

Corporate Governance Report

April 2, 2021

President & Chief Executive Officer
Senior Executive Officer and
General Manager, Admin. Dept.

MonotaRO Co., Ltd.
Masaya Suzuki
Tetsuya Koda

The corporate governance of MonotaRO (hereinafter “the Company”) is as follows.

I. Basic Policy on Corporate Governance and Capital Structure, Corporate Attribute, and Other Basic Information

1. Basic Policy

The Company recognizes that it is important to ensure the soundness and transparency as well as agility and efficiency of the management so as to respond to expectations and trusts of all stakeholders including shareholders and to improve corporate value. Corporate governance is a system that supports our business operations from the standpoint of those above; therefore, the Company seeks to enhance and enrich the corporate governance.

【Reasons for Non-compliance with the Principles of the Corporate Governance Code】

[Supplementary Principles 1.2.4 (Creation of an infrastructure allowing electronic voting and of English translation of the convening notices of general shareholder meeting)]

The Company does not use the Electronic Voting Platform since the Company adopts exercise of voting rights both in writing and through Internet. The Company has started preparing translation of the convening notice into English since March 2017.

[Supplementary Principles 4.14.2 (Training Policy for the Board Members)]

Each director is nominated and approved by the shareholders based upon the decision on whether she or he possesses sufficient ability, experience, and knowledge for executing the duties, and it does not need to be provided or arranged any opportunities for additional training. Therefore, the Company does not have plans on establishing any training policies. However, the Company provides, for instance, detailed information on management strategies and businesses and opportunity to visit distribution centers which are necessary for making decisions when directors assume their tasks.

【Disclosures Based upon the Principles of the Corporate Governance Code】

[Principle 1.4 (Policy for cross-shareholdings)]

Cross-shareholdings policy

The Company currently has no cross-shareholdings and will not have cross-shareholdings unless it is recognized to contribute to improving the corporate value of the Company for mid-to-long term.

In case the Company has cross-shareholdings, it appropriately exercises its voting rights based upon the decision on whether the exercise leads the entity issuing shares to the sustainable growth and to the improvements of the corporate value for mid-to-long term.

[Principle 1.7 (Related Party Transactions)]

The Company requires that the competitive work and conflict of interest transaction between the Company and Directors or Executive Officers be approved by the Board of Directors. The terms and conditions are determined through the appropriate procedures in order to prevent the harm of the interests of the Company and the common interests of its shareholders, and they are disclosed and monitored by the Board of Directors.

[Principle 2.6 (Demonstration of the Function of Corporate Pension Asset Owner)]

The Company does not have a company pension plan and hence does not manage a fund for corporate pensions.

[Principle 3.1 (Full Disclosure)]

The Company discloses appropriately in accordance with the relevant laws and regulations for itself to be correctly understood by all stakeholders and to accomplish the sound development. Furthermore, even if it is not stipulated by any laws or regulations, the Company actively and continuously discloses information influencing investors' decisions.

(1) Mission and Principles and Business Strategies

Mission and Principles: it is referred to the website of the Company.

Japanese (<https://www.monotaro.com/main/comp/philosophy/>)

English (https://corp.monotaro.com/en/ir/management/management_02.html)

Business strategy: it is referred in the explanatory material on the quarterly financial statements.

(2) Basic Point of View and Policy of Corporate Governance

It is referred on the website of the Company or in the Annual Securities Report.

Japanese (<https://www.monotaro.com/main/comp/governance/>)

English (<https://corp.monotaro.com/en/ir/cg/index.html>)

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(3) Policy and Procedures for Determination of Management and Board Members Compensation

It is referred on the website of the Company.

Japanese (<https://www.monotaro.com/main/cmpy/governance/>)

English (<https://corp.monotaro.com/en/ir/cg/index.html>)

(4) Policy and Procedures for Appointing and Dismissing Candidates for the Board and Executive Officer Member

The Company has adopted “Company with Committees” system. Therefore, the Nomination Committee determines the contents of proposals regarding the election and dismissal of the Directors and the Shareholders Meeting resolves the proposals. Executive Officers are appointed or dismissed by the resolution of the Board of Directors. Executive Officers are appointed along with the nomination of the accompanying significant responsibilities. In case of the nomination for Directors and the election for Executive Officers, those who are eligible for the standards listed below.

(Standard for Election of Candidates for Internal Directors)

- a. Those who have expertise of the business of the Company;
- b. Those who have incredible abilities of the managerial judgement and execution of operation;
- c. Those who have incredible abilities of leadership, decision-making, foresight, and planning;
- d. Those who have a suitable personality and insight for directors of the Company; and
- e. Those who have no health problems to execute their responsibilities as directors.

(Standard for Election of Candidates for Outside Directors)

- a. Those who maintain the independence stipulated in the following ‘Criteria for Judging the Independence of Candidates for Outside Directors;’
- b. Those who have a suitable personality and insight for outside directors of the Company; and
- c. Those who have no health problems to execute their responsibilities as outside directors.

(Criteria for Judging the Independence of Candidates for Outside Directors)

If the candidate for Outside Director does not fall under any of the following, the Company determines that the candidate is independent.

