

# Corporate Governance Guidelines



## Chapter 1: General provisions

### (1) Corporate philosophy

- We act to live in harmony with the Earth.

### (2) Management policy

- With the “customer perspective” as a starting point, we shall undertake an unwavering pursuit of solutions to customers’ inconveniences and discontent, and strive to create and revitalize markets by providing products and services that offer value for customers.

### (3) Basic approach to corporate governance

- We shall position the strengthening and enhancement of corporate governance as an important issue for management, and strive to earn the trust of stakeholders as a company that offers value, applying these Guidelines to make management decisions quickly, direct the execution of operations, ensure thorough compliance, and disclose information appropriately, at the appropriate times.

## Chapter 2: Ensuring shareholders’ rights and equality

### (1) Ensuring shareholders’ rights

- We shall proactively disclose information to practically ensure the rights of all shareholders.
- Articles of Incorporation and Share Handling Regulations shall be displayed on the company’s website, to clearly indicate procedures for the execution of rights and other relevant information.

### (2) General Meeting of Shareholders

- When holding General Meetings of Shareholders, schedule overlap with general meetings held by other companies shall be avoided whenever possible, and the venue shall be selected to maximize convenience.
- To enable appropriate judgments by shareholders on items raised at General Meetings of Shareholders, the accuracy of information shall be guaranteed, and information shall be provided quickly, in an easy-to-understand format.
- Responses to requests from shareholders regarding the execution of voting rights shall be studied while consulting with trust banks and other relevant parties.
- The Board of Directors shall receive reports on analysis results related to the execution of voting rights at General Meetings of Shareholders. If a company proposal receives a significant number of dissenting votes, the Board shall discuss the need for an appropriate response. The results of the execution of voting rights shall be posted on the company’s website.

### (3) Basic approach to capital policies

- The company shall effectively use internal reserves in strategic investments that lead to future growth and in strengthening financial structures, and shall continue stable payment of dividends.
- In the event that the company’s shares become subject to a tender offer, the Board of Directors shall promptly disclose its views to shareholders. It shall respect the rights of shareholders, and shall not impede those shareholders from releasing their shares in

- response to the tender offer.
- When implementing capital policies that would bring about a change in control or a large-scale dilution, the Board of Directors shall give full consideration to the necessity and rationality of those policies, and shall implement those policies in accordance with appropriate procedures. The board shall also provide appropriate explanations regarding the intent of the policies in question and the deliberation process at a General Meeting of Shareholders, financial results briefing, or other appropriate venue.

(4) Policy regarding cross-shareholdings

- In the event that the company owns listed shares for the purpose of cross-shareholding, there shall be a basic recognition of economic rationality in the medium to long term, taking into account risks and returns, with an expectation of business tie-ups, maintaining or strengthening transactions, promoting smoother financial activities, or other significant benefit. The company's policy shall be to minimize the ownership of issues deemed to have insufficient rationale for such ownership. The appraised value of individual issues shall not exceed 5% of total consolidated assets.
- The Board of Directors shall verify the medium- to long-term economic rationality of cross-shareholdings on an annual basis, and shall make a judgment on the continuation, expansion, reduction, or elimination of owned shares. The purpose of ownership shall be disclosed in securities reports.
- If the owner of the cross-held shares expresses an intent to sell or otherwise dispose of Earth Corporation's shares, such disposal shall not be impeded.
- Voting rights attached to cross-held shares shall be executed appropriately based on thorough investigation of each proposal and a comprehensive judgment on whether the proposal will contribute to improvements in the company's corporate value in the medium to long term.

(5) Transactions with related parties

- Transactions with directors that could represent a conflict of interest must be approved by the Board of Directors, and directors with special interest relationships shall not be involved in decisions on such approvals. Furthermore, transactions with main shareholders that exceed a specified amount shall be reported at meetings of the Board of Directors.
- Directors and auditors shall respond to a regular questionnaire to confirm the existence of transactions with related parties.

Chapter 3: Appropriate cooperation with stakeholders other than shareholders

(1) Earth's Conduct Guidelines

- The company established "Earth's Conduct Guidelines" as a standard of conduct for directors and employees, and strives to entrench these Guidelines as the foundation of day-to-day operations.

(2) Sustainability

- To earn the trust of stakeholders, the company established the "Basic Environmental Policy," and conducts environmental protection activities based on this policy while at the same time striving to provide products that prioritize safety and to create energetic workplaces.

