraph 1, Article 423 of the Companies Act with six outside directors which limits liability for damages to the total amount stipulated by each item of Paragraph 1, Article 425 of the Act when they perform their duties in good faith and free of gross negligence.

The Audit & Supervisory Board currently consists of five members (of those, three are outside audit & supervisory board members) and holds a meeting each month in principle and on an ad hoc basis. The Audit & Supervisory Board supervises the directors' execution of their duties by reporting audit results to the Board of Directors.

In addition, to have full discussions on important matters for business management and expedite decision-making on allocation of management resources, the Company has established the Management Council which consists of directors and Chief Executive Officers of Headquarters excluding outside directors. In addition, to promote development and management of the internal control system of the Company and the Group in a cross-sectoral manner, the Company established the Internal Control Committee which consists of the President as a Chairperson, directors excluding outside directors, Chief Executive Officers of Headquarters and the relevant General Managers. The Committee discusses development of an internal control system of the Group and revision/abolition of the basic policy for internal control system based on the status of its development, passes a resolution for revision/abolition of the rules for escalation to the Board of Directors, for the Internal Control Committee as well as organizations for compliance promotion and risk management of the Group and for compliance and risk management of the Company, passes a resolution for annual activities for compliance and risk management of the Company and reports to the Board of Directors. Furthermore, the Company established the ESG Management Committee, chaired by the President and composed of Directors excluding Outside Directors, Chief Executive Officers of Headquarters and the relevant General Managers, from the perspective of strengthening its response to ESG issues. This Committee deliberates and decides policies on sustainability issues and presents and reports them to the Board of Directors.

As an optional advisory body to the Board of Directors, the Company established the Nomination and Remuneration Committee which consists of the Chairman and Director, the President and Director, and independent outside directors. The Committee discusses appointment, reappointment and dismissal of directors, audit & supervisory board members, and executive officers of the Company as well as the representative directors and audit & supervisory board members of its affiliates (excluding affiliates of minor importance to the Company), recommendations to the Board of Directors (however, appointment and reappointment of audit & supervisory board members of the Company requires approval of the Audit & Supervisory Board of the Company) and remuneration of directors and executive officers of the Company as well as the representative directors of its affiliates, and reviews the policy and the progress of the Plan for Successor of the Director and CEO formulated by Director and CEO.

As an optional advisory body to the Board of Directors, the Company established the Advisory Council which consists of Representative Directors, outside directors and outside audit & supervisory board members. The Council contributes to vitalization of the Board of Directors by reviewing the compositional balance of the overall Board of Directors, analyzing and evaluating the effectiveness and checking the policy for training of directors/audit & supervisory board members as well as provision of information.

Names of the members of the organizations above are listed in the following table.

Title	Name	Board of Directors	Management Council	Audit & Supervisory Board	Nomination and Remuneration Committee	Internal Control Committee	ESG Management Committee	Advisory Council
Chairman and Representative Director, CEO	Atsushi Ouchi	●	○		○	○	○	●
President and Representative Director, COO	Kazuhito Kojima	○	●		○	●	●	○
Director and Managing Executive Officer	Tadashi Kamiya	○	○			○	○	
Director and Managing Executive Officer	Toshikazu Yokote	○	○			○	○	
Director and Managing Executive Officer	Hiroshi Kubota	○	○			○	○	
Outside Director	Kazuo Matsunaga	○			○			○
Outside Director	Yoko Seki	○			○			○
Outside Director	Makio Fujiwara	○			○			○
Outside Director	Hideka Morimoto	○			○			○
Outside Director	Shuma Uchino	○			○			○
Outside Director	Atsushi Takagi	○			○			○
Full-time Audit & Supervisory Board Member	Yukitoshi Yamamoto			●				
Full-time Audit & Supervisory Board Member	Hiroshi Yamawake			○				
Outside Audit & Supervisory Board Member	Masahiro Seyama			○				○
Outside Audit & Supervisory Board Member	Shigeharu Kawahara			○				○
Outside Audit & Supervisory Board Member	Kazuo Sakakibara			○				○

○: Member of the organization, ●: Head of the organization * The head is elected by mutual vote

In addition, audit & supervisory board members, accounting auditors and the Internal Audit Office work together to enhance corporate governance by conducting an effective audit.

