

# Corporate Governance

## Basic Policies and Systems

The ALSOK Group advocates “contribution to society” as one of its management policies, and we devote our best efforts to protecting the safety and security of our customers and of society as a whole. Meanwhile, to continue to be a corporate group that is trusted by all stakeholders, we strive to reinforce Groupwide corporate governance with measures that separate managerial execution and oversight functions, allow swifter decision making, encourage strong corporate ethics, and provide transparency in business management.

### Observation of Japan’s Corporate Governance Code

The Company observes the principles put forth by Japan’s Corporate Governance Code, which was formulated by Tokyo Stock Exchange, Inc., using these policies as guidelines for corporate governance and carrying out detailed inspections and reviews of organizational structures. In addition, we submit a Corporate Governance Report to the Tokyo Stock Exchange on a yearly basis and post this report on our corporate website (in Japanese only). This report contains information on our efforts to observe the Corporate Governance Code.

Going forward, we will continue to examine possible measures for our various systems in order to create an organizational structure that features more effective corporate governance, incorporating social trends as part of this endeavor.

### Overview of Corporate Governance Systems and Reasons for Adoption

The Company has adopted the Company with Audit & Supervisory Board structure described in the Companies Act of Japan. By implementing the following systems, the Company affirms that effective and complete audits are conducted by Audit & Supervisory Board Members and that management is being appropriately governed.

The Company has appointed 10 directors, two of which are outside directors, and four Audit & Supervisory Board members, three of which are outside Audit & Supervisory Board members. The Board of Directors meets once a month, in principle, to decide on basic management policies and important matters pertaining to operational execution and to supervise the execution of duties by directors and executive officers. The Management Committee, which is chaired by the chairman and representative director, meets twice a month, in principle, to determine the agenda items to be presented to the Board of Directors and to discuss the operational execution policies formulated based on Board of Directors’ decisions. The Audit & Supervisory Board meets once a month, in principle, to discuss and make decision decisions based on reports on important matters related to audits. One Audit & Supervisory Board member attends meetings of the Management Committee to provide appropriate oversight for management.

We have adopted the current system based on the judgment that it effectively ensures the impartiality and transparency of management.

As stipulated in Clause 1, Article 427, of the Companies Act of Japan, outside directors and outside Audit & Supervisory Board Members have entered into a liability limitation agreement with the Company in relation to the limitation of liability specified in Clause 1, Article 423, of the Companies Act. Amounts of liability under this agreement shall be the higher amount of ¥10 million and the minimum amount of liability designated by Clause 1, Article 425, of the Companies Act.

These provisions ensure that outside directors and outside Audit & Supervisory Board Members can effectively perform their expected duties.

Corporate governance system	Company with Audit & Supervisory Board
Chairman of the Board of Directors	Chairman and Representative Director
Number of directors	10 (of whom 2 are outside directors)
Number of Audit & Supervisory Board Members	4 (of whom 3 are outside Audit & Supervisory Board Members)
Ratio of outside directors and Audit & Supervisory Board Members to total directors and Audit & Supervisory Board Members	36%
Number of independent directors / Audit & Supervisory Board Members	5
Number of meetings of the Board of Directors and attendance by outside directors and Audit & Supervisory Board Members in the year under review	15 times Outside directors: 1 attended 100% of meetings, 1 attended 92% of meetings Outside Audit & Supervisory Board Members: 2 attended 100% of meetings, 1 attended 93% of meetings
Number of meetings of the Audit & Supervisory Board and attendance by outside Audit & Supervisory Board Members in the year under review	21 times 3 attended 100% of meetings

### Reasons for Appointment and Duties of Outside Directors and Outside Audit & Supervisory Board Members

As for the outside directors and outside Audit & Supervisory Board Members, it is assumed to cover the function of observation and supervision of the management team by objective and neutral standpoint. Also, we do not set any basis nor policy concerning independence to appoint outside directors and outside Audit & Supervisory Board Members, although we refer to requirements of independent officers fixed by Tokyo Stock Exchange.

Also, outside directors and outside Audit & Supervisory Board Members attend meetings of the Board of Directors, at which they offer their opinions on the matters at hand. They receive briefings on the issues to be discussed at meetings of the Board of Directors the day prior to the meeting, allowing them to more effectively monitor management. The outside Audit & Supervisory Board Members coordinate with the Inspection Department and the independent auditing corporation employed by the Company in regard to audits by Audit & Supervisory Board Members, internal audits, and accounting audits. To facilitate this coordination,

the outside Audit & Supervisory Board Members periodically exchange information with these bodies.

The participation of the outside directors in these meetings enables them to monitor the operational execution of other directors with regard to Internal Control Operations and other matters from an independent standpoint.

They also evaluate the legality of the measures implemented by Internal Control Operations. To this end, they perform both operational and accounting audits of the organization and review all relevant documents.

The Company employs 2 outside directors and 3 outside Audit & Supervisory Board Members; applications have been submitted to the Tokyo Stock Exchange identifying each of these individuals as independent officers.