(3) Diversity within the company

- Earth Corporation promotes active participation by women, and develops products and designs sales floors that incorporate a female perspective. The company also encourages the use of the childcare leave and childcare working hour systems regardless of the employee's gender.

(4) Internal reporting system

- The company established the "Speak Up Line" internal reporting system, and encourages

- the use of this system.
- “Speak Up Line” is operated by a committee comprising multiple directors as well as auditors, the head of the HR division, the head of the internal auditing division, and the head of the legal affairs division, and reports to the Board of Directors on the details of discussions as deemed necessary.
- Reporting contact points have been established within the company as well as with outside third-party agencies, and reports may be submitted anonymously if the reporting party so wishes.
- In the operation of the “Speak up Line,” in-house regulations prohibit disadvantageous treatment of the reporting party, and in the event that a reporting party is subject to any such disadvantageous treatment, the situation shall be dealt with promptly.

(5) Corporate Pension Funds functioning as asset owners

- Earth Corporation’s Corporate Pension Fund shall be accumulated and operated through the Otsuka Pharmaceutical Group Pension Fund.
- Persons from Earth Corporation with knowledge of finances and HR also participate in this fund, to regularly monitor the status of pension assets operations jointly with other companies participating in the Otsuka Pharmaceutical Group Pension Fund, and to review the pension asset configuration as deemed necessary.

Chapter 4: Ensuring appropriate information disclosure and transparency

- To earn the trust of shareholders and other stakeholders, in addition to disclosures based on laws and regulations, the company proactively provides information outside of such disclosures.
- The company discloses information using simple and specific expressions so as to provide content that offers substantial out in value for users, and also discloses information in English when deemed necessary.
- In addition to financial information, the company discloses nonfinancial information such as the corporate philosophy, management policies, and medium-term management plans.

Chapter 5: Responsibilities of the Board of Directors

(1) Configuration, roles, and responsibilities of the Board of Directors

① Configuration

- The Board of Directors shall comprise no more than 10 members, two or more of whom shall be outside directors.
- The Board shall comprise in-house directors with extensive experience and a detailed knowledge of the company’s operations and market environment, and independent outside directors with a broad range of knowledge.
- Diversity of the Board shall be ensured, for example with persons having overseas managerial experience, so that the Board can effectively fulfill its roles and responsibilities.

② Roles and responsibilities

- Matters to be discussed at meetings of the Board of Directors are stipulated in the in-house regulations. Authority for decisions on other items is delegated to the president and executive officers, and reports are received from executive officers regarding the status of the execution of duties.
- Medium-term management plans are regarded as a commitment. In the event that targets laid out in these plans, including annual plans, are not achieved, the causes shall be analyzed, and the results of the analysis shall be reflected in plans for the following term and beyond.
- The Board of Directors shall maintain an environment that supports appropriate risk-taking by the management team, through the effective functioning of internal controls. Furthermore, the Board shall appropriately and objectively study proposals from directors and executive officers.

- The upper limit on total monetary compensation for directors is stipulated at General Meetings of Shareholders. The compensation structure shall comprise a “basic compensation” in addition to a “bonus,” the payment of which shall be studied when the plan for a given year is achieved. Directors may also be granted a “stock-based compensation with limits on transfer” as incentive for increasing corporate value over the medium to long term.
- The nomination of director candidates and auditor candidates, as well as the appointment and dismissal of executive officers and other officers, shall be in accordance with (6) Director/auditor candidate nomination policies and executive officer nomination and dismissal policies/procedures as noted below, and shall be evaluated appropriately.

③ Ensuring effectiveness

- As a rule, meetings of the Board of Directors shall be held once each month.
- An annual schedule for meetings of the Board of Directors and the expected discussion items shall be set up in advance, and related materials shall be distributed ahead of the meeting.
- The number of discussion items at meetings of the Board of Directors shall be set appropriately based on importance, and sufficient time for discussion shall be set aside for each item.
- Upon receiving a request from a director, members of the relevant divisions shall provide support in discussions at Board of Directors meetings (e.g., by obtaining information)
- In the event that a director has concurrent duties as an officer at another listed company, the status of those duties shall be disclosed each year.
- Directors and auditors shall respond to a survey regarding the effectiveness of the Board of Directors. The Board of Directors shall receive a report on the results of the survey analysis, and based on these results, shall evaluate the Board’s effectiveness.