(1) Audit & Supervisory Board Members

There are currently five audit & supervisory board members at the Company (of those, three are outside audit & supervisory board members). They monitor the status of corporate governance, attend board meetings and other important meetings, review important requests for approval and visit offices according to an audit policy/plan determined by the Audit & Supervisory Board. They also collaborate with accounting auditors and the Internal Audit Department to audit the performance of duties by directors in an effective audit. For subsidiaries, they exchange information and cooperate with directors and audit & supervisory board members thereof at a meeting of the Group Management Council and the Group Audit & Supervisory Board. Outside Audit & Supervisory Board members including one lawyer and one certified public accountant obtain and provide information and work to monitor operations from an independent perspective. On the other hand, full-time audit & supervisory board members monitor operations based on their abundant knowledge and experience at the Company and enhance the effectiveness of audits from their respective position.

The Company signed a limited liability agreement for liability stipulated by Paragraph 1, Article 423 of the Companies Act with three outside audit & supervisory board members which limits liability for damages to the total amount stipulated by each item of Paragraph 1, Article 425 of the Act when they perform duties in good faith and free of gross negligence.

(2) Internal Audit

For internal audits, the Company established the Internal Audit Office (six staff) under direct control of the President and it conducts an operational audit on the adequacy and efficiency of business operations based on a plan from an independent perspective according to the Rules for Internal Audit. For subsidiaries, the Office exchanges information as required. The Internal Audit Office checks the status of required measures and improvements while reporting audit results to President and Representative Director, COO. The Office evaluates the status of internal control over financial reporting of the Company and important consolidated subsidiaries. The Office also works with audit & supervisory board members and accounting auditors to ensure an effective internal audit is conducted.

(3) Accounting Auditors

The certified public accountants who executed accounting audit work of the Company in FY2021 are Mr. Takahiro Akiyama and Mr. Junichi Kimura, and they are affiliated with KPMG AZSA LLC. The number of years of continuous auditing amount to one year for Mr. Akiyama and six years for Mr. Kimura. In addition, they have three certified public accountants as their assistants plus eight other assistants.

In selecting an audit firm, the Company considers a quality management system, independence and expertise as an accounting auditor in a comprehensive manner.

When it is considered difficult for the accounting auditor to conduct a proper audit, the Audit & Supervisory Board shall submit a proposal for dismissal or non-reappointment of the accounting auditor to a shareholders' meeting. When any of the reasons described in each item of Paragraph 1, Article 340 of the Companies Act applies to the accounting auditor, the Audit & Supervisory Board shall dismiss the accounting auditor with the consent of all audit & supervisory board members.

Furthermore, as part of the procedures to reappoint the accounting auditor, the Audit & Supervisory Board receives reports from KPMG AZSA LLC on its quality management system, audit plan and overview of audit status and interviews a department in charge on its assessment of the auditor to ensure that the firm properly conducts an audit.

3. Reasons for Adoption of Current Corporate Governance System



Currently, six out of 11 directors of the Company are outside directors. Based on their abundant experience and knowledge, the outside directors perform the function of offering advice and supervising business management independent from business execution and from an objective perspective. In addition, three out of five audit & supervisory board members are outside audit & supervisory board members. Each outside audit & supervisory board member conducts a highly effective audit from an independent and objective perspective. The Company believes the current function to monitor and supervise business management is fully performed by these outside directors and outside audit & supervisory board members.

III Implementation of Measures for Shareholders and Other Stakeholders

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

Update

	Supplementary Explanation
Early Notification of General Shareholder Meeting	The Company tries to send a notice of a general shareholder meeting by four weeks prior to the date of such meeting or by the end of May.
Exercise of Voting Rights by Electromagnetic Means	The Company has adopted an electronic voting system.
Participation in the Platform for Electronic Exercise of Voting Rights and Other Efforts to Improve the Environment for Institutional Investors to Exercise Voting Rights	The Company uses a platform for the exercise of voting rights by institutional investors.
Provision of Convocation Notice (Summary) in English	Some content is translated into English and provided.
Other	<p>Before sending a notice of a general shareholder meeting, the Company discloses such notice (including an English translation of a part thereof) and a notification of independent officers to the Tokyo Stock Exchange, and posts them on the Company website.</p> <p>May 30, 2022: Disclosed a notice of a general shareholder meeting (including an English translation of a part thereof) and a notification of independent officers to the Tokyo Stock Exchange and posted them on the Company website.</p> <p>May 30, 2022: Sent out a notice of a general shareholder meeting.</p> <p>June 21, 2022: Held a general shareholder meeting.</p>

