

# *News Release*

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## Principles for Responding to the Corporate Governance Code

HANWA Co., Ltd. (“the Company”) will further introduce measures required for corporate governance hereafter in line with the trend of the times toward improved governance. In response to the enforcement of the Corporate Governance Code, the Company believes that explanations from the Company focused on its current situations and its views will be conducive to the common interests of its shareholders, investors, and the Company. Accordingly, we have disclosed these principles for responding to all items of the Corporate Governance Code.

For disclosure at this time, the Company has partly revised the principles based on its current situations. The Company will endeavor to take measures from a long-term and continuous viewpoint to increase corporate value through reinforced effectiveness of governance.

We appreciate our shareholders and investors’ understanding.

We will disclose the policy corresponding to the revised version of the Corporate Governance Code that took effect on June 1, 2018, as soon as our policy is established.

### Section 1: Securing the Rights and Equal Treatment of Shareholders

#### **General Principle 1**

**Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively.**

**In addition, companies should secure effective equal treatment of shareholders.**

**Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.**

The Company strives to develop an environment to secure the rights of all shareholders. With regard to corporate information, the Company proactively discloses information deemed beneficial to shareholders in addition to information subject to the timely disclosure standards of the stock exchange. In addition, the Company discloses the above information on its website without delay and makes efforts to disclose the information in English concurrently with its disclosure in Japanese, as far as practicable. With regard to voting rights, the Company provides a voting method via the Internet in addition to a method in writing, so that more shareholders have equal opportunities to exercise their rights.

## **Principle 1.1 Securing the Rights of Shareholders**

**Companies should take appropriate measures to fully secure shareholder rights, including voting rights at the general shareholder meeting.**

With regard to the provision of opportunities to exercise voting rights, the Company uses a voting site operated by Sumitomo Mitsui Trust Bank, Limited and the Electronic Voting Platform operated by ICJ, Inc. (Investor Communications Japan). The Company therefore recognizes that it duly provides shareholders with wide opportunities to exercise their voting rights and takes appropriate measures.

### **Supplementary Principles**

#### **1.1.1 When the board recognizes that a considerable number of votes have been cast against a proposal by the company and the proposal was approved, it should analyze the reasons behind opposing votes and why many shareholders opposed, and should consider the need for shareholder dialogue and other measures.**

Controversial proposals which a considerable number of votes will be cast in disapproval at the General Shareholders Meeting are recognized as such when they are presented to the meeting. In case of such proposals, the Company takes appropriate measures to carefully explain them to shareholders and clarify why the Company has chosen the content of the proposals.

The Company also acknowledges that approval or disapproval of measures under various management conditions may differ, depending on the various factors, such as positions of the respective shareholders. With respect to proposals which a considerable number of votes have been cast in disapproval as a result of voting in spite of sufficient explanation of the proposals and exchange of opinions, the Company will work to obtain the shareholders' understanding through continuous dialogue with them.

#### **1.1.2 When proposing to shareholders that certain powers of the general shareholder meeting be delegated to the board, companies should consider whether the board is adequately constituted to fulfill its corporate governance roles and responsibilities. If a company determines that the board is indeed adequately constituted, then it should recognize that such delegation may be desirable from the perspectives of agile decision-making and expertise in business judgment.**

With regard to the delegation of the matters requiring resolutions of the Shareholders Meeting to the Board of Directors, the Company considers it a necessary condition that the Board of Directors be a structure that can bear the responsibilities to decide such matters. The Company has elected three outside directors who oversee the appropriateness of decision-making by the Board of Directors. As we consider it desirable to delegate authority within a confined scope even though permitted under laws and regulations, the matters requiring resolutions of the Shareholders Meeting delegated to the Board of Directors under the provisions of the Articles of Incorporation at this point are issuance of shares within the authorized number of shares to be issued, implementation of interim dividends, and acquisition of treasury stock.

#### **1.1.3 Given the importance of shareholder rights, companies should ensure that the exercise of shareholder rights is not impeded. In particular, adequate consideration should be given to the special rights that are recognized for minority shareholders with respect to companies and their officers, including the right to seek an injunction against illegal activities or the right to file a shareholder lawsuit, since the exercise of these rights tend to be prone to issues and concerns.**

The Company has established Share Handling Regulations to stipulate procedures in advance for the exercise of rights by minority shareholders, and will not prevent the exercise of rights.

## **Principle 1.2 Exercise of Shareholder Rights at General Shareholder Meetings**

**Companies should recognize that general shareholder meetings are an opportunity for constructive dialogue with shareholders, and should therefore take appropriate measures to ensure the exercise of shareholder rights at such meetings.**

To make the Shareholders Meeting an opportunity for constructive dialogue with shareholders, the Company discloses information at appropriate times, provides shareholders with opportunities to exercise

their voting rights, explains business conditions using methods such as slides, and thereby strives to take appropriate measures to ensure the exercise of shareholder rights.

## **Supplementary Principles**

### **1.2.1 Companies should provide accurate information to shareholders as necessary in order to facilitate appropriate decision-making at general shareholder meetings.**

The Company considers that it should promptly disclose information which would facilitate appropriate decision-making by shareholders at the Shareholders Meeting. In addition, the Company posts the Notice of the Shareholders Meeting on the Company's website to broadly provide information.

### **1.2.2 While ensuring the accuracy of content, companies should strive to send convening notices for general shareholder meetings early enough to give shareholders sufficient time to consider the agenda. During the period between the board approval of convening the general shareholder meeting and sending the convening notice, information included in the convening notice should be disclosed by electronic means such as through TDnet1 or on the company's website.**

Currently, the Notice of the Shareholders Meeting is dispatched approximately three weeks before the date of the Shareholders Meeting. In addition, to give shareholders sufficient time to consider the agenda, the Company posts the Notice on the Company's website promptly after the adoption of a resolution to convene the Shareholders Meeting.

### **1.2.3 The determination of the date of the general shareholder meeting and any associated dates should be made in consideration of facilitating sufficient constructive dialogue with shareholders and ensuring the accuracy of information necessary for such dialogue.**

The date of the Annual Shareholders Meeting of the Company is determined in late June, the third month after the fiscal year end, which is the time limit for extensions of final returns under the Corporation Tax Act. The Company selects this schedule to ensure itself the time required for account settlement and other procedures necessary for holding the Shareholders Meeting after the fiscal year end, with no intention to prevent shareholders from attending the meeting. Generally, we hold our general meeting of shareholders at the Osaka Head Office, where our registered head office is located, on the day when the ordinary general meetings of shareholders are concentrated. A total of 100 to 150 shareholders attend the meeting every year. We have moved forward the date of the 71st Ordinary General Meeting of Shareholders. We will continue to provide shareholders in Japan and overseas with sufficient time to consider the exercise of their voting rights by disclosing convening notices as soon as possible. At the same time, we will flexibly set the date of the general meeting of shareholders, while ensuring an appropriate time period for preparation.

### **1.2.4 Bearing in mind the number of institutional and foreign shareholders, companies should take steps for the creation of an infrastructure allowing electronic voting, including the use of the Electronic Voting Platform, and the provision of English translations of the convening notices of general shareholder meeting.**

As mentioned above, the Company has created an infrastructure for the exercise of voting rights that allows shareholders to use a voting site operated by Sumitomo Mitsui Trust Bank, Limited and the Electronic Voting Platform operated by ICJ, Inc. (Investor Communications Japan), in addition to voting in writing, to ensure that institutional and foreign shareholders have opportunities to exercise voting rights. In addition, with regard to the Notice of the Shareholders Meeting, the essentials of the agenda are translated into English and posted on the Company's website, etc.

### **1.2.5 In order to prepare for cases where institutional investors who hold shares in street name express an interest in advance of the general shareholder meeting in attending the general shareholder meeting or exercising voting rights, companies should work with the trust bank (shintaku ginko) and/or custodial institutions to consider such possibility.**

Currently, the Company permits shareholders recorded on the shareholder register to attend the

Shareholders Meeting. The Company does not permit beneficial shareholders to attend the Meeting because there are no means by which to confirm the credibility of shareholding by beneficial shareholders. If and when the Company receives such a request, it will judge the matter according to the stance on information provision of true shareholders and the trust bank and/or custodial institutions, the representation of the true shareholders, and other factors.

The Company believes that if a system is established in the future to allow issuers to recognize true shareholders, the Company may deliberate on allowing them to attend the Shareholders Meeting.

