

# Corporate Governance

## Basic Policies and Systems

Based on its management philosophy exemplified by the principles of *arigato no kokoro* (a feeling of gratefulness and gratitude) and *bushi no seishin* (a samurai spirit), ALSOK devotes itself to protecting the safety and security of its customers and of society as a whole. The ALSOK Group also advocates “contributing to society” as one of its management policies. 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, Inc. 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 12 directors, three 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 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	12 (of whom 3 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	38%
Number of independent directors / Audit & Supervisory Board members	6
Number of meetings of the Board of Directors and attendance by outside directors and Audit & Supervisory Board members in the year under review	14 times Outside directors: 2 attended 100% of meetings Outside Audit & Supervisory Board members: 3 attended 100% of meetings
Number of meetings of the Audit & Supervisory Board and attendance by outside Audit & Supervisory Board members in the year under review	18 times 3 attended 100% of meetings

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

Outside directors and outside Audit & Supervisory Board members are assumed to cover the functions of observation and supervision of the management team with objective and neutral standpoints. Also, we do not set any basis or policy concerning independence for appointing outside directors and outside Audit & Supervisory Board members, although we refer to requirements of independent officers fixed by the Tokyo Stock Exchange, Inc.

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 three outside directors and three outside Audit & Supervisory Board members; applications have been submitted to the Tokyo Stock Exchange, Inc., identifying each of these individuals as independent officers.

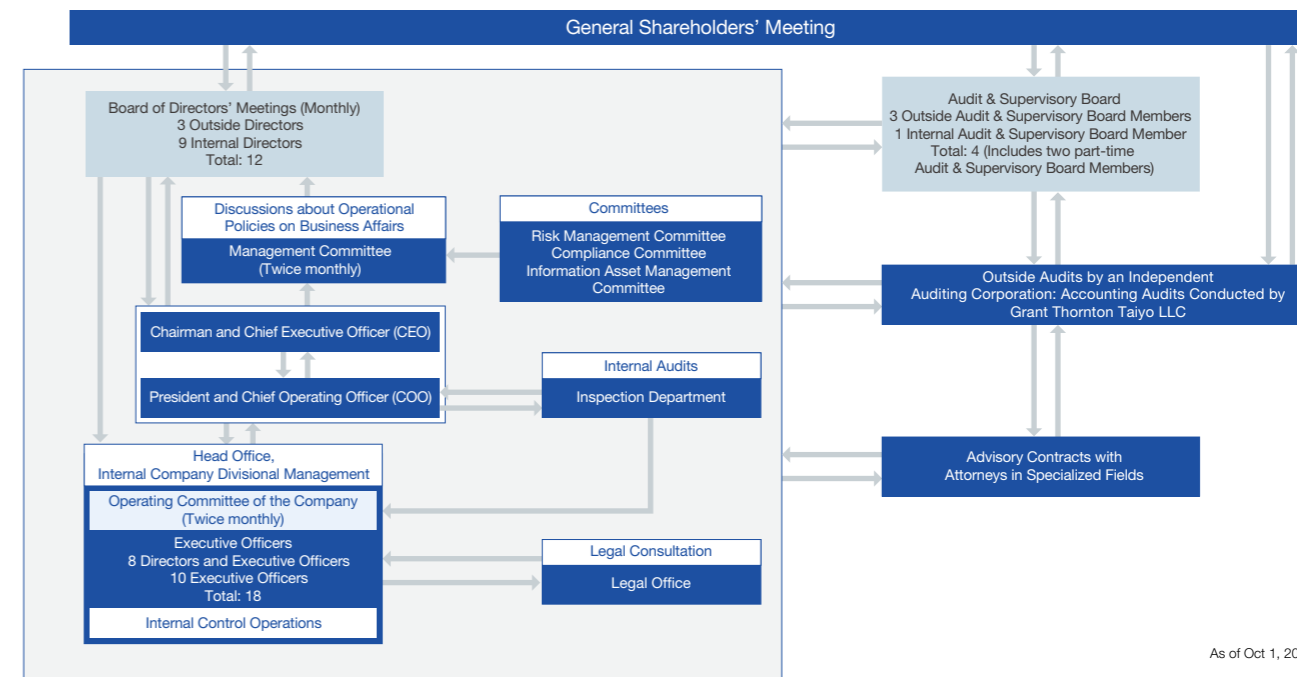
## Compensation for Directors and Audit & Supervisory Board Members