2. IR Activities

Update

	Supplementary Explanation	Explanation by Representative
Preparation and Publication of Disclosure Policy	The Company discloses the “Disclosure Policy (Rules for Information Disclosure)” on its website.	
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds a briefing on financial highlights, the status of a management plan and future outlook twice a year (May and November). About 60 securities analysts and fund managers attend this briefing.	Established
Posting of IR Materials on Website	The Company posts information such as a settlement of accounts, a securities report, timely disclosed materials, reference data on financial results and a medium-term management plan.	
Establishment of Department and/or Person in Charge of IR	Corporate Communication Division (Contact: Manager of Corporate Communication Division)	
Other	The Company participates in an IR event for individual investors twice a year or so.	

3. Measures to Ensure Due Respect for Stakeholders

Update

	Supplementary Explanation
Stipulation of Internal Rules for Respecting the Position of Stakeholders	The Company has the Basic Principles of Sustainability in place.
Implementation of Environmental Activities and CSR Activities etc.	As part of promotion of CSR management, the Company developed the “CSR Activity Plan” in April 2012 based on the basic approach to CSR: “Position CSR management at the core of business management as part of business activities and work to improve corporate value and realize sustainable society while fulfilling social responsibility as a good corporate citizen.” Furthermore, in December 2021, the Company newly developed the Basic Principles of Sustainability to strengthen its efforts to address today's ESG issues, while following its existing approach. These activities are summarized in the Integrated Report and released on the Company website.
Development of Policies on Information Provision to Stakeholders	The Company discloses information while trying to secure timeliness, legality, accuracy and fairness according to the standard stipulated in the rules for listing of Tokyo Stock Exchange, Inc. The Company also proactively discloses information not covered by the standard if it is considered to help investors make a judgment.
Other	Currently, 11 directors and five audit & supervisory board members of the Company consist of 15 men and one woman. The Company will consider employing candidates regardless of their sex when they have appropriate qualities as director or audit & supervisory board member.

IV Matters Related to the Internal Control System

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

Update

For a “system to ensure adequacy of business” stipulated by the Companies Act and the Ordinance for Enforcement of the Companies Act, the Board meeting held on April 17, 2015, passed a resolution. The system was subsequently reviewed as required, and its overview as of the time of submission of the report is as follows.

(1) System to Ensure That Duties of Directors and Employees Are Performed in Compliance with Laws and the Articles of Incorporation [Overview of the System]

i) The Company establishes the Compliance Office, an organization dedicated to promotion of compliance, and properly manages the whistle-blower system, including a hotline for consultation and reporting, while appointing an Officer in Charge of Compliance. For important themes to promote, the Company develops compliance programs and performs PDCA management at the Compliance Committee under the Internal Control Committee. As such, the Company works to secure a system contributes to enforcement and improvement of compliance.

ii) The Company has established the Group Action Guidelines, which specify basic rules of conduct for Group officers and employees, and distributes the same to all of them via the internal network. Additionally, the Company enforces full compliance through continuous training on compliance for all directors and employees depending on their level and duties.

iii) The Company elects outside directors who have abundant experience and knowledge in areas outside the Company’s realm of expertise and strengthens the guidance on and supervision of the execution of duties from various perspectives.