### **Principle 1.3 Basic Strategy for Capital Policy**

**Because capital policy may have a significant effect on shareholder returns, companies should explain their basic strategy with respect to their capital policy.**

The Company aims at comprehensively increasing corporate value and sustainable corporate growth and believes that the most important management responsibilities is to enable sustainable returns of earnings to shareholders while building sufficient internal reserves for the reinforcement of management base and investment in future growth.

If the Company intends to raise funds by means that dilute existing shares, the Company will implement the fundraising after the Board of Directors sufficiently examines the purpose and effect of the funds and upon careful explanations are provided to shareholders.

With regard to shareholder returns, while the Company's basic policy is to continuously pay stable dividends, we dedicate to constant improvement in our profitability, aiming to increase dividends as improving our basic revenue level as well as returns from our strategic investments.

In addition, the Company strives to improve capital efficiency and maintain financial soundness, taking into account capital structure and the levels of various management indicators.

### **Principle 1.4 Cross-Shareholdings**

**When companies hold shares of other listed companies as cross-shareholdings<sup>2</sup>, they should disclose their policy with respect to doing so. In addition, the board should examine the mid- to long-term economic rationale and future outlook of major cross-shareholdings on an annual basis, taking into consideration both associated risks and returns. The annual examination should result in the board's detailed explanation of the objective and rationale behind cross-shareholdings.**

**Companies should establish and disclose standards with respect to the voting rights as to their cross-shareholdings.**

The Company currently holds shares of listed companies only for the purpose of strategic shareholdings, and the majority of those shares are the shares of customers and suppliers. There are no such shares held by the Company solely for investment. The Company judges whether or not to acquire shares after quantitatively and qualitatively measuring the effects of acquiring covered shares and considering whether the acquisition would be an appropriate use of the Company funds.

In addition, every year the Company confirms the intention of continuously holding shares with a division administrating the issuers of the shares held and discusses whether or not to maintain the shareholding at the Management Committee and Board of Directors, and the Company examines the effectiveness of shareholding at the Investment Examination Committee whenever three years elapse from the acquisition of shares. Through these initiatives, the Company examines the rationality of shareholding from various angles. As a result of the examination, if and when it is considered that the initial purpose of their acquisition is achieved or the effectiveness of shareholding has weakened, the Company executes a procedure for disposal of such the shares.

Accordingly, the shareholdings of the Company are maintained not for the purposes of capital gain or income gain, but for the main purposes of establishing stable transaction relations and strengthening strategic cooperation. With respect to the exercise of voting rights, the Company judges it from a viewpoint not only of maintaining and increasing the value of assets held by the Company but also keeping consistency with the purpose of shareholding. Specifically, the Company has established the following screening criteria. With respect to issues that meet the criteria, the Company decides whether to approve or reject proposals after

close inspection. With respect to the issues that do not meet any of the criteria, the Company generally approves proposals proposed by an issuing company and decides whether to approve or reject on a case-by-case basis for proposals proposed by shareholders.

(Screening Criteria)

- 1) a company whose value of shares are judged to be significantly impaired according to its stock price level and financial conditions
- 2) a company whose operating income, ordinary income, or net income was recorded as negative in its business results for the previous fiscal year
- 3) a company that caused a scandal with significant social impact, including violations of laws and regulations or anti-social acts
- 4) a company that submits a proposal that is likely to hinder the purpose of shareholding and significantly impair the value of shares, including any proposal on changes of control or substantial revisions of corporate organization

### **Principle 1.5 Anti-Takeover Measures**

**Anti-takeover measures must not have any objective associated with entrenchment of the management or the board. With respect to the adoption or implementation of anti-takeover measures, the board and *kansayaku* should carefully examine their necessity and rationale in light of their fiduciary responsibility to shareholders, ensure appropriate procedures, and provide sufficient explanation to shareholders.**

We have continued to implement Large Scale Purchase Countermeasures (so-called Takeover Defense) since they were introduced in February 2007. However, at the meeting of the Board of Directors held on May 11, 2018, we decided not to renew the takeover defense measures but to discontinue such measures at the conclusion of the Ordinary General Meeting of Shareholders held on June 22.

The main objective of our Takeover Defense is to establish rules for information requests and dialogues in advance in preparation for the emergence of hostile or abusive takeover bidders, and to ensure sufficient information and time for shareholders to decide whether or not to accept a takeover bid in the event that a takeover bid is offered. The Takeover Defense was restrained in that they minimized the scope of the Board of Directors' discretion, limited the types of takeover bidders and countermeasures, made it possible to hold an extraordinary general meeting of shareholders in order to confirm the intention of the shareholders when the takeover bid is launched, and made it impossible to provide financial compensation, such as money, to the takeover bidder.

Unlike the United Kingdom and the European Union, where takeover bid rules obligate to purchase all shares for the purpose of acquiring 30% or more of shares, Japan's takeover bid rule obligates to purchase all shares when two-thirds or more of shares to be purchased. Therefore, under Japan's takeover bid rule, takeover bidder is allowed to place the takeover bid without intention to acquire management rights. Therefore, in order to prevent management disruptions, it was considered necessary to determine in advance the procedures for confirming the purchaser's intention.

We believe that Takeover Defense still have significant importance, and we have actively tried to engage in dialogue with institutional investors and proxy advisory companies to explain the importance of these actions when the effective period expires.

However, we confirmed that the voting right criteria for the Takeover Defense proposed by institutional investors were becoming stricter and that it was difficult to obtain a large number of approvals. In view of the fact that we were able to increase corporate value over the past three years, which were under the anti-takeover measures, we have decided to discontinue our Takeover Defense this time. For example, we achieved record-high consolidated net sales and consolidated operating income in fiscal 2017, recording a 3-year compound average growth rate of 21.4% in consolidated ordinary income and a market capitalization of 1.8 times.

### **Supplementary Principles**

**1.5.1 In case of a tender offer, companies should clearly explain the position of the board, including any counteroffers, and should not take measures that would frustrate shareholder rights to sell their**

**shares in response to the tender offer.**

As explained in Principle 1-5, we have discontinued our Takeover Defense. However, in the event of a large-scale purchase of our shares, we will require the purchaser to provide necessary and sufficient information, and will disclose the opinions of our Board of Directors in a timely and appropriate manner. In addition, we will endeavor to secure the time and information necessary for shareholders to consider, and will take appropriate measures to the extent permitted by the Financial Instruments and Exchange Act, the Companies Act, and other relevant laws and regulations.

**Principle 1.6 Capital Policy that May Harm Shareholder Interests**

**With respect to a company's capital policy that results in the change of control or in significant dilution, including share offerings and management buyouts, the board and kansayaku should, in order not to unfairly harm the existing shareholders' interests, carefully examine the necessity and rationale from the perspective of their fiduciary responsibility to shareholders, should ensure appropriate procedures, and provide sufficient explanation to shareholders.**

The Company is not currently scheduled to adopt a capital policy that results in a change of control or in significant dilution. If the Company plans to implement such a capital policy, however, the Company will duly consider the views of the independent outside directors and corporate auditors and make every effort to provide careful explanations to shareholders on the background, purposes, effects, etc. in relation to the adoption of the policy.

**Principle 1.7 Related Party Transactions**

**When a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the interests of the company or the common interests of its shareholders and prevent any concerns with respect to such harm, the board should establish appropriate procedures beforehand in proportion to the importance and characteristics of the transaction. In addition to their use by the board in approving and monitoring such transactions, these procedures should be disclosed.**

If the Company intends to engage in a transaction with a director of the Company or a company where a director of the Company holds office as a representative (related party transaction), the Company will conduct the related party transaction only after the Board of Directors deliberates on the transaction and gives approval.

With regard to transactions with major shareholders, financial transactions with Sumitomo Mitsui Banking Corporation and The Dai-ichi Life Insurance Company, Limited are conducted with approval from the Board of Directors. With regard to commercial transactions, the Company conducts them based on the Standards for Decision-making Authority established with approval from the Board of Directors according to the sizes of the transactions, and applies the same procedures to the Company's transactions with major shareholders such as Nippon Steel & Sumitomo Metal Corporation.

**Section 2: Appropriate Cooperation with Stakeholders Other Than Shareholders**

**General Principle 2**

**Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought about as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders.**

**The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.**

The resources that sustain the Company's corporate activities and increase its corporate value are the Company's employees who share the majority of their lives with the Company; customers who purchase the Company's products and services; suppliers who provide the Company with products and services; financial

institutions who provide the Company with operating funds and investment funds; and local communities who support the Company's business by providing infrastructure; and sustainable corporate activities and increased corporate value result from cooperation of all of these persons. For these various stakeholders, the Company voluntarily chooses business activities in recognition of the merit of the Company's existence, and the Company will further deepen cooperative relationships with each of these stakeholders.