- 1) Executives of the Company, its subsidiaries, its parent company, or its siblings (subsidiaries of its parent company);
- 2) Directors or corporate auditors of the parent company or subsidiary of the Company;
- 3) Those or the executive officer of an entity whose main business customer is the Company (a person or an entity who has received 2% or more of annual consolidated sales from the Company or a subsidiary of the Company during the most recent fiscal year);
- 4) A main customer or the executive officer of an entity who is the Company's main business customers (a person or an entity who has paid 2% or more of the Company's annual consolidated sales for the most recent fiscal year to the Company or its subsidiaries);
- 5) Executives of the company to which the Company or its subsidiaries dispatch directors;
- 6) The consultant, accounting professional, or legal professional who has earned an average of 10 million yen or more per year over the past three years, in addition to executive compensation, from the Company or its subsidiaries;
- 7) Those who fall under any of the above (1) to (6) in the past 5 years;
- 8) A person who has been an executive of the Company or a subsidiary of the Company in the past; and
- 9) The spouse or relative within second degree of the person listed in (1) to (8) above.

(Standard for Election of Candidates for Executive Officers)

- a. Business professional experience in fields;
 - a) Technology and marketing
 - b) International operation
 - c) Logistics and supply chain
 - d) Finance and accounting
 - e) Law and intellectual property
- b. Curiosity and imagination for creating better services;
- c. Challenge spirit and diligent work for execution; and
- d. Respectful communication and leadership for creating good culture in the world.

In case that it is deemed that directors and executive officers violate law or article of incorporation, the Nomination Committee may deliberate dismissal.

(5) Explanation on Election and Dismissal of Management and Nomination of Directors

The reasons for the appointment of each individual director is disclosed in the Notice of Convocation of the General Meeting of Shareholders at the time when the bill on the appointment is submitted to the Meeting. Elections of Executive Officers are determined based upon individual work experience and knowledge and upon the policies described in (4) above. The backgrounds of Directors and Executive Officers information are disclosed in the Annual Securities Report.

If a Director or Executive Officer commits an act that violates laws, regulations, the Articles of Incorporation, etc., a decision on the dismissal of the Director will be deliberated, and a resolution on the dismissal of the Executive Officer will be made.

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[Supplementary Principles 4.1.1 (Clarification of the Role of the Board of Directors and the Scope of Delegation to Management)]

The Board of Directors sets the strategic direction of the Company, welcomes proposals based upon sound entrepreneurship from the management team consisting of the Representative Executive Officer, other Executive Officers, and department General Managers, and sufficiently examines such proposals through multi-aspects from the independent and objective perspective with the aim for securing accountability. When the proposal is executed, the Board of Directors supports and monitors the execution effectively.

In addition, the Company has selected a company system with the Nomination Committee, etc. in order to maintain management transparency by separating business execution and supervision. Executive Officers, entrusted by the Board of Directors, execute the operations, and the Board of Directors supervises the business execution by Executive Officers.

[Principle 4.9 (Independence Standards and Qualification for Outside Directors)]

The Company elects independent outside directors according to the Company's own rule set based upon the independence criteria stipulated by Tokyo Stock Exchange.

[Supplementary Principle 4-11-1 (Views and Procedures on Diversity and Appropriate Size of the Board of Directors)]

The number of Directors should not exceed 10 to secure sufficient discussion, and more than a half of the Board members should be elected as the independent outside directors. In addition, the Company elects persons who have a high expertise and experiences among various professions and secures the system that the Directors can have insightful discussions with diversity.

[Supplementary Principles 4.11.2 (Situation of Directors Who Concurrently Serve as Directors of Other Companies)]

The Company discloses the situation of Directors who concurrently serve as directors of other companies in the convening notices and in the Annual Securities Report. Moreover, the Company elects the candidates after the confirmation that there are no difficulties with the work time spent for the Company.

[Supplementary Principles 4.11.3 (Analysis and Evaluation of the Effectiveness of the Board of Directors)]

The Company evaluates the effectiveness of the Board of Directors as a whole at least once a year at a Board Meeting. Based upon the results of the evaluation, the Directors hold discussions on how to further enhance the function of the Board of Directors and disclose the contents if necessary.

The following is the summary of results and analysis of the effectiveness evaluation of the Board of Directors conducted in the fiscal year of 2020.

The effectiveness of the Board of Directors of the Company are analyzed and evaluated based upon the self-evaluation of each Director. The Company's Board of Directors ensures the diversity of the members. With the enough supports for Board of Directors, lively discussions are maintained, and the evaluation concludes that the overall effectiveness is assured. In the future, the matters to continue to consider include the way of discussion for mid-to-long term strategy and continuous consideration for steering method of the Board of Directors. Based upon the results of analysis, efforts for further increase in effectiveness are to be promoted.

[Principle 5.1 (Policy for Constructive Dialogue with Shareholders)]

In order to maintain the sustainable growth and to increase corporate value over the mid-to-long term, the Company recognizes the importance of engaging in constructive dialogue with shareholders on a regular basis. The Company, therefore, established the IR system centering on the Executive Officer and General Manager of Administration Department and IR/PR Group, and, while managing insider information, conducted dialogues with shareholders and investors positively to the reasonable extent in order to have the Company understood deeper. As a means of the dialogue other than individual meetings, the Company holds explanation meetings for analysts twice a year and a seminar for individual investors once or more a year. In addition, the Company establishes the system that the opinions and concerns from shareholders or investors through the discussions are reported to the management from the department in charge of IR on a timely basis.