[Overview of the Operational Status in FY2021]

i) The Compliance Committee meets five times and regularly monitors the compliance program as well as the status of maintenance and operation of the compliance system in order to strengthen and ensure the compliance system. In addition, each division in charge promotes various compliance measures, including the development of internal guidelines related to the Antimonopoly Act, prevention of harassment, a hotline for consultation and reporting and their appropriate operation, and the implementation of theme-specific training sessions on multiple occasions.

ii) In addition to further improving the environment for awareness and utilization of the Group Action Guidelines for each person and workplace, such as by posting these Guidelines on the Company’s website, the Company is also striving for their penetration and establishment by providing guidance related to these Guidelines during various training sessions and taking other measures. In particular, with respect to the prevention of recurrence of violations of the Antimonopoly Act, the Company is working to ensure that all officers and employees are thoroughly familiar with measures to prevent recurrence of such violations and to prevent them from fading away or becoming a mere footnote. In addition, the Company is working to ensure compliance through PDCA activities in its daily operations, such as training for all officers and employees to make them aware of and promote the use of the whistle-blower system.

iii) At the 12 meetings of the Board of Directors, outside directors who are independent of the Company attend to ensure the legality and appropriateness, etc. of the execution of duties by the directors and continue to strengthen the management supervision and checking functions, including by providing useful suggestions and opinions for the Company’s management from their professional viewpoints based on their respective deep insight from an independent standpoint.

(2) System on Storage and Management of Information on Performance of Duties by Directors

[Overview of the System]

The Company records data of important meetings such as board meetings, requests for approval and other information on performance of duties by directors in writing or in an electromagnetic medium, and stores and manages it in accordance with the internal rules for document management. In addition to the Information Security Policy and the Information Control Regulations, the Company worked on the thorough implementation of measures to prevent information leaks by establishing and disseminating information control regulations.

[Overview of the Operational Status in FY2021]

The Company records data of important meetings such as board meetings, requests for approval and other information on performance of duties by directors in writing or in an electromagnetic medium, and stores and manages it. In addition, the Information Security Committee meets regularly (five times a year) to ensure information management as part of the measures taken to prevent leaks.

(3) Rules and Other System for Management of the Risk of Loss

[Overview of the System]

i) The Company establishes the cross-sectional Risk Management Committee under the Internal Control Committee, including administration, sales and technology divisions to formulate the Risk Management Rules and promote company-wide risk management. The Company also promotes activities to prevent and mitigate risks through identification/assessment of risks including major affiliated companies and implementation of measures to deal with material risks.

ii) The Company develops a system to accurately handle an unforeseen contingency by formulating Rules for Crisis Management and calling/holding a company-wide crisis management meeting which swiftly and properly handles material risks when they surface.

iii) The Company improves its capability to continue business in a state of emergency by developing a business continuity plan in case of a wide-scale disaster and other events and reviewing and enhancing the effectiveness of the plan through a regular drill.

iv) For risks by function such as quality, safety, environment, compliance, information and profit/loss, the Company develops a proper risk management system by appointing departments in charge in identifying/assessing the risks mentioned above.

[Overview of the Operational Status in FY2021]

i) With regard to risk management, in accordance with the Risk Management Rules, the Risk Management Committee meets five times to review and evaluate risks according to the frequency (possibility) of their materialization and the magnitude of their impact. Then, PDCA management is carried out on measures to reduce the risks to be covered, and a system is in place to prevent their materialization.

ii) The Company has established the Rules for Crisis Management and has developed and operated a system that can respond appropriately to unforeseen situations.

iii) The Company regularly reviews the business continuity plan (BCP) through the implementation of effective drills to strengthen its ability to respond to earthquakes and other disasters. In response to the intermittent spread of COVID-19, based on the Business Continuity Plan (BCP), Infectious Diseases Section, the Company has been working closely together with the Supervising Headquarters and each store, and is implementing thorough PDCA management, including periodic reviews of the BCP plan.

iv) For risks by function, the Company strives to implement a proper risk management system by, for example, appointing departments to deal with them, periodically evaluating the degree of impact on management and the possibility of occurrence, and devising preventive measures and countermeasures as appropriate.

(4) System to Ensure that Duties of Directors Are Performed Effectively

[Overview of the System]

i) The Company clarifies the function to make a decision and supervise business management and the function to execute business, and promotes agile and efficient business management by placing the Management Council under the Board of Directors with the President as a chairperson and introducing a system of executive officers.

ii) The Company develops and reviews, as required, Rules for Administrative Authority, Rules for Segregation of Duties, Rules for Decision-Making, and other rules to expedite decision-making and improve the efficiency of business management such as the performance of duties.