### **Principle 2.1 Business Principles as the Foundation of Corporate Value Creation Over the Mid- to Long-Term**

**Guided by their position concerning social responsibility, companies should undertake their businesses in order to create value for all stakeholders while increasing corporate value over the mid- to long-term. To this end, companies should draft and maintain business principles that will become the basis for such activities.**

The Corporate Philosophy of the Company proclaims that by "Coping with changing times and markets quickly, Hanwa makes a great contribution to society by satisfying various needs of customers as a 'distribution specialist.'" The Company has a policy of pursuing trading company logistics with a difference, increasing its corporate value, and fulfilling social responsibility with an emphasis on compliance.

### **Principle 2.2 Code of Conduct**

**Companies should draft and implement a code of conduct for employees in order to express their values with respect to appropriate cooperation with and serving the interests of stakeholders and carrying out sound and ethical business activities. The board should be responsible for drafting and revising the code of conduct, and should ensure its compliance broadly across the organization, including the front line of domestic and global operations.**

As a code of conduct to realize the Corporate Philosophy mentioned above, the Company has established a corporate creed, corporate slogan, and a corporate anthem, and provides each of its employees with the corporate slogan and corporate anthem card in an effort to raise the recognition of these principles at all times.

(Reference) Corporate slogan

1. Enhance trust through sincerity and effort
1. Become the top player in the business through youthfulness and spirit
1. Seek efficiency through originality and cooperation
1. Enliven the Company's trade and establish happy families
1. Acknowledge our mission and contribute to society

### **Supplementary Principles**

**2.2.1 The board should review regularly (or where appropriate) whether or not the code of conduct is being widely implemented. The review should focus on the substantive assessment of whether the company's corporate culture truly embraces the intent and spirit of the code of conduct, and not solely on the form of implementation and compliance.**

The Company provides new recruits with the induction course about the meaning of the corporate creed, corporate slogan, and corporate anthem. The Company has also its employees sing the corporate anthem at monthly morning assemblies to disseminate the principles they express. While the Board of Directors does not conduct any formal reviews, the employees of the Company fully recognize, in the course of daily business, that the motives embodied in the corporate creed and corporate slogan are indispensable to the Company's ongoing existence as an independent trading company, and the Company therefore believes that these principles are firmly rooted in the Company culture.

### **Principle 2.3 Sustainability Issues, Including Social and Environmental Matters**

**Companies should take appropriate measures to address sustainability issues, including social and environmental matters.**

The Company has established the CSR Committee and conducts activities to fulfill the Company's

corporate social responsibility. The Company has also established the “Environmental Policy” and “Guidelines for Environmental Corporate Action,” has acquired ISO14001 certification and promotes an environmental management program, where internal committee members and outside professionals conduct regular reviews.

The Company’s basic policy on CSR is as follows.

- 1) Thorough legal compliance
- 2) Environmental considerations
- 3) Good corporate citizenship
- 4) Transparent management, proactive disclosure
- 5) Maintaining of financial soundness
- 6) Workplaces geared to employee self-realization

## **Supplementary Principles**

### **2.3.1 With the recognition that dealing with sustainability issues is an important element of risk management, the board should take appropriate actions to this end. Given the increasing demand and interest with respect to sustainability issues in recent years, the board should consider addressing these matters positively and proactively.**

The Company obtained ISO14001 certification for environmental management according to international standards in April 2000. With regard to business activities, in addition to its business development for the recycling of resources such steel scrap, ferrous raw material, and wastepaper, the Company has realized effective measures for “reducing (curtailing waste), reusing (reusing waste) and recycling (recycling waste)” in its activities, including its trade business approved by the relevant countries’ regulatory environmental authorities under the Basel Convention provisions governing procedures for the international transfer of metallic industrial waste and the biomass fuel/RPF business, in order to contribute to the evolution of a recycling-oriented society.

With regard to CSR activities, to actively work on CSR, the Company established the CSR Committee in March 2004, incorporates organizations including the Compliance Committee, Environmental Committee, and the Hanwa Scholarship Program and engages in organized operation.

## **Principle 2.4 Ensuring Diversity, Including Active Participation of Women**

**Companies should recognize that the existence of diverse perspectives and values reflecting a variety of experiences, skills and characteristics is a strength that supports their sustainable growth. As such, companies should promote diversity of personnel, including the active participation of women.**

The Company positions creating an environment in which individual employees acknowledge various backgrounds and values, and in which a variety of work styles can be pursued as an important management target. The Diversity Promotion Office is responsible for taking measures to ensure diversity of employees. We have introduced a supervisory scheme where senior employees supervise each new employee for a certain period, as well as a mentor scheme especially for female as well as for non-Japanese employees. An employee in a different section with longer work experience in the Company is assigned as a mentor to provide mental support, to create a better working environment. In addition, the Company assigns female employees to positions that will best enable them to develop to their full potential, proactively promotes female employees to managerial positions, and introduces study, training abroad, and job rotation programs for female employees. Through the combination of these initiatives, the Company promotes comprehensive development of human resources of a managerial caliber with a view to promoting female employees to executive officer positions.

## **Principle 2.5 Whistleblowing**

**Companies should establish an appropriate framework for whistleblowing such that employees can report illegal or inappropriate behavior, disclosures, or any other serious concerns without fear of suffering from disadvantageous treatment. Also, the framework should allow for an objective assessment and appropriate response to the reported issues, and the board should be responsible for both**



**establishing this framework, and ensuring and monitoring its enforcement.**

The Company has established points of contact both inside and outside the Company that group employees can freely reach to consult with and report on compliance and other issues with no restrictions from their organizations, and the Company will not be notified of the names of employees who report issues without their consent. Information reported to a point of contact is forwarded to the office of the Compliance Committee with strict protection of privacy, and the Company promptly investigates all the facts in cooperation with members of the Compliance Committee and takes measures to correct them, etc., as necessary. If an event is judged to be critical, the Company will disclose the relevant information promptly and accurately and fulfill all of its duties of accountability, and the event will be reported to the Management Committee and Board of Directors.

**Supplementary Principles**

**2.5.1 As a part of establishing a framework for whistleblowing, companies should establish a point of contact that is independent of the management (for example, a panel consisting of outside directors<sup>4</sup> and outside kansayaku<sup>5</sup>). In addition, rules should be established to secure the confidentiality of the information provider and prohibit any disadvantageous treatment.**

The Company appoints outside directors and external attorneys as points of contact who are independent from the management. Such persons who are contacted for consultations report to the Company on facts that come to light through the consultations, give guidance, and conduct investigations with strict protection of the privacy of the consulters who contact them. In addition, the Company appropriately handles facts reported to the points of contact to ensure that the information providers are not treated unfairly by the Company, regardless of whether the information is reported anonymously or not.

**Section 3: Ensuring Appropriate Information Disclosure and Transparency**

**General Principle 3**

**Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk and governance.**

**The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.**

As the Company believes that appropriate information disclosure is required to enable shareholders and other stakeholders to deepen their understanding of the Company, it strives for prompt and accurate information disclosure in accordance with the Disclosure Policy. With regard to important information including non-financial information, not to mention disclosures under laws and regulations, the Disclosure Committee deliberates on the necessity of disclosure and the content thereof. Important information judged by the Committee to facilitate the shareholders' and stakeholders' understanding of the Company will be provided on the Company's website, etc.

**Principle 3.1 Full Disclosure**

**In addition to making information disclosure in compliance with relevant laws and regulations, companies should disclose and proactively provide the information listed below (along with the disclosures specified by the principles of the Code) in order to enhance transparency and fairness in decision-making and ensure effective corporate governance:**

- i) Company objectives (e.g., business principles), business strategies and business plans;**
- ii) Basic views and guidelines on corporate governance based on each of the principles of the Code;**
- iii) Board policies and procedures in determining the remuneration of the senior management and directors;**

**iv) Board policies and procedures in the appointment of the senior management and the nomination of directors and kansayaku candidates; and**

**v) Explanations with respect to the individual appointments and nominations based on iv).**

i) Company objectives (e.g., business principles), business strategies and business plans;

The Company's Corporate Philosophy proclaims that by "Coping with changing times and markets quickly, Hanwa makes a great contribution to society by satisfying various needs of customers as a 'distribution specialist.'" Under this Corporate Philosophy, the Company, as a user-oriented trading company which provides high value-added product distribution and proposal-based services which meet customer demands, pursues trading company logistics with distinction. The Company also has a policy of increasing its corporate value as well as fulfilling social responsibility with an emphasis on compliance through these activities. With regard to business strategies and business plans, the Company establishes a medium-term business plan every three years in principle and broadly discloses it.

ii) Basic views and guidelines on corporate governance based on each of the principles of the Code;

We aim to fulfill our social responsibilities as a good corporate citizen so that we can gain and retain the respect from stakeholders and be recognized as a valuable enterprise. We work to establish a high degree of transparency in management systems to ensure full legal and regulatory compliance and respect for social norms.