## Compensation for Directors and Audit & Supervisory Board Members

### Policies and Methods for Deciding Compensation Amounts

Annual limits of ¥400 million for the compensation of directors and ¥120 million for the compensation of Audit & Supervisory Board Members have been set at the General Shareholders’ Meeting.

The compensation of directors includes a fixed amount, calculated according to their positions and whether they are an outside director or not, as well as a performance-linked amount, calculated based on an evaluation of the operational execution

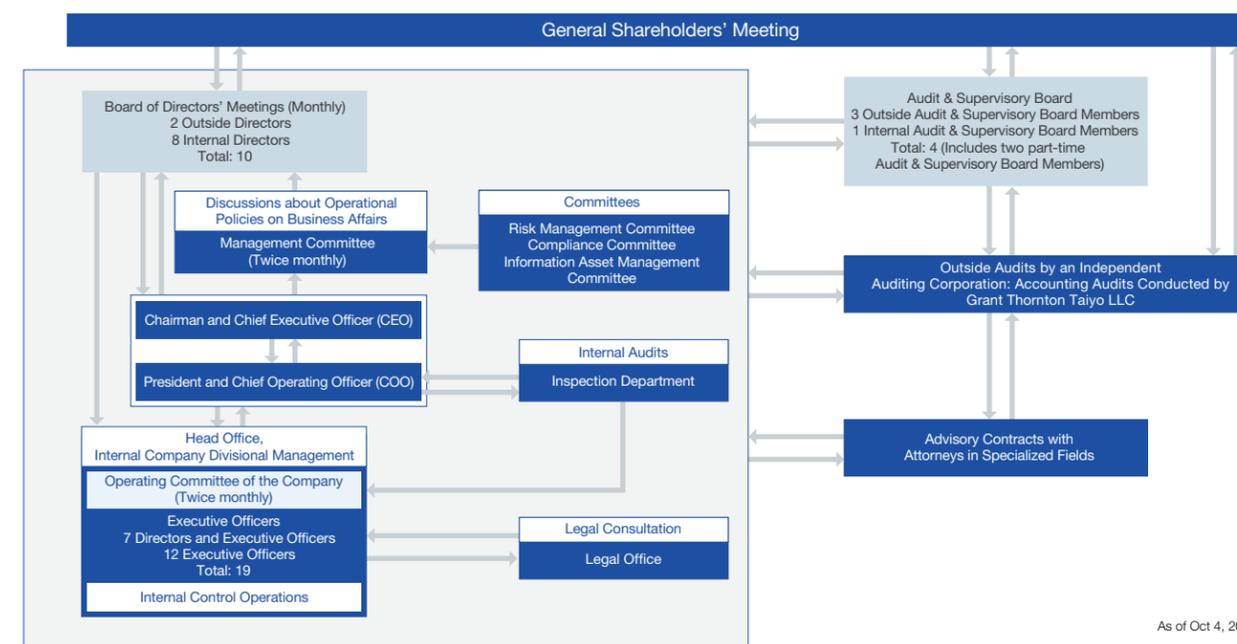
performance of individual directors in the previous fiscal year conducted in accordance with predetermined standards. Decisions regarding the exact amounts of compensation of directors are made by the Board of Directors.

The compensation of Audit & Supervisory Board Members is paid as a fixed amount, and the exact amounts of compensation are decided in accordance with standards set by the Audit & Supervisory Board.

### Internal Control System

Based on the Companies Act and the Financial Instruments and Exchange Act, the Company has established systems to ensure directors perform duties in compliance with all relevant laws and regulations and its articles of incorporation. In addition, the Company has in place systems for guaranteeing that proper operating practices are observed by other listed companies and the corporate groups consisting of these companies and their subsidiaries.

The management of the ALSOK Group carried out an evaluation of the Group’s internal control system as of March 31, 2016, based on the Financial Instruments and Exchange Act. This evaluation found that the internal control system is effective, which has been noted in the report on the internal control system. The independent auditing corporation, Grant Thornton Taiyo LLC, has also expressed the opinion that the result of the evaluation by the management noted in the internal control report is accurate.



As of Oct 4, 2016

**Compliance**

The Company has established the Compliance Committee, which is headed by the executive officer in charge of compliance. The committee strives to inculcate an unwavering awareness of compliance in all executive officers and employees based on the compliance rules formulated in 2002, and periodically verifies the status of compliance in business and other activities. Furthermore, the Company conducts activities to promote compliance on a Groupwide basis. Moreover, together with the Education & Training Department, the Compliance Committee is implementing corporate ethics training and taking other steps to cultivate and thoroughly entrench a compliance-based mind-set.

The ALSOK Hotline was set up in April 2004 to facilitate early identification and prevention of corporate ethics issues. This hotline allows executive officers and employees to report any issues that they may witness. On April 1, 2016, the Company established an external reporting hotline to add to the already existing internal hotline.