[Overview of the Operational Status in FY2021]

i) By delegating certain matters to the Management Council in accordance with its decision-making rules, the Company has promoted agile and efficient management by ensuring the efficient execution of duties by directors. The Board of Directors met 12 times, focusing as much as possible on discussions related to management supervision, including consideration of the direction of medium- to long-term management strategies.

ii) Rules and regulations, including internal organizational changes, Rules for Administrative Authority, Rules for Segregation of Duties, Rules for Decision-Making, and other rules are reviewed and revised on a case-by-case basis, and a system is developed and operated for the agile development of business strategies.

(5) System to Ensure the Adequacy of Operations of the Corporate Group Consisting of the Company and Subsidiaries Thereof

[Overview of the System]

i) For management of subsidiaries, the Company develops a system of business management by placing a department in charge of business management within the Company and stipulating rules for discussion and reports of important matters in the Rules for Management of Affiliates while respecting their autonomy. For certain important matters of subsidiaries, the Company approves them based on a prior discussion with subsidiaries. The Company also requires subsidiaries to report operating results, financial conditions and other important information. In addition, the Company holds a meeting on a regular basis attended by the management of the Company

and presidents of subsidiaries to ensure appropriate operations. When risks surface, the Company requests subsidiaries to promptly report them to the contact department of the Company.

- ii) The Company operates a compliance system appropriately including a risk management system, a crisis management system and a whistle-blower system as a corporate group to share a basic view with the Company by formulating the Group Action Guidelines which specify basic rules of conduct and developing internal rules for the respective subsidiary.
- iii) The Company monitors adequate business execution of subsidiaries by conducting an audit by the Internal Audit Office and sending directors and audit & supervisory board members to these companies as required.
- iv) Audit & supervisory board members regularly audit the status of performance of duty of subsidiaries.
- v) The Company develops an internal control system required to secure the adequacy and credibility of financial reporting.

[Overview of the Operational Status in FY2021]

i) The Company holds three domestic group management meetings attended by the presidents of the Company's domestic group companies, and receives reports from domestic group companies and the Company's Japanese Group Companies Management Division through these meetings as appropriate. As for the international business, the Company holds three meetings of the presidents of overseas group companies and receives reports from overseas group companies and the Company's International Group Companies Management Division as appropriate. In particular, with respect to important matters of group companies, such matters are reported to the Company and approved in accordance with the Company's Rules for the Board of Directors or Regulations for the Management Council and other relevant regulations.

ii) In addition to the Japanese version, the Group Corporate Code of Ethics in English, Chinese, and Thai has been prepared and distributed to employees. The basic code of conduct for Group executives and employees has been disseminated to subsidiaries in Japan and overseas, and efforts have been made to disseminate and spread it in a manner similar to that of the Company (the parent company). In addition, the Risk Management Committee and Compliance Committee regularly monitor and manage the status of risk management and compliance of subsidiaries. Under the whistle-blower system, the Company has not only established a reporting system at each company but also secured and operated a direct reporting route to the Company.

iii) The Internal Audit Office conducts internal audits of the overall operations from the viewpoints of legality, appropriateness and efficiency. In addition, the Company dispatches its employees to each company as directors, etc., in an effort to ensure the appropriateness of their operations.

iv) Audit & supervisory board members conduct on-site audits of subsidiaries, confirm important documents, and hear the status of business execution from key officers and employees. In addition, at the Domestic Group Auditors' Meeting, the Company receives reports from audit & supervisory board members of domestic group companies on their audit policies, audit results, and other matters to ascertain the status of their audits.

v) In order to ensure the adequacy and reliability of financial reporting for each group company, the Internal Audit Office, in cooperation with the Accounting and Finance Division, conducts internal control evaluation procedures and internal audits to establish an internal control system. Internal control evaluations and internal audit results are reported to the auditing firm as needed.

(6) Matters Concerning Employees Who Assist Audit & Supervisory Board Members, Matters Concerning the Independence of Such Employees From Directors and Matters Concerning Securing of the Effectiveness of Instructions to Such Employees

[Overview of the System]

The Company establishes the Audit & Supervisory Board Member's Office which consists of dedicated employees independent from the function of performance of duty and assists duties of audit & supervisory board members. Audit & supervisory board members retain the right to lead and issue orders to employees engaged in duties of the Audit & Supervisory Board Member's Office.