In addition, to assertively promote corporate social responsibility (CSR) activities and make our corporate brand even more respected, we have established the CSR Committee and promote management initiatives with a focus on CSR.

iii) Board policies and procedures in determining the remuneration of the senior management and directors;

With regard to directors' compensation, individual specific amounts may be determined at the Board of Directors within the limit of the total amount of ¥860 million determined at the Annual Shareholders Meeting held in June 2006, and the Company determines them accordingly (Article 361 of the Companies Act).

With regard to individual compensation of the management members and directors, an Officers Evaluation Committee chaired by the President and composed of members including outside directors as advisors meets at least twice a year to perform a comprehensive evaluation of the directors' performance. This includes an assessment of the level of commitment and a peer review process by all directors and executive officers. The results of the evaluation provided by the Officers Evaluation Committee are used by the Compensation Sub-Committee, which includes outside directors, to determine each director's compensation. The fixed monthly compensation is then submitted as a regular salary plan to the Board of Directors. In terms of the directors' bonuses, we use a system that awards a bonus directly linked to profits and clearly reflects each individual management member's and director's achievement level. The Board of Directors approves this profit-based calculation model after the Officers Evaluation Committee reviews it. Thereupon, the approval of the Board of Corporate Auditors shall be obtained.

iv) Board policies and procedures in the appointment of the senior management and the nomination of directors and kansayaku candidates;

To select internal directors, an Election Sub-Committee, which includes outside directors within the Officers Evaluation Committee, reviews the directors of the following fiscal year based on their evaluation from directors and executive officers and the results of their performance evaluations of employees. A draft is then submitted to the Board of Directors where a proposal of the list of candidates is then forwarded to the Annual Shareholders Meeting. In addition, the Election Sub-Committee deliberates on the positions of directors and draws up a draft to be approved by the Board of Directors.

With regard to internal corporate auditors, the Board of Directors selects persons deemed capable of executing the duties of corporate auditors as candidates from among internal directors and executive officers, etc. in consideration of their fields of specialty, their careers, and other factors. A proposal list of candidates is then forwarded to the Annual Shareholders Meeting with prior consent from the Board of Corporate Auditors.

To select outside directors and outside corporate auditors, appropriate candidates are examined from all perspectives in consideration of the balance of their abilities and any excesses or deficiencies in the fields

of specialty of the outside directors and outside corporate auditors based on the fields of specialty of those retiring and of those remaining, and a proposal of the list of candidates is then prepared.

v) Explanations with respect to the individual appointments and nominations based on iv).

Reasons for proposals for electing the senior management, directors and corporate auditors are stated in the Notice of Shareholders Meeting, together with brief career summaries.

### **Supplementary Principles**

#### **3.1.1 These disclosures should add value for investors, and the board should ensure that information is not boiler-plate or lacking in detail.**

With respect to descriptions in fields not legally regulated, the Company aims to offer descriptions that are practicably clear and specific to deepen the understanding of users.

#### **3.1.2 Bearing in mind the number of foreign shareholders, companies should, to the extent reasonable, take steps for providing English language disclosures.**

To respond to increase in foreign shareholders, the Company provides fundamental information in English language company guides and web pages, and makes the utmost efforts to schedule its English language disclosures of settlement information, timely information disclosure, and Notice of Shareholders Meeting concurrently with its disclosures in Japanese. In addition, the Company prepares English versions of annual reports, CSR & Environmental Reports, etc.

### **Principle 3.2 External Auditors**

**External auditors and companies should recognize the responsibility that external auditors owe toward shareholders and investors, and take appropriate steps to secure the proper execution of audits.**

As the Company believes that the appropriateness of its financial information is guaranteed by the audits by the external auditor (independent auditor), the Company fully cooperates with the independent auditor's audit engagements and strives to ensure coordination of the Internal Audit Department and the Board of Corporate Auditors with the independent auditor. The Company judges that the independent auditor conducts the auditing of the Company with the same recognition.

### **Supplementary Principles**

#### **3.2.1 The kansayaku board should, at minimum, ensure the following:**

**i) Establish standards for the appropriate selection of external auditor candidates and proper evaluation of external auditors; and**

**ii) Verify whether external auditors possess necessary independence and expertise to fulfill their responsibilities.**

i) Establish standards for the appropriate selection of external auditor candidates and proper evaluation of external auditors;

The Board of Corporate Auditors of the Company has not yet created clear standards for evaluating an external auditor (independent auditor), but it regularly exchanges information with the independent auditor to confirm the status of execution of duties by the independent auditor.

ii) Verify whether external auditors possess necessary independence and expertise to fulfill their responsibilities.

The Company has selected KPMG AZSA LLC as its independent auditor. The Board of Corporate Auditors of the Company has confirmed that KPMG AZSA LLC possesses sufficient independence and expertise, through the actual results of past audits of the Company, social evaluations as an audit corporation, regular information exchanges, audit reports, etc.

#### **3.2.2 The board and the kansayaku board should, at minimum, ensure the following:**

**i) Give adequate time to ensure high quality audits;**

**ii) Ensure that external auditors have access, such as via interviews, to the senior management including the CEO and the CFO;**

**iii) Ensure adequate coordination between external auditors and each of the kansayaku (including attendance at the kansayaku board meetings), the internal audit department and outside directors; and**

**iv) Ensure that the company is constituted in the way that it can adequately respond to any misconduct, inadequacies or concerns identified by the external auditors.**

i) Give adequate time to ensure high quality audits;

The Company believes that it provides necessary and adequate time for audits based on requests from the external auditor (independent auditor).

ii) Ensure that external auditors have access, such as via interviews, to the senior management including the CEO and the CFO;

With regard to the point of contact between the independent auditor and the senior management of the Company, the independent auditor holds regular interviews with the Director and President around twice a year and requests interviews at any time as necessary. In addition, a place for hearing from other senior management has been established consecutively or as necessary.

iii) Ensure adequate coordination between external auditors and each of the corporate auditor (J: Kansayaku) (including attendance at the Board of Corporate Auditors meetings), the internal audit department and outside directors;

The independent auditor has a place to exchange information with the Corporate Auditors and the Internal Audit Department of the Company during the review of each quarterly settlement and makes inquiries, etc., at any time as necessary. Opportunities for regular interviews with outside directors, etc. have not yet been determined, but there is no hindrance from conducting interviews as necessary.

iv) Ensure that the company is constituted in the way that it can adequately respond to any misconduct, inadequacies or concerns identified by the external auditors.

If the independent auditor discovers misconduct, etc. to which the Company is required to respond or identifies inadequacies or concerns, the independent auditor will report the fact to the management or to the Compliance Committee depending on content. In case of significant impact, the Company will report the fact to the Board of Directors, etc. while disclosing information in a timely and precise manner. A director or executive officer in charge will examine potential responses to the issues identified by the independent auditor and immediately take measures to correct or improve them as necessary.

#### **Section 4: Responsibilities of the Board**

##### **General Principle 4**

**Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the mid to long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:**

**(1) Setting the broad direction of corporate strategy;**

**(2) Establishing an environment where appropriate risk-taking by the senior management is supported; and**

**(3) Carrying out effective oversight of directors and the management (including shikkoyaku and so-called shikkoyakuin<sup>8</sup>) from an independent and objective standpoint.**

**Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with Kansayaku Board (where a part of these roles and responsibilities are performed by kansayaku and the kansayaku board), Company with Three Committees (Nomination, Audit and Remuneration) or Company with Supervisory Committee.**

In principle, the Board of Directors of the Company establishes the medium-term business plan every three years to show the direction toward which the Company should strive. In addition, the Company stipulates the decision-making authority according to each position and allows the management members and directors to make management decisions within the scope of their authority to execute their duties taking a certain risk, provided that they are required to fulfill their responsibilities for results and accountability. With respect to

highly effective oversight of the management and directors, the Company strives to ensure more appropriate and effective oversight mainly by strengthening the function of the Board of Corporate Auditors and separating the executive function from directors.

