

# Corporate Governance

## Corporate Governance Framework

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Kikkoman Corporation employs an audit & supervisory board system. We strive to improve and enhance our corporate governance framework. In March 2001, we introduced a corporate officer system and transferred authority for business execution to corporate officers in an effort to streamline operational responsibilities and speed decision-making and business execution. In June, 2006, Kikkoman Corp. appointed outside directors and established the Nominating Committee and the Remuneration Committee to improve transparency of the management and strengthen management oversight. In addition to these efforts, we also strengthen oversight of the management by effectively using the functions of our Corporate Auditors. We adopt the current system with the aim of achieving greater management transparency, clearly defined management responsibility, speedy decision-making, and stronger management oversight.

### **Role of the Board of Directors in Promoting Corporate Social Responsibility**

The Board of Directors of Kikkoman Corporation play various roles in maximizing corporate value over the long term, including addressing environmental and social issues. The Kikkoman Group Code of Conduct was adopted under a resolution by the Board of Directors. All board members and corporate auditors submit annual promissory letters pledging their compliance with the Kikkoman Group Code of Conduct.

In FY 2018, the Board of Directors received reports on the Group's environmental preservation activities, status of internal control, quality control measures, the Group's Corporate Ethics Hotline, and other issues.

### **Appointment of Outside Directors and Outside Audit & Supervisory Board Members**

In June 2002, Kikkoman Corporation appointed outside directors and established the Nominating Committee and Remuneration Committee to achieve greater management transparency and strengthen management oversight. In FY 2018, four of eleven directors were outside directors, and two of four audit & supervisory board members were outside board members.

The role of the outside directors and outside audit & supervisory board members is to strengthen management oversight from an objective perspective on the basis of their wide-ranging experience and insights. In addition, the outside directors strive to increase management transparency by participating in the Nominating Committee and Remuneration Committee.

## ●Directors and Audit & Supervisory Board Members (As of June 26, 2018)

**Honorary Chief Executive Officer  
and Chairman of the Board of Directors**  
Yuzaburo Mogi

**President and Chief Executive Officer**  
Noriaki Horikiri\*

**Directors**  
Koichi Yamazaki\*  
Masanao Shimada  
Shozaburo Nakano  
Kazuo Shimizu  
Osamu Mogi  
Asahi Matsuyama  
Toshihiko Fukui\*\*  
Mamoru Ozaki\*\*  
Takeo Inokuchi\*\*  
Masako Iino\*\*

\* Representative Director

\*\* Outside Director

## Internal Control Systems

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The Kikkoman Group believes establishing an internal control system that ensures proper execution of business practices is high on our corporate agenda. Accordingly, the Group is enhancing the framework for ensuring effective and efficient operations as well as compliance with laws and regulations.

We periodically review and update “the basic policy for establishing an internal control system” that the Board of Directors adopted in May 2006. In accordance with the revision of Companies Act in Japan, which became effective on May 2015, we made significant revisions on the basic policy.

Moreover, in order to comply with the internal controls reporting system mandated by the Financial Instruments and Exchange Act, which went into effect in April 2008, we established an Internal Control Committee and Internal Control Department in November 2008. To this same end, we have adopted a basic policy concerning internal controls as they relate to financial reporting and established a structure for strengthening internal controls related to financial reporting.

## Kikkoman Performance Index

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In 2002, the Kikkoman Corp. introduced the Kikkoman Performance Index (KPI) as our internal performance evaluation system. Since then, the system has been improved and adopted across the wider group companies. In the KPI, results are measured numerically and progress is reviewed twice a year. The results of these evaluations are linked to bonuses for senior managers of Kikkoman Corp.

The KPI consists of seven main indicators. The seven indicators include financial elements such as sales volume, and non-financial elements such as reducing CO<sub>2</sub> emissions and health and safety standards.

Kikkoman Corp.'s group companies operate businesses in different categories. As such, each group company selects KPI indicators that are important and appropriate for their business category. This system allows the group companies to reflect the nature of their unique management challenges for their evaluations. In addition, there are department-level KPI targets that are linked to company-level KPI.

The KPI system aims to motivate group companies to reach their distinct goals, rather than compete with other group companies. Additionally, Kikkoman Corp. works to effectively convey the priorities of both financial and non-financial management goals to its group companies by changing the KPI indicators over time.