Therefore, the Company manages HR matters for these employees including performance review, transfer and disciplinary action in accordance with the Company's rules and after consultation with audit & supervisory board members.

[Overview of the Operational Status in FY2021]

The Audit & Supervisory Board Member's Office has been established and dedicated employees have been assigned to assist the duties of audit & supervisory board members. Such employees perform their duties under the direction and orders of audit & supervisory board members. The Company manages HR matters for these employees including performance review, transfer and disciplinary action in accordance with the Company's rules and after consultation with audit & supervisory board members.

(7) System for Directors and Employees to Report to Audit & Supervisory Board Members and Other System on Reporting to Audit & Supervisory Board Members

[Overview of the System]

For matters to be reported to audit & supervisory board members by directors and employees, the Company formulates the Rules to Develop an Audit Environment for Audit & Supervisory Board Members and develops a system to report any event which causes significant damage, material misconduct such as an internal scandal or legal violation, results of an internal audit and status of whistle-blowing in addition to statutory matters at the Company and its subsidiaries. The Company develops a system which secures audit & supervisory board members' rights to attend important meetings such as meetings of the Board of Directors and thus allows them to keep track of the status of execution of duty.

[Overview of the Operational Status in FY2021]

The Company formulates the Rules to Develop an Audit Environment for Audit & Supervisory Board Members, and develops and operates a system to report any event which causes significant damage, material misconduct such as an internal scandal or legal violation, results of an internal audit and status of whistle-blowing in addition to statutory matters at the Company and its subsidiaries.

(8) System to Ensure That Anyone Who Reported to Audit & Supervisory Board Members Is Not Treated Unfairly on the Grounds of Such Reporting

[Overview of the System]

The Company clarifies a system in the Rules to Develop an Audit Environment for Audit & Supervisory Board Members to ensure that a person who made the report mentioned above to audit & supervisory board members is not treated unfairly on the grounds of such reporting.

[Overview of the Operational Status in FY2021]

The Company has established and operates a system in accordance with regulations to ensure a person who made the report to audit & supervisory board members is not treated unfairly on the grounds of such reporting.

(9) Expenses Incurred for Performance of Duties of Audit & Supervisory Board Members or Matters Concerning Policy for Settlement of Debts

[Overview of the System]

When audit & supervisory board members claim certain expenses and fulfillment of obligations in performing their duties, the Company pays them except when such expenses or obligations are considered not necessary for the duties of these audit & supervisory board members. The Company also secures a budget for various expenses of audits to ensure their effectiveness.

[Overview of the Operational Status in FY2021]

When audit & supervisory board members claim certain expenses and fulfillment of obligations in performing their duties, the Company pays them except when such expenses or obligations are considered not necessary for the duties of these audit & supervisory board members. The Company has also secured a budget for various expenses of audits to ensure their effectiveness.

(10) Other System to Ensure Effective Audit Is Conducted by Audit & Supervisory Board Members

[Overview of the System]

i) Outside audit & supervisory board members account for the majority of the Audit & Supervisory Board.

ii) Audit & supervisory board members, based on an audit policy/plan determined by the Audit & Supervisory Board, monitor the status of governance, attend meetings of the Board/Management Council and other important meetings, review important requests for approval and visit offices. Audit & Supervisory Board members also had communication with the President and Representative Director, COO by regularly holding meetings and exchanging opinions.

iii) Audit & supervisory board members, the Internal Audit Office and accounting auditors regularly discuss the status of audits, share information and collaborate with one another to conduct an effective and efficient audit.

[Overview of the Operational Status in FY2021]

i) There are five audit & supervisory board members, three of whom are outside audit & supervisory board members, ensuring a majority.

ii) Audit & supervisory board members, based on an audit policy/plan determined by the Audit & Supervisory Board, monitor the status of governance, attend meetings of the Board/Management Council and other important meetings, review important requests for approval and visit offices, while also utilizing means such as telephone lines and the Internet. Audit & Supervisory Board members also have communication with the President and Representative Director, COO by regularly holding meetings and exchanging opinions.

iii) Audit & supervisory board members, the Internal Audit Office and accounting auditors regularly report the status of audits, share information and collaborate with one another to conduct an effective and efficient audit. In December 2021, the Company revised and developed the Rules for Internal Audit to strengthen cooperation between the Internal Audit Office and audit & supervisory board members.