2. Capital Structure

Foreign Shareholding Ratio	30% or more
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[Status of Major Shareholders]

Name or Name of Institution	Number of Shares Owned (Share)	Ratio (%)
GRAINGER GLOBAL HOLDINGS, INC.	125,056,000	50.34
THE MASTER TRUST BANK OF JAPAN, LTD. (Trust Account)	11,451,500	4.61
SSBTC CLIENT OMNIBUS ACCOUNT	8,500,376	3.42
Custody Bank of Japan, Ltd. (Trust Account)	5,949,400	2.39
J.P.MORGAN BANK LUXEMBOURG S.A. 384513	4,106,701	1.65
J.P.MORGAN CHASE BANK 385632	2,650,161	1.07
STATE STREET BANK WEST CLIENT – TREATY 505234	2,600,800	1.05
Custody Bank of Japan, Ltd. (Trust Account 5)	2,221,800	0.89
STATE STREET BANK AND TRUST COMPANY 505103	2,114,081	0.85
Custody Bank of Japan, Ltd. (Trust Account 7)	2,035,700	0.82

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Existence of controlling shareholder (excluding parent company)	-----
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Parent company (present or not)	W.W. Grainger, Inc. (listed: overseas, code N/A)
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Supplementary Explanation

The Company is the consolidated subsidiary of W. W. Grainger Inc. (hereinafter "Grainger"), whose core business is selling indirect materials and consumables for maintenance, repair, and operation (MRO) to work places in the United States.

Grainger, that is, indirectly owns 50.34% of the Company's voting rights through Grainger International, Inc. and Grainger Global Holdings, Inc.. One Grainger employee is also the Director of the Company. The Company operates in cooperation with Grainger and its group companies while maintaining operational independence.

The Company purchases some products from Grainger and sells some products to Grainger group companies.

3. Company Attributes

Listed Exchanges and Market Division	Tokyo Stock Exchange Section 1
Fiscal Term	December
Industry Category	Retail
(Consol.) Number of employees at the end of the previous fiscal year	500 or more and less than 1000
(Consol.) Sales for the previous fiscal year	More than 100 billion yen and less than 1 trillion yen
Number of subsidiaries at the end of the previous fiscal year	Less than 10

4. Guidelines on Measures to Protect Minority Shareholders when Conducting Transactions with Controlling Shareholders

In order to ensure that the Company can make its own management decisions, the Company maintains the number of directors who concurrently serve as officers or employees of the parent company less than half in the composition of the Board of Directors, and there is two such Directors.

5. Other Exceptional Circumstances Having Significant Impacts on Corporate Governance

- (1) Restrictions, risks, and benefits of being affiliated to a corporate group such as the parent company's, and impacts on management and business activities result from transaction and human and capital relations with the parent company and the parent company's group companies.

The Company conducts its business cooperating with the parent company and the parent group companies, while maintaining management independence. Out of seven Directors of the Company, two employees of the parent company serve as Directors; however, it is not anticipated that such concurrent status affects the independence of the Company's management. The Company sells products to and purchases from the parent company and the parent company's group companies, but the transaction amount is deemed small, and the Company does not depend heavily on such transaction.

- (2) Views for ensuring a certain degree of independence from the parent company, etc., and measures for the independence.

The Company conducts its business in relation to the parent company and its group companies on the basis of maintaining the independence of business operations and transactions. As of the filing date of this report, the Board of Directors consists of seven Directors; two employees of the parent company, four Outside Directors, and one Inside Director. The parent company employee ratio in the Board is two-seventh, and it is not anticipated that this concurrent position affects the independence of the Company's management.

- (3) Situation of maintaining a certain level of independence from the parent company, etc.

The Company conducts its business in relation to the parent company and the parent company's group companies on the basis of maintaining the independence of business operations and transactions. As of the filing date of this report, there are two Directors concurrently serves as employees of the parent company, and this does not hinder the Company's own management decisions. The Company recognizes that a certain degree of independence from the parent company has been maintained due to the facts that the Company's current transactions with the parent company and with the parent company's group companies are small and that the Company does not heavily depend on such transactions.

II. Status of Organization for Business Management and Other Corporate Governance Systems related to Business Decision-making, Execution and Supervision

1. Facts concerning Organizational Structure, Organizational Operation, etc.

Organizational form	Company with the Nomination Committee, etc.
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[Directors]

Number of Directors stipulated in the Articles of Incorporation	10
Term of office of Directors stipulated in the Articles of Incorporation	1 year
Chairman of the Board of Directors	Chairman of the Company (unless serving as President)
Number of Directors	7

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[Outside Directors]

Number of Outside Directors	4
Number of Outside Directors designated as an Independent Officer among the Outside Directors	4

Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Haruo Kitamura	Certified Public Accountant											
Masahiro Kishida	From Another Company											
Tomoko Ise	Lawyer											
Mari Sagiya	From Another Company											

* Selection items for relationship with the company

* “○” if the person corresponds to each item “current / recent;” “△” if she or he does “past.”

* “●” if relatives correspond to each item “current / recent;” “▲” if they do “past.”

a. Executive of a listed company or its subsidiaries

b. Executive or non-executive director of the parent company of a listed company

c. Executive of a listed company's brother company

d. Individual or executive of an entity whose main business partner is a listed company

e. Main business partner or executive of a main business partner of a listed company

f. Consultant, accounting professional, or legal professional who receives large amounts of monetary compensation or other property from a listed company in addition to executive compensation

g. Listed company's major shareholder (or, if the major shareholder is a legal entity, the executive of the legal entity)

h. Executive of the listed company's business partner (one that does not fall under any of d, e, and f, herself / himself only)

i. Executive having a mutual appointment with an outside officer (herself/himself only)

j. Executive of a company to whom a listed company makes a donation (herself / himself only)

k. Other

Relationship with the Company (2)