(2) Roles and responsibilities of directors

- To fulfill the responsibilities delegated to them by the shareholders and increase the benefits to both the company and to shareholders, Directors shall collaborate appropriately with various stakeholders in keeping with “Earth’s Conduct Guidelines,” and shall strive for the continuous growth of the company and for increased corporate value in the medium and long term.
- Directors shall submit requests to related divisions for appropriate information required in the execution of their own duties.

(3) Roles and responsibilities of independent outside directors

- Independent outside directors are consulted on decisions regarding director compensation and the nomination of director candidates.
- Independent outside directors attend meetings of the Board of Directors with a full understanding of the items to be discussed, based on materials distributed in advance.

(4) Configuration, roles, and responsibilities of the Audit & Supervisory Board

① Configuration

- The Audit & Supervisory Board shall comprise no more than five auditors, more than half of whom shall be independent outside auditors.
- One or more of the appointed members shall have appropriate knowledge of finances and accounting.

② Roles and responsibilities

- The Audit & Supervisory Board shall select and evaluate outside accounting auditors based on their ability to maintain a fair and objective attitude and an independent position, and to undertake appropriate audits, taking into account a

wide range of factors including those outside accounting auditors' independence, status of execution of duties, and compensation levels.

- The Audit & Supervisory Board shall collaborate with outside accounting auditors and the Audit Office (an Internal Auditing Dept.), for example through accounting audits, operational audits, and quarterly reviews. It shall also collaborate with outside directors as deemed necessary.

(5) Roles and responsibilities of auditors

- To fulfill the responsibilities delegated to them by the shareholders and increase the benefits to both the company and to shareholders, auditors shall cooperate to achieve the continuous growth of the company and increased corporate value in the medium and long term, in keeping with "Earth's Conduct Guidelines."
- Auditors shall attend meetings of the Board of Directors and other important meetings, and shall actively express opinions. Auditors shall also arrange opportunities for meetings and secure collaborations with independent outside directors as deemed necessary.
- Auditors shall submit requests to related divisions for appropriate information required in the execution of their own duties.
- In the event that an auditor has concurrent duties as an officer at another listed company, the number of those appointments shall be kept within a reasonable scope. The status of concurrent duties shall be disclosed each year.

(6) Director/auditor candidate nomination policies, executive officer nomination and dismissal policies and procedures

① Director candidate nominations and procedures

- A director's term shall be one year, per the Articles of Incorporation, and reappointments shall not be limited.
- Candidates are recommended at Management Meetings comprising mainly directors concurrently serving as executive officers, based on their ability to contribute to the continuous growth of the company and to increasing corporate value in the medium to long term. Final decisions on these candidates shall be made by the Board of Directors, following a sufficient period of consideration, and with the advice of two independent outside directors, to ensure transparency and fairness.

② Auditor candidate nominations and procedures

- An auditor's term shall be four years, per the Articles of Incorporation, and reappointments shall not be limited.
- Candidates are selected based on their ability to remain independent of parties executing operations and to always maintain a fair and objective attitude, as well as their ability to contribute to the healthy and continuous growth of the company and establish a corporate governance structure that earns the trust of society. Final decisions on these candidates shall be made by the Board of Directors, having gained a consensus with the Audit & Supervisory Board.

③ Securing the independence of outside officers

- The independence of outside officers shall be in accordance with the independence judgment criteria stipulated by the company (see attached).

④ Executive officer nomination and dismissal policies and procedures

- An executive officer's term shall be one year, and reappointments shall not be limited.
- Candidates are recommended at Management Meetings comprising mainly directors concurrently serving as executive officers, taking into consideration the candidate's detailed and specialized knowledge, experience, and judgment in specified fields, as well as personality, and based on the qualities that would enable them to execute duties in the field in question. Final decisions on these candidates

shall be made by the Board of Directors, following a sufficient period of consideration, and with the advice of two independent outside directors, to ensure transparency and fairness.

- In the event that any of the following applies, following deliberations with the advice of all independent outside directors, a decision shall be made on the executive officer's dismissal or suspension of reappointment.  
If the executive officer in question:
  - (i) is in violation of laws, regulations, or the Articles of Incorporation
  - (ii) no longer satisfies the criteria described above
  - (iii) is unable to appropriately execute his or her duties for health reasons
  - (iv) causes damage, or poses a risk of damage, to the company's corporate value due to dereliction of duties

#### (7) Training

- Officers shall undergo training conducted by an outside instructor at least once each year, and shall participate in outside training as deemed necessary. The company shall bear the cost of participation in training and related activities.
- The company shall provide candidates for future upper management positions with opportunities for management training by outside agencies.
- All officers shall respond to surveys to confirm the status of participation in training and related activities.