2. Basic Views on Elimination of Anti-Social Forces and the Progress of System Development

Update

[Overview of the System]

To cut off relations with anti-social forces and organizations, the Group Action Guidelines stipulate that we deal with anti-social forces and organizations in a resolute manner and have no relations with them. The Company also develops an internal system capable of conducting practical solutions such as making the Guidelines well known through education/training and cooperation with an external specialized agency.

[Overview of the Operational Status in FY2021]

The Group Action Guidelines stipulate that we deal with anti-social forces and organizations in a resolute manner and have no relations with them, and we do this thoroughly. In addition, the Company has established and operates an internal system capable of implementing practical solutions in cooperation with outside professional organizations.

V Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures

None

Supplementary Explanation for Applicable Item

The following is a description of the Company's basic policies regarding the nature of the persons who control its financial and business policy decisions.

The Company has endeavored to secure and improve its corporate value and the common interests of its shareholders since its foundation by providing safe and high-quality services based on its corporate mission of "Contribution to society through personal harmony and creativity" and its management philosophy of "Creating the Best Product Quality, Developing Distinctive Technology, and Nurturing Talent."

Going forward, the Company will continue to formulate and steadily implement its medium-term management plan based on the long-term management vision and strive to strengthen corporate governance in order to secure and improve its corporate value and common interests of shareholders continuously and sustainably.

In addition, for those who intend to make large-scale purchases of shares of the Company, the Company will take appropriate measures in accordance with the Financial Instruments and Exchange Act, the Companies Act and other relevant laws and regulations, such as seeking to provide shareholders with necessary and sufficient information to properly determine the appropriateness of large-scale purchases, disclosing the opinions, etc. of the Board of Directors, and endeavoring to ensure time and information for shareholders to consider them.

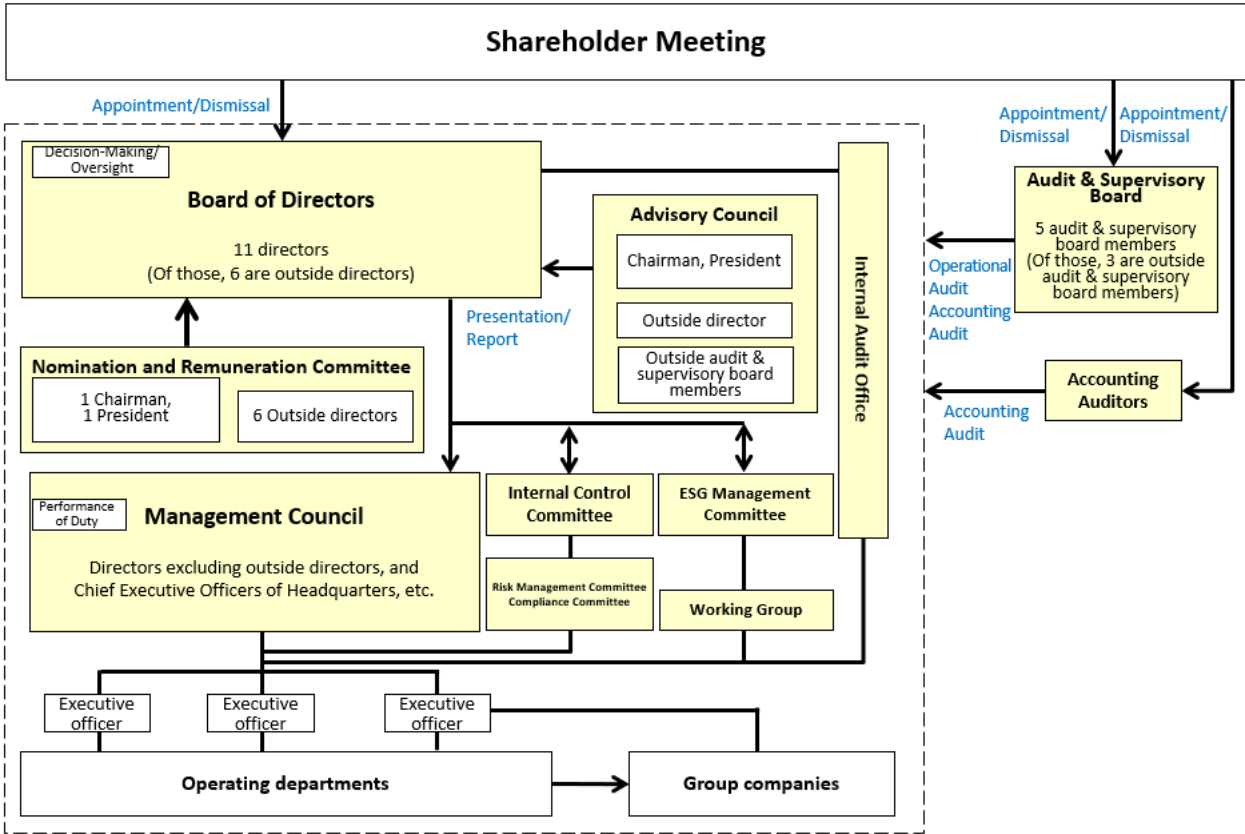
2. Other Matters Concerning Corporate Governance System