Name	Committee Member			Independent Officer	Supplementary Explanation on Applicable Items	Reason for Appointment
	Nomination Committee	Compensation Committee	Audit Committee			
Haruo Kitamura	○		○	○	Independent Officer of the Company Chief, Kitamura Certified Public Accountants Office	Mr. Kitamura possesses professional knowledge and rich experience as a certified public accountant. The Company wishes to have the experiences utilized for its management; therefore, Mr. Kitamura has been appointed as the Outside Director. Mr. Kitamura attends the Board of Directors meeting with an independent standpoint and, by delivering appropriate opinions, bears the Board's overseeing function. Mr. Kitamura's assumption of the Outside Director meets the standard of the independence and is subject neither to additional disclosure requirements nor to matters which may cause conflict of interest with General Shareholders specified by the Tokyo Stock Exchange, where the Company's stock is listed. It is deemed therefore that Mr. Kitamura maintains independence, and he has been appointed as Independent Officer.
Masahiro Kishida	○	○		○	Independent Officer of the Company Representative in Japan, Russell Reynolds Associates Japan, Inc.	Mr. Kishida possesses expertise and a wealth of experience of corporate management and marketing measures. The Company wishes to have the experiences utilized for its management; therefore, Mr. Kishida has been appointed as the Outside Director. Mr. Kishida attends the Board of Directors meeting with an independent standpoint and, by delivering appropriate opinions, bears the Board's overseeing function. Mr. Kishida's assumption of the Outside Director meets the standard of the independence and is subject neither to additional disclosure requirements nor to matters which may cause conflict of interest with General Shareholders specified by the Tokyo Stock Exchange, where the Company's stock is listed. It is deemed therefore that Mr. Kishida maintains independence, and he has been appointed as Independent Officer.
Tomoko Ise			○	○	Independent Officer of the Company Counsel, TMI Associates	Ms. Ise possesses professional knowledge and extensive experience as a lawyer. The Company wishes to have the experiences utilized for its management; therefore, Ms. Ise has been appointed as the Outside Director. Ms. Ise attends the Board of Directors meeting with an independent standpoint and, by delivering appropriate opinions, bears the Board's overseeing function. Ms. Ise's assumption of the Outside Director meets

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						the standard of the independence and is subject neither to additional disclosure requirements nor to matters which may cause conflict of interest with General Shareholders specified by the Tokyo Stock Exchange, where the Company's stock is listed. It is deemed therefore that Ms. Ise maintains independence, and she has been appointed as Independent Officer.
Mari Sagiya		○	○	○	Independent Officer of the Company	Ms. Sagiya possesses professional knowledge and extensive experience as a top manager at multiple IT companies. The Company wishes to have the experiences utilized for its management; therefore, Ms. Sagiya has been appointed as the Outside Director. Ms. Sagiya attends the Board of Directors meeting with an independent standpoint and, by delivering appropriate opinions, bears the Board's overseeing function. Ms. Sagiya's assumption of the Outside Director meets the standard of the independence and is subject neither to additional disclosure requirements nor to matters which may cause conflict of interest with General Shareholders specified by the Tokyo Stock Exchange, where the Company's stock is listed. It is deemed therefore that Ms. Sagiya maintains independence, and she has been appointed as Independent Officer.

[Committees]

Composition of Each Committee and Attributes of Chairperson

	Total Member (Persons)	Full-time Member (Persons)	Internal Director (Persons)	Outside Director (Persons)	Chairperson
Nomination Committee	3	0	1	2	Outside Director
Compensation Committee	3	0	1	2	Outside Director
Audit Committee	3	0	0	3	Outside Director

[Executive Officers]

Number of executive officer	7
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Concurrent Positions

Name	Power of Representation	Concurrently Serving as Director			Concurrently Serving as Employee
			Nomination Committee	Compensation Committee	
Masaya Suzuki	Yes	Yes	No	No	No
Masato Kubo	No	No	No	No	Yes
Masaaki Hashihara	No	No	No	No	Yes
Tetsuya Koda	No	No	No	No	Yes
Kohei Shibagaki	No	No	No	No	Yes
Hiroki Yoshino	No	No	No	No	Yes
Hidetoshi Taura	No	No	No	No	Yes

[Audit System]

Directors and employees assisting duties of the Audit Committee	Yes
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Matters concerning the Independence of Directors and Employees from Executive Officers

The Company has selected the Internal Audit Office as "Matters concerning Directors and Employees to Assist the duties of the Audit Committee" as stipulated in Paragraph 1, Article 112 of the Ordinance for Enforcement of the Companies Act. The two-person-organization has been established to report the status of daily operations to the Audit Committee in a timely manner. For maintaining independence of employees of the Internal Audit Office, the personnel transfers, personnel evaluations, and salary revisions are determined in advance by consulting with the Audit Committee.

Status of Collaboration among the Audit Committee, Accounting Auditor, and Internal Audit Division

The audit firm reports the results of accounting audits at the times of the half-year and of the year-end and of the quarterly review, exchanges information and opinions as appropriate, and maintains close relationship with the Company. At the Company, the Internal Audit Office conducts internal audits for the entire company and carries out assisting duties for the Audit Committee, and the Audit Committee and Internal Audit Office conduct audits with close cooperation. Specifically, the Internal Audit Office reports the status of internal audits and the findings in the audits to the Audit Committee as appropriate. In addition, the Internal Audit Office and Internal Audit Committee, if necessary, share the problems concerning internal audits and the Audit Committee audits and mutually take necessary measures or make suggestions for improvement measures.