#### (8) Relationships with outside accounting auditors

- Following prior deliberations, the company shall set an appropriate audit schedules to contribute to sufficient audits, and shall report to the Audit & Supervisory Board.
- As deemed necessary, the company shall secure opportunities for meetings between outside accounting auditors and the representative director, other directors, and executive officers.
- Auditors and the Audit Office (an Internal Auditing Dept.) shall collaborate with outside accounting auditors, for example through accounting audits, operational audits, and quarterly reviews. They shall also collaborate with outside directors as deemed necessary.
- In the event that an outside accounting auditor discovers some wrongdoing and requests an appropriate response, or points out some omission or problem, the director in charge of the division receiving the notification shall play a central role in investigating, and shall report the results to the Board of Directors. The Audit & Supervisory Board shall request a report from the parties involved, and if deemed necessary, shall conduct an investigation and request corrections.

#### Chapter 6: Dialogues with shareholders, etc.

- The company shall provide opportunities for dialogue with shareholders and investors to contribute to continuous growth and increasing corporate value in the medium and long term.
- An executive officer shall be assigned to oversee IR operations, and Group Business Management Dept. at Group Management Headquarters shall be responsible for IR, including meetings with shareholders and other parties. At financial results briefings for institutional investors and analysts, the representative director and the executive officer in charge of IR shall explain the company's management policies and strategies.
- Group Business Management Dept. at Group Management Headquarters (the division responsible for IR) shall collaborate with related divisions in gathering information required for IR.
- The company shall regularly monitor the shareholding structure in the shareholder registry. Opinions and requests identified through IR and related activities shall be fed back to the representative director.
- In-house regulations shall be stipulated to ensure full attention to the management of insider

information.

Supplementary provisions

- Enactment, amendment, or abolition of these Guidelines shall be based on a resolution by the Board of Directors.
- These Guidelines are effective as of June 6, 2016.
  - ① June 5, 2017: partial amendment
  - ② May 7, 2018: partial amendment
  - ③ December 6, 2018: partial amendment

## Criteria for judgments on the independence of outside officers

Earth Corporation  
Enacted: Feb. 4, 2016

Earth Corporation judges that outside directors and outside auditors (hereinafter collectively referred to as “outside officers”) or outside officer candidates have independence when, as a result of investigations conducted by the company within a reasonable scope, it is determined that the outside officer in question meets all of the following criteria:

1. Has never served as a director (excluding outside director; same below), auditor (excluding outside auditor; same below), executive officer, or key employee<sup>\*1</sup> (hereinafter referred to collectively as “director, etc.”) at Earth Corporation or its subsidiary (hereinafter, the “Earth Group”)
2. Has no second-degree or closer relatives serving as a director, etc., in the Earth Group
3. Within the past year, has not been a main shareholder<sup>\*2</sup> or director, etc., at Earth Corporation, or a director, etc., at a company for which the Earth Group is a main shareholder
4. Within the past three years, has not been a director, etc., at a main partner company of the Earth Group<sup>\*3</sup>
5. Is not currently a director, etc., at a company that has received a director or auditor from the Earth Group, or at a parent company or subsidiary of such a company
6. Is not a certified public accountant, or an employee, partner, or worker at an auditing corporation that serves as an accounting auditor for the Earth Group
7. Is not a specialized service provider (e.g., a certified public accountant, certified tax accountant, lawyer, or consultant) that has received a monetary or otherwise asset-related profit exceeding JPY10mn per year excluding officers’ compensation from the Earth Group (If the party receiving the assets in question is a corporation or other organization: is not affiliated with an organization for which total assets received from the Earth Group exceed 2% of total annual income)
8. Aside from the items above, is recognized as not having any special circumstances that could result in a conflict of interest with Earth Corporation, and is not affiliated with a corporation or other organization having such circumstances

### [Notes]

\*1: “Key employee”: Division manager or higher position

\*2 “Main shareholder”: Direct or indirect holder of voting rights representing 10% or more of the total

\*3 “Main partner company of the Earth Group”: A company involved in business transactions with the Earth Group during the most recent business year, where amounts paid or received account for 2% or more of consolidated sales for the Earth Group or the partner company