#### **Principle 4.1 Roles and Responsibilities of the Board (1)**

**The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities. It should engage in constructive discussion with respect to specific business strategies and business plans, and ensure that major operational decisions are based on the company's strategic direction.**

The Board of Directors of the Company decides the final contents of the medium-term business plan drafted by the Management Committee while closely examining how specific the contents are and the appropriateness of the direction toward which the Company should strive. During the period of the medium-term business plan, the Company judges the appropriateness of execution of duties in light of the policies set forth in the plan.

#### **Supplementary Principles**

##### **4.1.1 The board should clearly specify its own decisions as well as both the scope and content of the matters delegated to the management, and disclose a brief summary thereof.**

The Company stipulates the decision-making authority of an organ according to the importance of decisions and monetary scale and other factors in the Regulation on the Board of Directors and the Standard for Submission to the Board of Directors, as well as the Regulations on the Management Committee and the Standard for Submission to the Management Committee, while prescribing the scope of operational delegation according to the positions of the executive officers, etc. in the Standard for Approval.

##### **4.1.2 Recognizing that a mid-term business plan (chuuki keiei keikaku) is a commitment to shareholders, the board and the senior management should do their best to achieve the plan. Should the company fail to deliver on its mid-term business plan, the reasons underlying the failure of achievement as well as the company's actions should be fully analyzed, an appropriate explanation should be given to shareholders, and analytic findings should be reflected in a plan for the ensuing years.**

The Company positions the medium-term business plan as a milestone for putting employees' aims in operating activities and aims to clearly show the direction and goal toward which the Company should strive and the strategies and tactics therefor. The Company believes that promoting activities toward realizing the plan, analyzing the results, correcting courses and proceeding to the next step are operational basics. The Company discloses the medium-term business plan to shareholders with its intent that the plan would be beneficial to the analysis of the Company's future and growth potential when the shareholders make investment decisions. The Company does not necessarily believe, however, that the details of the medium-term business plan represent commitments by the Company to the shareholders.

##### **4.1.3 Based on the company objectives (business principles, etc.) and specific business strategies, the board should engage in the appropriate oversight of succession planning for the CEO and other top executives.**

With regard to personnel affairs of directors, the Company has established an Election Sub-Committee within the Officers Evaluation Committee, an advisory organ of the Board of Directors. The Election Sub-Committee, a body in which outside directors participate, examines and submits a draft on the personnel affairs of the directors to the Company. With regard to successors of the CEO and other top executives, candidates will be narrowed down based on close examinations of the individual performance, characters, knowledge, and other factors of the respective directors and executive officers. The Company, however, does not expressly clarify any specific procedure or plan such as succession plan. The Company believes that the Board of Directors is able to share the reasons for the selection and its validity, in light of the number of directors and other factors.

#### **Principle 4.2 Roles and Responsibilities of the Board (2)**

**The board should view the establishment of an environment that supports appropriate risk-taking by the senior management as a major aspect of its roles and responsibilities. It should welcome proposals from the management based on healthy entrepreneurship, fully examine such proposals from an independent and objective standpoint with the aim of securing accountability, and support timely and decisive decision-making by the senior management when approved plans are implemented.**

**Also, the remuneration of the management should include incentives such that it reflects mid- to long-term business results and potential risks, as well as promotes healthy entrepreneurship.**

With regard to routine work, the Company determines decision-making authority based on a monetary standard and allows the senior management members to make operational judgments within the scope of their authority, provided that senior management members are required to fulfill their responsibilities for results and accountability. In addition, with respect to investment and new business, the Company presents decision-making procedures and items to be confirmed, etc. leading to approval, to strive to facilitate the new efforts of the senior management.

In terms of the management's compensation, we use a system combining a monthly compensation ("Fixed regular salary") based on an evaluation of the management's commitment to operational objectives from a mid- to long-term perspective and the degree of achievement thereof, with a bonus ("Profit-related salary") determined based on the corporate results for each fiscal year, and thereby strike a balance between short-term and mid- to long-term perspectives.

#### **Supplementary Principles**

##### **4.2.1 In order for management remuneration to operate as a healthy incentive for sustainable growth, the proportion linked to mid- to long-term results and the balance of cash and stock should be set appropriately.**

A monthly compensation ("Fixed regular salary") based on an evaluation of management's efforts on mid- to long-term themes are determined by their process rather than on performance results, while the results of management as a whole for a single fiscal year are evaluated to determine the bonus based on standards for salary payment linked to performance results as specified in advance, and the management is to assume responsibility for the results. At this point, the Company does not intend to design a complex or confusing system for reflecting mid- to long-term results or to introduce a stock compensation system for management members including directors with fiduciary duty to shareholders.

#### **Principle 4.3 Roles and Responsibilities of the Board (3)**

**The board should view the effective oversight of the management and directors from an independent and objective standpoint as a major aspect of its roles and responsibilities. It should appropriately evaluate company performance and reflect the evaluation in its assessment of the senior management.**

**In addition, the board should engage in oversight activities in order to ensure timely and accurate information disclosure, and should establish appropriate internal control and risk management systems.**

**Also, the board should appropriately deal with any conflict of interests that may arise between the company and its related parties, including the management and controlling shareholders.**

With regard to the evaluation of business execution of directors and executive officers, the Company has enforced the Officer Evaluation System since 2004 (as for executive officers, since 2012 when the Executive Officer System started) and determined the evaluation every year based on the examination by the Officers Evaluation Committee, whose members include outside directors.

With respect to information disclosure, internal control and risk management, the Company has established a Disclosure Committee, internal Control Committee, Compliance Committee, Security Trade Control Committee, etc. to improve management systems for each item.

In addition, with regard to conflict-of-interest acts with related parties, the Company requires compliance with the Code of Ethical Business Conduct, and the related provisions are also stipulated in the Rules for Directors, Rules for Executive Officers, Rules of Employment, etc.

## Supplementary Principles

### **4.3.1 The board should ensure that the appointment and dismissal of the senior management are based on highly transparent and fair procedures and reflect the results of company performance.**

The Election Sub-Committee within the Officers Evaluation Committee, a body in which outside directors participate, evaluates the senior management's past personal performance, knowledge, abilities, etc., determines drafts for the election, promotion and dismissal of senior management members, and consults the Management Committee and Board of Directors for deliberation.

### **4.3.2 The establishment of effective internal control and proactive risk management systems for compliance and financial reporting has the potential of supporting sound risk-taking. The board should place priority on the appropriate establishment of such systems and the oversight of whether they effectively operate, and should not limit itself to the examination of compliance with respect to specific business operations.**

The Company has established a Compliance Committee, Internal Control Committee, Security Trade Control Committee, etc., each of which is chaired by a director or executive officer in charge and is mainly composed of the heads of administrative departments. These Committees inspect risk on compliance, internal control, trade transactions, etc., serve as points of contact for consultation, appropriately handle the issues, and report the results to the Board of Directors as necessary.

## Principle 4.4 Roles and Responsibilities of Kansayaku and the Kansayaku Board

**Kansayaku and the kansayaku board should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of directors' duties, appointment and dismissal of external auditors and the determination of auditor remuneration.**

**Although so-called "defensive functions," such as business and accounting audits, are part of the roles and responsibilities expected of kansayaku and the kansayaku board, in order to fully perform their duties, it would not be appropriate for kansayaku and the kansayaku board to interpret the scope of their function too narrowly, and they should positively and proactively exercise their rights and express their views at board meetings and to the management.**

Corporate Auditors and the Board of Corporate Auditors strive to make appropriate judgments from independent and objective standpoints. To that end, they attend meetings of the Management Committee and the Board of Directors, conduct visiting audits of group companies, hold hearings with senior management, and establish a regular place for sharing information with the Internal Audit Department and external auditor (independent auditor), in order to monitor the Company and group companies. In addition, the Board of Corporate Auditors of the Company focuses on proactive auditing to prevent scandals and strives to audit operational validity as well as legal compliance. Selecting three outside corporate auditors who have ample knowledge and experience in corporate activities, the Board of Corporate Auditors maintains its independence from the Board of Directors to perform operational auditing accurately and expresses their opinions to the Board of Directors.

## Supplementary Principles

### **4.4.1 Given that not less than half of the kansayaku board must be composed of outside kansayaku and that at least one full-time kansayaku must be appointed in accordance with the Companies Act, the kansayaku board should, from the perspective of fully executing its roles and responsibilities, increase its effectiveness through an organizational combination of the independence of the former and the information gathering power of the latter. In addition, kansayaku or the kansayaku board should secure cooperation with outside directors so that such directors can strengthen their capacity to collect information without having their independence jeopardized.**

For the Board of Corporate Auditors, a inside Corporate Auditor chiefly elected from within the Company attends the meetings of the Management Committee and other meetings to collect management-related information, etc., and reports the information, etc. with his/her own commentary to the

outside corporate auditors to facilitate the understanding of the outside corporate auditors while conducting interviews with the senior management, etc. and expressing his/her views as necessary.