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[Related to Independent Officers]

Number of Independent Officers	4
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Other Matters concerning Independent Officers

[Incentive]

Status of implementation for granting incentives to Directors and Executive Officers	Implementation of Performance based compensation system, Other
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Supplementary explanation on applicable items

For compensation of Directors for those who do not concurrently serve as Executive Officers, only fixed compensation is paid in order to maintain independence and monitor management separately from business execution.

Company resolved, in a meeting of its Compensation Committee held on Feb 25, 2021, to introduce the Restricted Share-based Compensation plan (hereinafter "the Plan") as an incentive instead of Stock Option plan for its Executive Officers to continuously improve the corporate value and shareholder value for the mid to long-term.

Stock option grantees	
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Supplementary explanation on applicable items

[Compensation for Directors and Executive Officers]

Disclosure status (individual Director compensation)	Individually disclosed for a part of Directors.
Disclosure status (individual Executive Officer compensation)	Individually disclosed for a part of Executive Officers.

Supplementary Explanation on Applicable Items

Compensations paid to Directors and Executive Officers of the Company for the fiscal year ended December 31, 2020 are as follows;

Compensation paid to Internal Directors: 123 million yen

Compensation paid to Outside Directors: 28 million yen

Compensation paid to Executive Officers: 156 million yen

The amount of compensation, etc. includes the amount recorded as Directors' bonuses and stock option compensation.

A total of fourteen Officers are eligible for compensation. As of the end of the term, the fourteen Officers consists of eight Directors including five Outside Directors and of six Executive Officers, and one concurrently serves as Director and Executive Officer.

Policy for determining the amount of compensation or calculation method	Yes
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Disclosure of the Policy for Determining the Amount of Compensation or the Method of Calculation
(For Director)

Compensation of Director for those who do not concurrently serve as Executive Officers, only fixed compensation is paid in order to maintain independence and monitor management separately from business execution.

Determination of compensation is resolved by Compensation Committee. Resolution of compensation for the Director him/herself, applicable Director does not attend to resolution according to Compensation committee rule.

(For Executive Officers)

a. Basic principle for Compensation

Company design and handle Executive Officer's compensation according to following five Basic principles;

- Contribute to the continuous growth of the Company and the enhancement of corporate value over the medium to long term, and be consistent with the Company's corporate philosophy and code of conduct.
- A compensation system that is highly linked to business performance and strongly motivates the achievement of management strategies and company performance targets.
- The performance and medium- to long-term efforts should be reflected in the compensation of officers.
- To share profits and risks with shareholders and raise awareness of increasing shareholder value.
- The objectivity, transparency, and fairness that can be accountable to stakeholders are ensured through the deliberation process of the Compensation Committee.

b. Compensation composition

Compensation for Executive Officers of the Company consists of monthly compensation and stock compensation. The composition ratio is set based on the following concept in order to provide compensation that contributes to continuous growth and medium- to long-term improvement of corporate value.

- Set the ratio of variable compensation (monthly Performance based compensation, stock compensation) to the annual compensation amount so as to provide incentives for improving business performance and corporate value.
- Set an appropriate compensation composition ratio for each position.

c. Monthly compensation

Monthly compensation consists of fixed compensation and performance based compensation.

Fixed compensation shall be paid for the roles and responsibilities of each executive officer, and shall be paid according to the position and length of tenure in consideration of market standards and other factors.

Performance based compensation is determined based on the achievement rate of consolidated operating income comparing with plan and individual evaluation.

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d. Stock-based compensation

Stock compensation is positioned as an incentive to improve corporate value over the medium to long term and to raise awareness of value sharing with shareholders. Number of stock granted is determined based on the standard amount based on the position of executive officer and the growth amount of consolidated operating income. It is designed to be granted once a year as restricted stock and can be exercised after retirement.

e. Reward determination process

The Company is a company with a Nominating Committee, etc., and the compensation of executive officers is determined by the Compensation Committee. The Compensation Committee consists of three directors, including two outside directors.

The Retirement Benefits for Directors have been abolished by the resolution of the Compensation Committee on January 12, 2018, but the Retirement Benefits reserved until 2017 are to be paid at retirement.

[Support System for Outside Directors]

Although there is no dedicated staff to support the Outside Directors, Internal Directors and the Administration Department provide appropriate information.

2. Matters Related to Functions such as Business Execution, Auditing / Supervision, Nomination, and Compensation Decisions (Overview of Current Corporate Governance System)

Since the General Meeting of Shareholders held on March 29, 2006, the Company has transitioned to a company with committees (currently a company with nomination committees, etc.). The Company's corporate governance system is as follows;

(1) Corporate Governance System

a. Management Supervision Function

(a) Board of Directors

The Company is a company with a nomination committee, etc. The Board of Directors Meetings, as the highest decision-making body of management, are held at least nine times a year. The Board of Directors decides on important matters with the exclusive rights stipulated in the Article 416 of the Companies Act. The Board of Directors is composed of eight Directors, four of whom are Outside Directors. Outside Directors include one lawyer and one certified public accountant. The Company has established the following committees in the Board of Directors.

1) Nomination Committee

This committee is an organization which determines the contents of proposals for the appointment and dismissal of Directors, and the proposals are submitted to the General Shareholders Meetings. The Nomination Committee is composed of three Directors, including two Outside Directors.

2) Audit Committee

This committee is an organization which conducts the audit of the validity, legality, and adequacy of the business executions of Directors and Executive Officers and determines the contents of proposals for the appointment and dismissal of accounting auditors, and the proposals are submitted to the General Shareholders Meetings. This committee holds a meeting every month in principle and is composed of three Outside Directors, including one lawyer and one certified public accountant.