**Risk Management**

The Company places particular importance on risk management, which is central to its business of protecting the safety and security of society. Accordingly, the Company formulated risk management rules in 2002. The Company then established the Risk Management Committee based on these risk management rules and assigned the executive officer in charge of risk management as its chairperson. In addition, individual risk management assessment bodies have been set up at the Head Office and each individual business office to undertake Companywide risk management activities, such as the identification and evaluation of risks and the formulation of preventative measures and countermeasures. The Risk Management Committee also contains subcommittees for risks in specific areas. These subcommittees gather information on the risks in their designated area, analyze and evaluate these risks, and draft measures to mitigate these risks. Furthermore, the Company has developed organizational structures to ensure that it can respond quickly should a serious emergency occur. Through such structures, the Company is able to relay urgent orders throughout the organization, set up a response headquarters, or take other emergency response measures.

In September 2004, the Company established the Information Asset Management Committee, chaired by the executive officer in charge of information asset management. The purpose of the committee is to respond as swiftly as possible to changes in the information asset management environment, such as the full implementation of the Personal Information Protection Law, which was enacted in April 2005. The committee undertakes such activities as the development of a structure for the management of personal, business, and other important information in the Company's possession as well as the promotion of employee education on this topic.

The Legal Office exists to respond to lawsuits, legal disputes, and other legal risks, which it does while coordinating with the relevant operating divisions. Moreover, the Company has formed consultant contracts with seven law firms, ensuring that it can receive appropriate advice and guidance for responding to major legal and compliance issues and thereby helping prevent the actualization of risks. By maintaining compliance while receiving such counsel, we are involving internal and external lawyers in the Company's corporate governance systems.

**Disclosure and IR Activities**

ALSOK has formulated its Disclosure Policy based on which it actively conducts impartial and timely information disclosure. In addition, the Company has revised its investor relations (IR) website to provide stakeholders with greater ease in finding the information they seek. We also aim to foster a deeper understanding among overseas institutional investors of the security services industry in Japan and the growth strategies of the ALSOK Group. To this end, we provide English-language translations of financial summaries and other documents on our English-language IR website.

The Company's IR Website  
<http://www.alsok.co.jp/en/ir/>



**Future Development Hinged on Employee Growth**

ALSOK is charged with the important mission of protecting the safety and security of society, and the Company has faithfully carried out this mission since its founding. Moved by this dedication, I accepted the position of outside director with the hope of aiding ALSOK in this mission.

The security services business is a business built on people. As such, the future development of security services companies hinges on how much value their employees and their ability to help them grow. I make sure never to forget this fact as I maintain my focus on governance. Fortunately, ALSOK's management closely associates itself with frontline operations, placing great importance on the feelings of employees. In addition, ALSOK frequently recruits individuals from outside the Company, actively striving to utilize various senses of value within the organization.

As an organization, ALSOK is very receptive to compliance and risk management needs. However, given that the Company is looking to develop and expand its operation overseas in the future, it is now tasked with the new need to prepare to function as a global company. Meanwhile, ALSOK's position as a Tokyo 2020 Official Partner will provide an opportunity to demonstrate the impeccable quality of Japan's security services to the entire world. For this reason, it is crucial for the Company to be able to make real contributions to ensuring the safety of this event.

ALSOK is still in the progress of growing. Looking ahead, ALSOK will likely move toward a more complete state by supplementing its core security services operations with new businesses, thereby increasing its brand value. I aim to assist ALSOK in growing into a company that is highly beneficial to society while helping ensure that it remains true to the mission of protecting the safety and security of society it has held since its founding.



**Yutaka Takehana**  
 Outside Director

**Proactive Governance Going Beyond Oversight to Contribute to Improved Competitiveness**

I advise ALSOK's directors to voice opinions with regard to their own areas of responsibility as well as to the areas other directors are in charge of and also to ensure that they apply the plan-do-check-act cycle to decisions made. Japan's Corporate Governance Code was enacted in June 2016. This code puts forth the idea of proactive governance that goes beyond simply focusing on oversight to contribute to improved competitiveness and thereby facilitate the establishment of more effective internal controls. I believe that one of the responsibilities of outside directors is to support the entrepreneurial spirit of a company's officers. For this reason, I too seek to go beyond simply pointing out issues to offer input that helps the Company move forward.

At the same time, I realize the extreme importance of timely disclosure for shareholders and provision of information to the Company's various other stakeholders. I thus focus on making sure that management is always thinking about disclosure timing and methods to guarantee that appropriate information transmission is not neglected. ALSOK's customer base is not limited to corporate clients, but also includes individual users. For this reason, it is crucial that the Company actively transmit messages to society.

There is no one correct answer for the ideal corporate governance system, and each company will need to find its own answer. Nevertheless, I think the value of outside directors comes from their ability to introduce management to the practices of other companies so that these practices can be used as a reference. At ALSOK, the outside directors proactively express their opinions, and management listens to these opinions earnestly, a fact that fills me with motivation.



**Takeshi Oiwa**  
 Outside Audit & Supervisory Board Member

\* ALSOK is a Tokyo 2020 Official Partner (Security Services and Planning).