With regard to cooperation with outside directors to assist with their collection of information, the outside directors attend hearings with senior management conducted by the Board of Corporate Auditors and may jointly conduct activities according to the importance of management issues.

#### **Principle 4.5 Fiduciary Responsibilities of directors and Kansayaku**

**With due attention to their fiduciary responsibilities to shareholders, the directors, kansayaku and the management of companies should secure the appropriate cooperation with stakeholders and act in the interest of the company and the common interests of its shareholders.**

Directors, Corporate Auditors and the management of the Company strive to execute their ideal roles in cooperation with various stakeholders in order to fulfill their fiduciary responsibilities to shareholders. The Company considers this to be conducive to the interests of the Company, and consequently to the common interests of its shareholders. In addition, the Company discloses information to its shareholders in a timely and appropriate manner.

#### **Principle 4.6 Business Execution and Oversight of the Management**

**In order to ensure effective, independent and objective oversight of the management by the board, companies should consider utilizing directors who are neither involved in business execution nor have close ties with the management.**

The Company has appointed three outside directors and therefore believes that the effectiveness of the Board of Directors' oversight function over management is duly ensured.

#### **Principle 4.7 Roles and Responsibilities of independent directors**

**Companies should make effective use of independent directors 9 , taking into consideration the expectations listed below with respect to their roles and responsibilities:**

- i) Provision of advice on business policies and business improvement based on their knowledge and experience with the aim to promote sustainable corporate growth and increase corporate value over the mid- to long-term;**
- ii) Monitoring of the management through important decision-making at the board including the appointment and dismissal of the senior management;**
- iii) Monitoring of conflicts of interest between the company and the management or controlling shareholders; and**
- iv) Appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders.**

The Company appoints three independent outside directors endowed with sufficient expertise in areas such as administration, corporate management, law, etc. to provide beneficial advice and opinions from third-party perspectives based on their knowledge, experience, etc. at the Board of Directors and others. In addition, the independent outside directors also participate in the Officers Evaluation Committee (including Election Sub-Committee and Compensation Sub-Committee) and appropriately express their views from third-party perspectives about the evaluation, election, etc. of directors and executive officers.

#### **Principle 4.8 Effective Use of independent directors**

**independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. Companies should therefore appoint at least two independent directors that sufficiently have such qualities.**

**Irrespective of the above, if a company in its own judgement believes it needs to appoint at least one-third of directors as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should disclose a roadmap for doing so.**

The Company appoints three independent outside directors who have expertise and rich experience.



Currently, the Company has six outside officers, including three outside corporate auditors, from among nineteen members attending the Board of Directors (fourteen directors and five corporate auditors). Outside directors and outside corporate auditors express helpful views and opinions, and the Company recognizes the number of independent outside officers to be appropriate.

### **Supplementary Principles**

#### **4.8.1 In order to actively contribute to discussions at the board, independent directors should endeavor to exchange information and develop a shared awareness among themselves from an independent and objective standpoint. Regular meetings consisting solely of independent directors (executive sessions) would be one way of achieving this.**

The Company considers it appropriate for the independent outside directors to give their views, advice, etc. to the Board of Directors at their discretion from their respective independent standpoints. Currently, the three outside directors have opportunities to exchange information by themselves as necessary.

#### **4.8.2 independent directors should endeavor to establish a framework for communicating with the management and for cooperating with kansayaku or the kansayaku board by, for example, appointing the lead independent director from among themselves.**

Currently, the Company has three independent outside directors and sees no need to appoint in advance an intermediary to make adjustment or arrangement with the management and the Board of Corporate Auditors. In addition, the independent outside directors are expected to give third-party views, advice, etc. from their respective independent standpoints, and the Company believes that the ranking among outside directors and consolidation of their views could spoil active discussion. Therefore, the Company does not consider it necessary to do so.

### **Principle 4.9 Independence Standards and Qualification for independent directors**

**Boards should establish and disclose independence standards aimed at securing effective independence of independent directors, taking into consideration the independence criteria set by securities exchanges. The board should endeavor to select independent director candidates who are expected to contribute to frank, active and constructive discussions at board meetings.**

With regard to standards for judgment when electing independent outside directors, we make use of articles referring to independence of outside officers stated in the Enforcement Rules for Securities Listing Regulations and the Guidelines for Listing Examination, etc., both established by the Tokyo Stock Exchange, on which the Company is listed. However, at a meeting of the Board of Directors held on September 26, 2017, the Company passed a resolution regarding “Independence Standards for Outside Officers” as follows.  
“Independence Standards for Outside Officers”

When an outside officer (outside director and outside corporate auditor) of the Company does not fall under any of the following cases, he or she is judged independent from the Company.

1. A major shareholder of the Company (meaning a shareholder who holds either directly or indirectly 10% or more of the total voting rights of the Company at the end of the most recent fiscal year), or an executing person thereof.
2. A person belonging to or an executing person of a company of which the Company is a major shareholder (holding 10% or more of the total voting rights of the company at the end of the most recent fiscal year.)
3. A major business partner of the Company (whose annual transaction with the Company exceeds 2% of the consolidated net sales of the Company during the most recent fiscal year), or an executing person thereof.
4. A major lender to the Company (whose outstanding loans to the Company at the end of most recent fiscal year exceeds 2% of the consolidated total net assets of the Company), or an executing person thereof.
5. A representative or an employee who belongs to the audit corporation that is the accounting auditor of the Company.

6. A consultant, legal professional, certified public accountant, tax accountant, or other person providing a specialist service who received 10 million yen or more of monetary consideration or other properties per year from the Company other than officer remuneration in the most recent fiscal year (referring to a person belonging to the organization if the one who received the relevant property is an organization such as corporation and association.)
7. A person who received the annual total of 10 million yen or more of donations or aid funds from the Company in the most recent fiscal year (referring to an executing person who belongs to the organization if the one who received the relevant donations or aid funds is an organization such as corporation and association.)
8. A person who falls under any of 1 to 7 above in the past three years
9. A person whose close relative falls under any of 1 to 8 above.

(Note1.)An executing person refers to an executive director, executive officer, corporate officer, or staff executing business of an entity

(Note2.)A close relative means a relative within the second degree of kinship

Even if a person falls under any of the above criteria, such person maybe elected as a candidate for independent outside officer if the person satisfies the requirements of an outside director or an outside corporate auditor under the Companies Act, has specialization and experience necessary in view of the Company's current situations and his/her knowledge and viewpoint are judged to be beneficial to the Company's management, on the condition that the Company provides explanations to shareholders of the reasons of its judgement and the fact that the person satisfies the requirements of an independent outside officer.

#### **Principle 4.10 Use of Optional Approach**

**In adopting the most appropriate organizational structure (as stipulated by the Companies Act) that is suitable for a company's specific characteristics, companies should employ optional approaches, as necessary, to further enhance governance functions.**

To improve governance functions, the Company has established the Officers Evaluation Committee responsible for preparing drafts for evaluation, personnel affairs, and compensation of directors and executive officers, as well as the Disclosure Committee, Compliance Committee, internal Control Committee, Security Trade Control Committee, Investment Examination Committee, and other committees. When executing business operations, each committee examines relevant matters, gives advice as necessary, and provides the Management Committee and the Board of Directors with its opinions.

#### **Supplementary Principles**

**4.10.1 If the organizational structure of a company is either Company with Kansayaku Board or Company with Supervisory Committee and independent directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from independent directors in the examination of such important matters as nominations and remuneration by, for example, establishing optional advisory committees under the board to which independent directors make significant contributions.**

With regard to the election, evaluation, and compensation of executive officers and directors, the Company has established the Officers Evaluation Committee, a body chaired by the President and composed of members that include outside directors, to perform evaluation of the directors and executive officers' performance including self-evaluation and mutual evaluation for all directors and executive officers. Upon receiving the results of the evaluation, the Election Sub-Committee within the Officers Evaluation Committee prepares a draft for the composition of the management members for the following fiscal year, and the Compensation Sub-Committee prepares a draft for monthly compensation as regular fixed salary for each internal director and a draft formula for calculating each internal director's bonus directly linked to profits. The Company believes that the introduction of peer review process for evaluating performance has improved the objectivity of evaluation.