Kikkoman Performance Index (conceptual diagram)

Indicators	Business Categories			
	Marketing/ Manufacturing	Manufacturing	Marketing	Wholesale
Total Asset Turnover	●	●	●	●
Net Income	●	●	●	●
Sales	●	●	●	●
Environment	●	●		
Product Quality		●		
Health & Safety		●		
Individual Indicators	●	●	●	●
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

# Compliance

## The Kikkoman Group Code of Conduct

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The Kikkoman Group Code of Conduct, which commits Kikkoman employees to contribute to the development of society by fulfilling their work responsibilities with a sense of ethics and mission, consists of six principles: Securing of safety and symbiosis with global environment, Business activities with fair and free competition, Business information disclosure and promotion of communication, Respect for human rights and establishment of happy working environment, Observation of laws and regulations in Japan and abroad and maintenance of social order, and a Positive social action program. In an effort to ensure that the Code is well understood and thoroughly practiced throughout the Group, Kikkoman Corp. has issued English, Chinese, German, French, Spanish, Russian, Italian, Portuguese, Korean, and Thai editions.

### **Submitting promissory letters of compliance with the Kikkoman Group Code of Conduct**

In Japan, pocket reference cards that include the full contents of the Code of Conduct are handed out to all Group employees. All employees are required to carry the cards with them. Kikkoman Group is working to ensure that employee conduct activities in accordance with corporate ethics and a law-abiding spirit by requiring all managerial employees holding positions of corporate officers or manager/supervisor at Kikkoman Corp. as well as the presidents and other management level employees of the Group companies to submit an annual promissory letter to the CEO pledging their compliance with the Kikkoman Group Code of Conduct. In FY 2018, 513 senior managers including corporate officers and supervisors at Kikkoman Corp. and 67 senior managers including presidents of the Group companies in Japan and overseas signed the letter.

## The Kikkoman Group Corporate Ethics Committee

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### **The Kikkoman Group Corporate Ethics Committee**

The Kikkoman Group Corporate Ethics Committee was formed to ensure that the Kikkoman Group Code of Conduct is put into practice. With a total of six members including two outside experts such as outside lawyers as well as a director and officers from Kikkoman Corp., the Committee has overall responsibility for studying and implementing policies related to compliance. During FY 2018, the Committee was held a total of 12 times. Additionally, Committee members met with standing auditors to exchange information once in each half of the fiscal year.

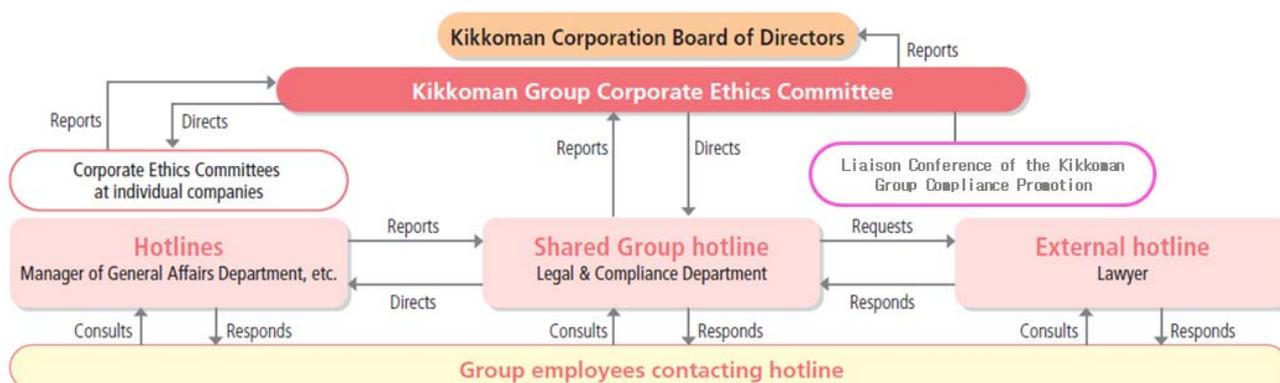
Every two years, the Kikkoman Group Corporate Ethics Committee conducts an internal survey for employees including temporary staff working at the Group companies in Japan. The purpose of this survey was to measure awareness of the Kikkoman Group Code of Conduct and the Group Corporate Ethics Hotline as well as to determine whether any issues are present. Conditions at each company were assessed and substantive responses were given to individual issues.

## The Kikkoman Group Corporate Ethics Hotline

The Kikkoman Group has established a Group Corporate Ethics Hotline and made it available for all employees of the Group companies in Japan. To raise awareness, this hotline is repeatedly announced to employees through individual companies' internal notices, Group newsletters, and training sessions. We have worked to expand the system by opening the hotline up to use by part-time and temporary employees starting in FY2008 and by all Group company employees in Japan following our transition to a holding company-based organization in October 2009.