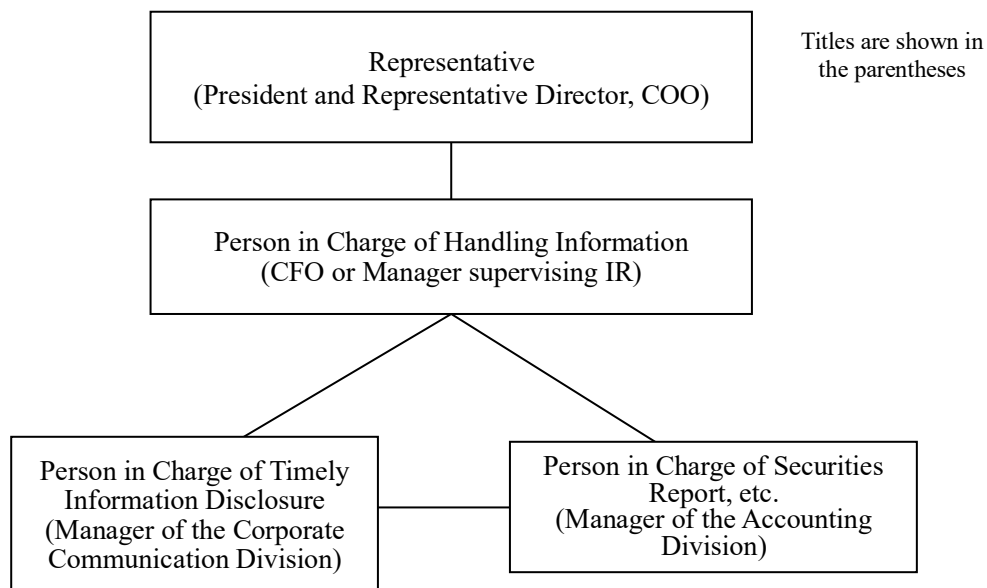
Update

A schematic diagram of the corporate governance system and a schematic diagram of an overview of the system for timely disclosure are shown below.

[Schematic Diagram]

[Schematic Diagram]





Overview of the System for Timely Disclosure

The status of the internal system for timely disclosure of corporate information on the Company is shown below.

- (1) The representative and the person in charge of handling information to ensure the timeliness, legality, accuracy and fairness of information to be disclosed. These matters are discussed at and reported to the Management Council and the Board of Directors as appropriate.
- (2) The person in charge of timely information disclosure not only complies with the rules for timely disclosure and relevant laws and regulations but collects information from related departments in a swift and comprehensive manner to carry out his/her task. He or she also works on preparing proper disclosure materials and full disclosure by referring to other companies' examples of disclosure.
- (3) The Company regularly receives advice and guidance from audit & supervisory board members and accounting auditors. The Company also obtains opinions of third party experts as required.
- (4) While the Company has the "Rules for Management of Insider Trading," the "Disclosure Policy (Rules for Information Disclosure)" and the "Group Corporate Code of Ethics" that stipulates strict adherence thereto, it works on preventing insider trading including at our affiliates and compliance with the Fair Disclosure Rule.