#### **Principle 4.11 Preconditions for Board and Kansayaku Board Effectiveness**

**The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity and appropriate size. In addition, at least one person who has appropriate expertise on finance and accounting should be appointed as kansayaku. The board should endeavor to improve its function by analyzing and evaluating effectiveness of the board as a whole.**

The Company develops its business in a wide range of fields and assigns internal directors well versed in each field to fit business balance. With respect to outside directors, personnel who excel in their respective specialized fields of administration, management, legal affairs, etc. are elected. Some of the corporate auditors elected by the Company are persons who have previously worked for banks and are well versed in finance. The Company believes that these persons benefit the Company's efforts to improve governance in substance rather than in form.

In addition, the Board of Directors endeavors to improve its functions in consideration of the evaluations of individual directors and the views expressed by corporate auditors.

#### **Supplementary Principles**

##### **4.11.1 The board should have a view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size. Consistent with its view, the board should establish policies and procedures for nominating directors and disclose them along with its view.**

The Board of Directors of the Company is composed of three outside directors and eleven internal directors. Internal directors include the President, seven directors in charge of the Steel Division, one director in charge of the Metals and Alloys Division, one director in charge of the Food Products Division and Petroleum and Chemicals Division, and one director in charge of administrative departments, all of whom administrate management and oversee business execution by taking advantage of their rich knowledge and experience. With regard to the size of the Board of Directors, since the introduction of an executive officer system in 2012, the Company reduced the number of members from twenty-one to fifteen (a decrease of seven members) as of the end of June 2017. The Company will further promote the delegation of operational authority to executive officers and strive to set the size of the Board of Directors at an appropriate level while considering the balance of the directors' assignments to each department and the continuity of the duties under their charge, from a standpoint of strengthening oversight functions over management.

##### **4.11.2 Outside directors, outside kansayaku, and other directors and kansayaku should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and kansayaku also serve as directors, kansayaku or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.**

Concurrent positions of other internal directors and internal corporate auditors are limited to officer positions within the Company Group. The Company considers it desirable for its directors and corporate auditors to concentrate their attention and devote their efforts towards the Company. There may be cases, however, where their concurrent service as directors or corporate auditors at other listed companies expands their knowledge and consequently has positive influences on their managerial judgments at the Company. The Company does not disallow their concurrent service unless they are overburdened with concurrent positions.

Although Ryuji Hori, Outside Director, concurrently serves as outside director of Riskmonster.com, and outside director of T&D Holdings, Inc., and Tatsuya Tejima, concurrently serves as outside director of Furukawa Co., Ltd., there are no special transaction relations between the above companies and the Company.

##### **4.11.3 Each year the board should analyze and evaluate its effectiveness as a whole, taking into**

**consideration the relevant matters, including the self-evaluations of each director. A summary of the results should be disclosed.**

Within the scope of business delegated by the Board of Directors, the Company has designed an organizational structure under which a policy is decided mainly at a Management Committee consisting of all of the executive officers and attended by inside corporate auditors, business is executed, and the execution of business is overseen by the Board of Directors. Internal directors providing advice based on their deep business insight backed by rich experience and outside directors providing objective advice based on expertise in their respective fields oversee the execution of business through the Board of Directors. Therefore, the Company believes that effective oversight over management has been achieved.

In addition, the Company introduced the self-evaluation and peer review system for directors since 2004 (and included the executive officers into these systems in 2012). Not only corporate auditors confirm the effectiveness of the Board of Directors on a daily basis by attending the Board of Directors meetings, holding hearings with business departments, and exchanging opinions with the Internal Audit Department, but the Company is also currently considering a system to evaluate the Board of Directors by the Board of Corporate Auditors. Since a company with Board of Corporate Auditors is deemed to be a structure whereby the Board of Directors' decision-making and execution of business are overseen and audited by the Board of Corporate Auditors, the evaluation system will be sponsored by the Board of Corporate Auditors, in accordance with this principle,, will be determined by the Board of Corporate Auditors based on self-evaluation by inside/outside directors.

#### **Principle 4.12 Active Board Deliberations**

**The board should endeavor to foster a climate where free, open and constructive discussions and exchanges of views take place, including the raising of concerns by outside directors.**

The Company has endeavored to set an appropriate size for the Board of Directors since the introduction of the executive officer system, in order to facilitate active discussion at the Board of Directors meeting.

#### **Supplementary Principles**

##### **4.12.1 The board should ensure the following in relation to the operation of board meetings and should attempt to make deliberations active:**

- i) Materials for board meetings are distributed sufficiently in advance of the meeting date;**
- ii) In addition to board materials and as necessary, sufficient information is provided to directors by the company (where appropriate, the information should be organized and/or analyzed to promote easy understanding);**
- iii) The schedule of board meetings for the current year and anticipated agenda items are determined in advance;**
- iv) The number of agenda items and the frequency of board meetings are set appropriately; and**
- v) Sufficient time for deliberations.**

- i) Materials for board meetings are distributed sufficiently in advance of the meeting date;

Materials for the Board of Directors meeting are distributed three business days before the meeting. Since most agenda items of the Board of Directors meetings are deliberated at the Management Committee prior to the Board of Directors meetings, the Company distributes the materials for the Management Committee to the outside directors and outside corporate auditors at the timing of the Management Committee, and thereby makes efforts to compensate for the short lead time between the distribution of materials for the Board of Directors meeting and the meeting date.

- ii) In addition to board materials and as necessary, sufficient information is provided to directors by the Company (where appropriate, the information should be organized and/or analyzed to promote easy understanding);

As mentioned above, all of the materials for the agenda items of the Management Committee are distributed to the outside directors and outside corporate auditors to provide information, while questions and requests for explanations with regard to individual items are handled by the relevant divisions.

- iii) The schedule of board meetings for the current year and anticipated agenda items are determined in

advance;

The schedule for the Board of Directors meetings over the next half is determined at least six months before the beginning month in order to arrange an easily adjustable schedule. With respect to agenda items, a rough timeline is determined for items related to settlement and items stipulated in laws and regulations, but since many spot agenda items arise, and the scheduling for agenda items are difficult to estimate in advance.

iv) The number of agenda items and the frequency of board meetings are set appropriately;

The time allotted for a meeting is half a day, in principle, but this period is generally extended to complete deliberations as necessary without adjusting the number of agenda items, chiefly because the respective agenda items have inherent circumstances and urgency. The Board of Directors meeting is in principle held once a month, and twice in the months when quarterly financial results are announced.

v) Sufficient time for deliberations.;

As mentioned above, because the time allotted for a meeting is in principle half a day and extended as necessary, the Company believes that sufficient time for deliberations is secured.

#### **Principle 4.13 Information Gathering and Support Structure**

**In order to fulfill their roles and responsibilities, directors and kansayaku should proactively collect information, and as necessary, request the company to provide them with additional information.**

**Also, companies should establish a support structure for directors and kansayaku, including providing sufficient staff.**

**The board and the kansayaku board should verify whether information requested by directors and kansayaku is provided smoothly.**

If there is anything uncertain or unclear in the various materials provided by the Company, the directors and the corporate auditors act to acquire additional information or additional explanations to enable them to form their own judgments appropriately. If the Company is requested to provide additional information, it will appropriately handle the request. In addition, the Company has the Secretarial Office for directors and an employee appointed as a secretariat for corporate auditors from the Corporate Planning Department work to make adjustments with each relevant division when addressing requests from directors and requests from corporate auditors, respectively.

#### **Supplementary Principles**

**4.13.1 Directors, including outside directors, should request the company to provide them with additional information, where deemed necessary from the perspective of contributing to transparent, fair, timely and decisive decision-making. In addition, kansayaku, including outside kansayaku, should collect information appropriately, including the use of their statutory investigation power.**

If there is anything uncertain or unclear regarding the contents of materials, etc. provided by the Company for the Board of Directors meeting, directors, including outside directors, do not hesitate to request additional material and additional information, and the Company appropriately responds to such requests to provide additional information. The Company takes due measures to enable outside directors to attend a Sales Committee jointly held by all departments once every month and to grasp the conditions of business execution. In addition, the Board of Corporate Auditors additionally requests necessary information and requests the relevant persons to give explanations based on the authority of the corporate auditors. The Company instructs the provision of information conducive to audits through the Internal Audit Department and Legal Department and otherwise takes appropriate measures.