3) Compensation Committee

This is an organization which formulates the compensation guideline for Directors and Executive Officers and determines compensation for individuals. The committee is composed of three Directors, including two Outside Directors.

b. Function for Business Execution

(a) Representative Executive Officer and Executive Officer

The Company has appointed one Representative Executive Officer among the Executive Officers. The Representative Executive Officer represents the Company as the Chief Operating Officer and, based upon a resolution of the Board of Directors, performs the duties entrusted by the Board. In addition, the Representative Executive Officer is obliged to report and explain to the Board of Directors once a month on the statuses of business execution and of monthly-financial settlement. Executive Officers assist the Representative Executive Officer and are responsible for business executions.

(b) Executive Officers' Meeting

This meeting consists of Representative Executive Officers and Executive Officers and resolves important issues for business execution delegated by resolution of the Board of Directors by majority vote.

(c) Department General Managers' Meeting

The member of this meeting consists of Departments' General Managers. The meeting reports, discusses, and resolves important issues concerning business execution.

(2) Personnel, Capital, Business, or Other Interests between the Outside Directors and the Company

The Company has no special relationship with the Outside Directors, and hence the Company has no special interest in each Outside Director.

Outside Directors: Haruo Kitamura, Masahiro Kishida, Tomoko Ise, and Mari Sagiya

(3) Maintenance Status of Risk Management System

Regarding compliance (legal compliance), which is the foundation of Corporate Governance, the Compliance Training Manual and the Business Conduct Guidelines have been established, and, for risk management, the Risk Management Rule has been established, and all members including the top management and employees have been made to understand the Risk Management Rule.

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(4) Status of Accounting Audit

The Company's accounting audits were conducted by Certified Public Accountants Mr. Dai Matsuura and Ms. Miho Ueda, members of EY Ernst & Young ShinNihon LLC.

In addition, there are four certified public accountants and thirty one others having worked in accounting audit.

Audit fees to the audit firm of the Company for the fiscal year ended December 31, 2020 are as follows;

Audit fee: 29 million yen for audit certification

(5) Status of Improvement of the Functions of Auditor

Since the Company has adopted a company structure with a nomination committee, etc., it has the Audit Committee, and there are no applicable items.

(6) Liability limitation contract

Based upon the provisions of Paragraph 1, Article 427 of the Companies Act, the Company has entered into an agreement with Outside Directors to limit liability for damages under Paragraph 1, Article 423 of the said Act.

The maximum amount of liability for damages under the agreement is the total amount stipulated in each item of Paragraph 1, Article 425 of the said Act. The limitation of liability will be granted only if the Outside Director is in good faith and has no gross negligence in performing the duties that caused the liability.

3. Reasons for Choosing the Present Corporate Governance System

Corporate governance is understood as a fundamental framework for corporate management in relation to various stakeholders of the Company. The Corporate Governance at the Company is the organizational system to establish the structures regarding validity, legality, and disclosures appropriateness concerning the Company's decision-makings and business executions for meeting the trust and expectations of all stakeholders including shareholders and for increasing corporate value continuously.

Based upon this understanding, the Company considers that "separation of management supervision and business execution" is important for effective implementation of corporate governance, and the Company transferred to a company with committee (currently, a company with nomination committees, etc.) based upon the resolution at the General Shareholders Meeting held on March 29, 2006, and the Nomination Committee, Compensation Committee, and Audit Committee were established.

III. Implementation of Measures for Shareholders and Other Stakeholders**1. Efforts for Activation of the General Shareholders Meeting and for Facilitation of the Voting Right Exercise**

	Supplemental Explanation
Early dispatch of Notice of Convocation of the General Shareholders Meeting	The Notice is dispatched one week earlier than legally required date by accelerating the financial settlement processes.
Avoiding setting a General Shareholders Meeting on concentration day (when other companies' general shareholders meetings held)	The Company's fiscal year ends in December, and it is considered that there will be no extreme concentration days. Venue, date and time are carefully considered and work to have as many shareholders as possible attend the General Shareholders Meeting.
Facilitation for exercising electronic voting rights	Yes
Preparing the Notice of Convocation (summary) in English.	Yes

2. IR Activity

	Supplemental Explanation	Explanation by Representative Executive Officer
Holding explanatory meeting regularly for analysts and institutional investors	The explanatory meetings for analysts and institutional investors are held two or more times a year including the meetings for the second and fourth quarters.	Yes
Posting IR materials on the website	Financial reports, securities reports, financial results briefings for analysts, other timely disclosures, etc. are posted.	---
Establishment of IR-related department (or person in charge)	The department in charge of IR is IR/PR Group, Administration Department.	---

3. Initiatives concerning Respect for Stakeholders' Positions

	Supplemental Explanation
Formulation of policies for providing information to stakeholders	Setting promptness, preciseness, fairness, and continuousness as fundamental base, timely and appropriate information disclosures are carried out with the compliance with related laws and regulations such as the Financial Instruments and Exchange Act and regulations by the Tokyo Stock Exchange.

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IV. Matters related to the Internal Control Systems, etc.