### 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.



As of Oct 1, 2017

## Corporate Governance

### 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, 2017, 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.

### Compliance

The Company has established the Compliance Committee, which is headed by the executive officer in charge of compliance, to promote legal 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 illegal, inappropriate, or unethical behavior they may witness via email, telephone, or written statement without fear of suffering disadvantageous treatment. 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 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/>



## Messages from Outside Officers

### Contribution to Sustainable Corporate Value Growth for the ALSOK Group

Masakazu Iwaki  
 Outside Director



I spent 29 of my 45 years at Nippon Steel Corporation (Currently NIPPON STEEL & SUMITOMO METAL CORPORATION) at steel manufacturing sites, where I was constantly forced to face risks head-on in my work.

When I became an outside director at ALSOK, I instantly felt a strong connection with the Company as it too was facing risks head-on in its quest to protect the safety and security of society. The principle of *arigato no kokoro* contained in ALSOK's management philosophy also left a strong impression on me as it coincided with the feeling of gratitude I have maintained toward colleagues and customers in my work up until this point. The just, upright, and disciplined approach toward management encapsulated in the principle of *bushi no seishin*, another element of the management philosophy, similarly matched up with my own personal creed.

The Company's corporate governance systems are incredibly transparent, with an atmosphere that encourages outside officers to openly voice opinions, and established sincere frameworks for incorporating this input into management.

ALSOK has been achieving rapid growth under the strong leadership of its management. In addition to this growth, the Company has added a new element of flexibility to its robust management structures by encouraging active communication between management and other Company divisions.

I see it as the duty of outside directors to adopt an objective and impartial perspective and exercise foresight in judging the organization of the Company. Moreover, I pledge to remain always mindful of ALSOK's various stakeholders and to contribute to ongoing corporate value growth for the ALSOK Group by offering advice from a forward-looking perspective.

### Rising Importance of Reinforcing Groupwide Governance

Makoto Uenoyama  
 Outside Audit & Supervisory Board Member



The frameworks and rules of the Company are being effectively managed, making for exceptionally effective internal controls on a non-consolidated basis. However, society is increasingly expecting companies to exercise governance on a groupwide basis that extends to their subsidiaries. Whether in Japan or overseas, there exists the very real threat of insufficient governance of subsidiaries leading to accidents or scandals. The ALSOK Group has recently been acquiring companies through M&A activities and it also possesses overseas subsidiaries. It is therefore incredibly important for the Group to reinforce governance based on a "corporate conglomerate" mentality that includes such companies.

A top-down approach is insufficient for reinforcing Groupwide governance; a bottom-up approach is also necessary. In tackling this task, it will be crucial for both the executive management team and the Audit & Supervisory Board members to perform their roles.

I wholeheartedly believe that a company cannot become stronger if its operating divisions, its frontline operations, do not also become stronger.

Audit & Supervisory Board members are tasked with the important mission of performing audits to ensure the appropriateness of the operational execution function of the directors. The effectiveness of operation execution can be judged by looking at the effectiveness of operating divisions. For this reason, I see my role as going beyond

attending meetings of the Board of Directors. As an Outside Audit & Supervisory Board member, it is vital that I frequently visit the frontlines to maintain an understanding of both front-line operations and management. It is also my duty to report input from the frontlines to management based on this understanding. The Company provides time at a meeting of the Board of Directors once every six months for Audit & Supervisory Board members to report on the issues and requests they have uncovered at the Head Office and at business sites. There are some issues that can be addressed immediately and others that require time, and addressing these issues on an ongoing basis will no doubt lead to increased corporate value for the Group. I am committed to contributing to this increase in my capacity as an Outside Audit & Supervisory Board member.