**4.13.2 directors and kansayaku should consider consulting with external specialists at company expense, where they deem it necessary.**

If the directors and corporate auditors determine it to be necessary to consult with external specialists in order to fulfill their roles and responsibilities, the Company does not hesitate to appoint external specialists at the Company's expense within an appropriate scope.

**4.13.3 Companies should ensure coordination between the internal audit department, directors and kansayaku. In addition, companies should take measures to adequately provide necessary information to outside directors and outside kansayaku. One example would be the appointment of an individual who is responsible for communicating and handling requests within the company such that the requests for information about the company by outside directors and outside kansayaku are appropriately processed.**

The Company's Internal Audit Department is under the direct control of the Management Committee and regularly submits audit reports to the directors and corporate auditors.

With regard to the provision of information to outside directors and outside corporate auditors, the Company appoints a person responsible for contact and adjustment for outside directors from the Secretarial Office, and for outside corporate auditors from the Corporate Planning Department, respectively, and takes necessary measures.

#### **Principle 4.14 director and Kansayaku Training**

**New and incumbent directors and kansayaku should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills. Accordingly, companies should provide and arrange training opportunities suitable to each director and kansayaku along with financial support for associated expenses. The board should verify whether such opportunities and support are appropriately provided.**

It is needless to say that the directors and corporate auditors should endeavor to acquire and deepen their knowledge and skills as necessary to fulfill their roles and responsibilities. The Company believes that it has selected personnel who can discern skills that are needed, skills that are lacking, and skills that must be strengthened, and accordingly strive for self-improvement as directors and corporate auditors. With regard to support for training, the Company provides guidance for new directors and corporate auditors when they assume their positions and distributes materials for the Management Committee as information on the Company's management operations and business trends to enable every outside director and outside corporate auditor to perform appropriate monitoring operations. In addition, the Company encourages the directors and corporate auditors to proactively visit domestic and overseas group companies and other investees in order to understand the current situations and issues facing the Company Group. Furthermore, the Company provides the outside directors with opportunities to attend an internal Sales Committee meeting and receive meeting materials. With regard to amendments to laws and regulations and other matters that affect managerial judgment in management activities and the monitoring thereof, the Company provides opportunities for training by holding internal study sessions and, when necessary, by recommending that outside directors attend external training sessions.

#### **Supplementary Principles**

**4.14.1 Directors and kansayaku, including outside directors and outside kansayaku, should be given the opportunity when assuming their position to acquire necessary knowledge on the company's business, finances, organization and other matters, and fully understand the roles and responsibilities, including legal liabilities, expected of them. Incumbent directors should also be given a continuing opportunity to renew and update such knowledge as necessary.**

When the directors and the corporate auditors assume their positions, the Company provides guidance on essential information and points they are required to know and introduces and arranges any outside lectures, materials, etc. that the Company recommends that they attend or study. In addition, in the event of any amendments to laws and regulations, accounting standards, etc. that affect management, the Company will explain the details at the Management Committee, Board of Directors meeting, and other meetings.

**4.14.2 Companies should disclose their training policy for directors and kansayaku.**

With regard to training for management administration and oversight that directors and corporate auditors require to perform monitoring and management activities other than those in the specialized fields of business relating to the execution of duties by internal directors, the Company provides guidance for

directors and corporate auditors when they assume their positions, provides internal study sessions on amendment to laws and regulations, etc. that significantly affect management, and recommends that they attend external training, etc. as necessary.

In addition, the Company provides external directors with opportunities to attend monthly joint meetings of sales departments to enable them to understand the status of the business operations of the Company. The Company also distributes Management Committee materials to outside directors and outside corporate auditors, and thereby promotes the provision of information on matters conducive to managerial judgments other than agenda submitted to the Board of Directors meetings. In addition, the Company proactively encourages outside directors to visit domestic and overseas group companies and investees, and thereby provides the outside directors with opportunities to understand the current situation of the Group.

With regard to the provision of further training opportunities and financial support for associated expenses, the Company examines the necessity therefor and judges the adoption or rejection each time training is requested.

## Section 5: Dialogue with Shareholders

### General Principle 5

**In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting.**

**During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.**

The Company proactively works on IR activities for institutional investors and, in addition to quarterly financial results briefings, participates in small meetings for business briefings, conferences hosted by securities companies, and overseas roadshows as far as practicable. The details of meetings with investors, investor trends, etc. are regularly reported to the directors for their perusal when management policies, dividend policy, etc. are examined.

### Principle 5.1 Policy for Constructive Dialogue with Shareholders

**Companies should, positively and to the extent reasonable, respond to the requests from shareholders to engage in dialogue (management meetings) so as to support sustainable growth and increase corporate value over the mid- to long-term. The board should establish, approve and disclose policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders.**

The Company has a structure in which the Corporate Planning Department is in charge of IR activities and promotes the activities in cooperation with the Finance Department, Accounting Department, other administrative departments, and sales departments. The Company proactively conducts dialogue with investors and may approach investors to provide meetings, in addition to meetings requested by investors. The Company thinks of IR activities as opportunities to provide investors with materials that help them to deepen their understanding about the Company's actual business conditions and revenue structure and judge the Company's growth potential and future prospects. Going forward, the Company will aggressively strive for stronger ties with investors accordingly.

### Supplementary Principles

**5.1.1 Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management and directors, including outside directors, should have a basic position to engage in dialogue (management meetings) with shareholders.**

Dialogue with shareholders is conducted by the General Manager or an employee in charge of the

Corporate Planning Department in charge of IR. The President may participate in small meetings with institutional investors and overseas roadshows. In addition, upon receiving requests from investors at individual meetings, the senior management and directors will respond to the extent practicable.

**5.1.2 At minimum, policies for promoting constructive dialogue with shareholders should include the following:**

- i) Appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place, including the matters stated in items ii) to v) below;**
- ii) Measures to ensure positive cooperation between internal departments such as investor relations, corporate planning, general affairs, corporate finance, accounting and legal affairs with the aim of supporting dialogue;**
- iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities);**
- iv) Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board; and**
- v) Measures to control insider information when engaging in dialogue.**

- i) Appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place

The Company operates IR under control of the director in charge of overall administrations. Operation is supported by president, directors and executive officers in administrative departments and sales departments as necessary depending on the theme of IR.

- ii) Measures to ensure positive cooperation between internal departments such as investor relations, corporate planning, general affairs, corporate finance, accounting and legal affairs with the aim of supporting dialogue;

Major IR operations are conducted by an employee in charge of IR in the Corporate Planning Department who studies responsive measures in cooperation with, and create consensus between, internal departments such as the Accounting, Finance, Legal& Credit, General Affairs etc. according to the themes of settlement, capital policy, legal regulations, governance, CSR, etc.

- iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities);

In addition to financial results briefing sessions held twice a year, the Company participates in small meetings for business briefing, domestic and overseas conferences hosted by securities companies, and overseas roadshows. In addition, the Company makes arrangements to mediate visits to its domestic and overseas offices upon the request of its investors.

- iv) Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board

The Company distributes to senior management a report on topics taken up at meetings with investors every week during IR periods after financial results announcement. The Company also reports to the Management Committee on the latest investor trends when it reports the results of its research to identify shareholders twice a year. In addition, the Company reports IR activities to the Board of Directors four times a year.

- v) Measures to control insider information when engaging in dialogue.

To prevent the leakage of financial results information and ensure fairness, the Company in principle sets the three-week period before the date of financial results announcement (including quarterly results) as a quiet period during which the Company withholds information disclosure on financial results, the exchange of relevant comments, responses to related inquiries, etc. In addition, before opening of IR periods, the results of analyses of the details of settlement are shared among the administrative departments that settle the details of the information to be provided to investors. In principle, two or more employees of the Company conduct a meeting with an investor so as to avoid the leakage of insider information to specific interviewers.



**5.1.3 Companies should endeavor to identify their shareholder ownership structure as necessary, and it is desirable for shareholders to cooperate as much as possible in this process.**

The Company confirms the shareholders on the shareholders register every half and researches beneficial shareholders at the end of every March and September, in order to grasp the actual composition of shareholders and to use that information for planning targets for its IR activities.

**Principle 5.2 Establishing and Disclosing Business Strategy and Business Plan**

**When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policy, and present targets for profitability and capital efficiency. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources and specific measures that will be taken in order to achieve their plans and targets.**

The Company formulates and discloses a medium-term business plan spanning generally three-year periods. Contents incorporated in the plan vary depending on management issues and the directions to which the Company should strive each time. The Company's objectives, business activities and measures to be promoted are disclosed to an extent that does not affect specific activities, and a summary version prepared for release is posted on the Company's website together with presentation slides.