1. Basic Concept regarding the Internal Control System and the System's Maintenance Status

The Company establishes the fundamental policy concerning "Matters Necessary for the Execution of Duties of the Audit Committee" stipulated in Article 416, paragraph 1, item RO of Companies Act and "System Maintaining Appropriateness of Business Duties" stipulated in item HO of the said paragraph as follows;

[Matters necessary for the duty execution of the Audit Committee]

- (1) Issues on the Directors and employees who assist the operation of the Company's Audit Committee (Article No.112-1-1 of Enforcement Regulations of Companies Act)
When the investigation of the other committee's duty execution by the Audit Committee is necessary, the Director who is the chairman of the relevant committee will be liable for the positive cooperation on the investigation.
Internal Audit Office with one or more employees assists the operation of the Audit Committee.
- (2) Issues on the independence of the Directors and employees stipulated in (1) from Company's Executive Officer (No.112-1-2)
President & Chief Executive Officer determines the Internal Audit Office member's appointment, internal transfer and employment conditions including remuneration and others with the approval of the Audit Committee.
- (3) Issues on ensuring the effectiveness of instructions from the Company's Audit Committee over the Directors and employees stipulated in 1 (No.112-1-3)
At the time when there is a necessity for the Audit Committee to conduct an investigation on the other committee's execution of duties and the Audit Committee determines that cooperation of the chairman of the relevant committee is not sufficient, the Audit Committee immediately reports to the Board of Directors and positively ask for the cooperation under the understanding of all members of the Board of Directors.
The President & Chief Executive Officer thoroughly informs the Executive Officers and employees that the Company's employees who assist the duties of the Audit Committee follow the instruction from the Audit Committee and have the right to collect the information for the audit as necessary.
- (4) Issues on the report which Executive Officer and the employee report to the Audit Committee (No.112-1-4)
 - a. The system through which the Company's directors (excluding the Audit Committee members), Executive Officers and employees report to the Audit Committee (No.112-1-4 I)
 - (a) The President & Chief Executive Officer reports to the Audit Committee on the issues reported to and discussed at the Department General Managers Meeting consisting of Executive Officers and Department General Managers. The President & Chief Executive Officer exchanges opinions with the Audit Committee members when necessary.
 - (b) The President & Chief Executive Officer ensures the system to report the results of internal audit conducted by the Internal Audit Office to the Audit Committee.
 - (c) The President & Chief Executive Officer establishes the whistle-blowing system to ensure the reporting to the Audit Committee when the situations where corruption and the noncompliance with laws or the Articles of Incorporation or the situations which may give serious damages to the Company by Executive Officers, Directors and employees in the course of duty may arise.
 - b. The system which the Subsidiary's directors, auditors, executive officers, employees, and other employee equivalent to the above or those who are reported by the above are reported to the Company's Audit Committee (No.112-1-4 RO)
 - (a) The Subsidiary's directors and employees who are asked by the Company's Audit Committee about the matters with regard to the execution of duties report immediately and appropriately.
 - (b) The President & Chief Executive Officer makes the major subsidiaries establish the whistle-blowing system, ensure that the report through the whistle-blowing system is submitted not only to the relevant department of the said subsidiaries but also to the Company's Audit Committee and the compliance department, and thereby facilitate the detection of the facts regarding any frauds in relation to the execution of duties of the said subsidiaries' directors and employees, the facts regarding any other violation of laws or the Articles of Incorporation, or facts which may cause serious damages to the Company or the said subsidiaries. The President & Chief Executive Officer establishes the system to ensure that the statuses of those above mentioned are reported to the Company's Audit Committee.
 - (c) The President & Chief Executive Officer ensures that the results of the internal audit conducted by the Company's Internal Audit Office are reported to the Company's Audit Committee.
- (5) Issues on the system to ensure those who report items described in (4) not to have an unfair treatment (No.112-1-5)
The President & Chief Executive Officer prohibits unfair treatment of the persons who report to the Company's Audit Committee and thoroughly inform the Company's Executive Officers and employees, and the subsidiaries' directors and employees.
- (6) Issues on the policy in relation to the treatment of prepayment and repayment of expenses arising from the execution of duties by the Company's Audit Committee member (limited to the execution of duties with regard to the Audit Committee) (No.112-1-6)
When the Audit Committee members request the advanced payments of expenses which are needed for the execution of duties, the relevant department processes the expenses or debts immediately unless the prepayments or debts are not needed for the job execution.

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[The system to ensure the appropriateness of operations]

- (1) Issues on the preservation and control of information used in the course of duty of Executive Officer (No.112-2-1)
President & Chief Executive Officer preserves and control the information according to the company rule for the prevention of the leaks of information to the outside of the Company.
- (2) Issues on the provisions on controlling the risks of loss (No.112-2-2)
 - a. The President & Chief Executive Officer establishes the Risk Control Manual, appoints the person in charge of taking care of the risks of each category, makes the risk control procedure based upon the Risk Control Manual for each category so as to establish and execute the management system.
 - b. The Internal Audit Office confirms the operational status of risk control system at least once a year and reports to the President & Chief Executive Officer and Audit Committee.
 - c. When the Company encounters the new risk, the President & Chief Executive Officer immediately responds to the risk as the responsible officer.
- (3) Issues on the system to assure the compliance of Executive Officer's duty performance with the laws and the Articles of Incorporation and efficiency of the operation (No.112-2-3 and 4).
 - a. President & Chief Executive Officer establishes the Compliance Manual and operates the Manual accordingly for the Company's Executive Officers and employees to comply with the related laws and with the Article of Incorporation strictly and to act in accordance with the social common sense based upon a high sense of professional ethics and morality in the ordinary course of business. The President & Chief Executive Officer promotes the compliance by establishing the Compliance Committee.
 - b. President & Chief Executive Officer establishes the employees' internal compliance report system.
 - c. President & Chief Executive Officer periodically reports to the Audit Committee on the business important issues which were discussed in the Executive Committee.
 - d. President & Chief Executive Officer establishes the Regulations of Administrative Authority to ensure the efficient execution of the operations.
 - e. Internal Audit Office conducts internal audit and reports the result of audit to President & Chief Executive Officer and the Audit Committee.
- (4) Issues on the measures to ensure the appropriateness of operations in the Company and the group of the Company which consists of the Company's parent company and subsidiaries (hereinafter "the Company's Group") (No.112-2-5)
 - a. The System report to the Company regarding the execution of duties of the Subsidiary's directors, Executive Officers, employees, and other staff equivalent to the above (herein (c) and (d) "the Directors, etc.") (No.112-2-5 I)
 - (a) The President & Chief Executive Officer requests the submittal of the related documents by the subsidiary to the Company in order for the President & Chief Executive Officer to observe the subsidiaries' business performance appropriately in accordance with the rule of management of subsidiaries.
 - (b) The President & Chief Executive Officer requests the subsidiaries' CEO, directors, or employees to attend the Company's Board of Directors Meeting regularly in order for the subsidiaries to report the business performances, financial situations, and other important information to the Company.
 - b. The rule for the management of loss risk of the Company's subsidiaries and other systems related (No.112-2-5 RO).
 - (a) The President & Chief Executive Officer establishes the Rule of Risk Management in which the risk management for entire the Company's Group is stipulated and the management of risks the subsidiaries are required is described. The President & Chief Executive Officer manages the entire risk of the Company's Group comprehensively in accordance with the Rule.
 - (b) The Internal Audit Office regularly investigates the risk management of the subsidiaries and report to the President & Chief Executive Officer and to the Audit Committee.
 - c. The system to ensure that the Directors execute duties effectively (No.112-2-5 HA)
 - (a) The President & Chief Executive Officer establishes the Rule of Management of Subsidiaries for the effective management of the Company's Group in respect for the autonomy and independence of the subsidiaries' management.
 - (b) The subsidiaries establish the regulations of administrative authority and execute duties effectively.
 - d. The system to ensure that the execution of duties by the Directors and employees complies with the laws and the Articles of Incorporation (No.112-2-5 NI)
 - (a) The President & Chief Executive Officer makes the subsidiaries establish the system to deploy the appropriate number of auditor and persons in charge of compliance based upon subsidiaries' businesses and sizes.
 - (b) The President & Chief Executive Officer makes the subsidiaries establish the audit system in which the subsidiaries' auditors conduct audits the execution duties of the directors and employees including the development and operation of the internal control at the subsidiaries.
 - (c) The subsidiaries have the board of directors and the Company's Executives or employees assume the position of the subsidiaries' director so as to monitor the appropriateness of the subsidiary's operation.
 - (d) The Company's President & Chief Executive Officer establishes the whistle-blowing system in the major subsidiaries.

[Overview of the operation status of system to ensure the appropriate duties]

The Internal Audit Office conducts business audit for each department in order for the Office from an independent standpoint to verify whether the Internal Control System is functioning properly, whether there has been no misconduct, and whether there are any items to be improved. Issues that have become apparent through audits should be advised to the audited department immediately after the audits, and the issues are reported to the Audit Committee and the Representative Executive Officer for the issues to be improved in a timely manner. In addition, the Administration Department and the Internal Audit Office play a central role in conducting regular and periodical

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training and audits thereby raising the awareness of the importance of internal control systems and of compliance for the departments concerned and the subsidiaries.

2. Basic Policy Concerning Eliminating Anti-social Forces and Status of Development

The Company has established the Compliance Training Manual and Business Conduct Guideline to eliminate any relationship with anti-social forces. As the basic attitude, the Company, with firm manners, has no involvement with such forces and organizations and firmly eliminate those forces and organizations without allowing unfair intervention from such forces and organizations.

The department and person in charge of this matter have been designated, as the internal system, efforts have been made to cooperate with external specialized agencies such as the police department in charge and advisory lawyers, and efforts have been made to collect information through attendance of the trainings. The Compliance Training Manual includes measures against violent behavior and unreasonable demands from anti-social forces and organizations, and the measures are thoroughly notified and shared in the training part of the compliance seminars conducted at least once a year for all employees, so that the Company as a whole can take appropriate measures against anti-social forces.

V. Other

1. Introduction of Takeover Defense Measures

Adoption of takeover defense measures	No
Supplementary explanation on applicable items	—

2. Other Matters Related to the Corporate Governance System, etc.

The Company has the policy of disclosures of company information accurately and promptly with fairness to prevent unforeseen losses to investors as an important responsibility of listed companies.

The Company manages company information in accordance with the "Information Security Rules".

In addition, to prevent insider trading, the Company has established "Insider Trading Management Regulations" and thoroughly complies with the regulations. The Company's information management system is centrally managed by Executive Officers and General Manager of the Administration Department.

[Understanding facts and information]

(1) Financial Settlement Information

The financial settlement information is resolved by the Board of Directors.

(2) Decision Facts

Important business executions are determined by the Board of Directors, the Board of Executive Officers and the Department General Managers Meeting.

(3) Occurrence Facts

The Department General Manager promptly reports the occurrence to the Executive Officer and General Manager of Administration Department. Material occurrences are first reported to the Department General Managers Meeting and to the Board of Directors and then disclosed.

If the Executive Officer and General Manager of Administration Department determines that the situation is "urgent," the report is submitted directly to the Representative Executive Officer without going through the Board of Directors, and the disclosure is determined with the approval of the Representative Executive Officer. In this case, the disclosed situation is reported to the Board of Directors immediately after the disclosure.

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