The Group Corporate Ethics Hotline consists of an external hotline that is managed by two outside lawyers, a shared Group hotline that is managed by Kikkoman Corp.'s Legal & Compliance Department, and hotlines at individual companies that are set up as needed. Reports are received via dedicated phone line, email, and dedicated post office box. When the office receives a report, an internal investigation is conducted, corrective measures taken, and feedback provided to the individual who initiated the report. The Corporate Ethics Committee Regulation stipulates protection for whistleblowers against any backlash or disadvantage that might result from submission of a report. During FY 2018, the Group Corporate Ethics Hotline received 26 calls and dealt with them appropriately.

### • Group Corporate Ethics Hotline



## Efforts to Promote Compliance

### Conducting compliance audits

In addition to instructions in daily operations by the Legal & Compliance Department of Kikkoman Corp. and regular audits by the Kikkoman Group Internal Auditing Department, a legal affairs officer and other personnel conduct compliance fact-finding missions to Group companies overseas. In FY 2018, the mission visited PKI. This mission will be held in FY 2019 and work to strengthen compliance awareness throughout the Group.

### **The Liaison Conference of the Kikkoman Group Compliance Promotion**

Compliance promotion has become an important issue as the number of group companies of the Kikkoman Group increases and its business fields diversifies. In order to promote compliance throughout the Group, the Kikkoman Group launched the Liaison Conference of the Kikkoman Group Compliance Promotion in FY 2012. The members attend the Liaison Conference of the Kikkoman Group Compliance Promotion organized by staff members of the Corporate Ethics Committee consisting of Legal & Compliance Department, Kikkoman Corp. The members work on projects such as developing compliance education programs, lectures to deepen understandings of legal issues, sharing information about good practices of the group companies.

### **United Nations Global Compact Self Assessment Tool**

In FY2013, the Kikkoman Group conducted a self assessment based on the United Nations Global Compact (UNGC) Self Assessment Tool, an online survey developed by a group of institutes in Denmark to help the UNGC signatories measure their performances. This tool has 45 questions based on the ten principles of the UNGC with several indicators attached to each question. The UNGC Office introduces the tool on their website. <http://www.globalcompactselfassessment.org/>

In FY2013, the Kikkoman Group translated this tool into Japanese and conducted a survey to subsidiaries in Japan and overseas. The result suggested we should work more closely with our suppliers in the field of the corporate social responsibility, so the Group developed the Kikkoman Group's Policy for Business Partners.

### **Corporate Social Responsibility Survey**

Kikkoman Group conducted Compliance Surveys from FY 2011 to FY 2014 with the purpose of making a comprehensive assessment of, and improving, compliance status of Group companies in Japan. In FY 2018, the Group improved the survey by adding items of high social interests and conducted the Corporate Social Responsibility Survey. Based on the Kikkoman Corporate Citizenship Framework and the ten Principles of the UN Global Compact, the Corporate Social Responsibility Survey is aimed at assessing conditions of the Group companies through 123 questions categorized by themes such as compliance, corporate governance, stakeholders, environment, human resources, products, product quality, stable supply, delivering new food experiences, Japanese food culture, world food cultures, *Shokuiku* (food education), social contribution. The results were reported to the Board and follow-up measures were taken.

### **Compliance Education and Awareness Programs**

To raise employee awareness and enforce corporate ethics based on the Kikkoman Group Code of Conduct, we provide compliance education during training sessions for all managers/ supervisors and newly appointed managers/supervisors. Compliance education is also incorporated into training programs for all new recruits and new mid-career hires.

In addition to these efforts, Legal & Compliance Department at Kikkoman Corp. visits subsidiaries and holds compliance lectures. In FY2018, 27 sessions in total were held at group companies. During the Compliance Month in FY 2017, self-learning programs based on case studies were held at each department of 23 group companies in Japan.

### **The Kikkoman Group Compliance Handbook**

In order to develop a firm understanding of compliance, Kikkoman Corp. issues the Kikkoman Group Compliance Handbook in October, 2011 and distributed to employees in Japan.

This handbook describes specific examples of non-compliance. By giving visible examples, we are trying to raise awareness as well as practice at workplace.



## **TAX**

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The Kikkoman Group recognizes that proper payment of taxes in the countries and regions where we operate has important implications for the fulfillment of our responsibilities as a corporate citizen, in addition to contributing to the sound development of the society. Based on this belief, we strictly observe the relevant tax-related laws and regulations as well as the spirit of the law in these countries.

### **Efforts Accompanying the Globalization of Business**

With the globalization of the Kikkoman Group's business, intra-group transactions in different countries and regions are also increasing. The Group holds discussions whenever necessary with the tax authorities and other relevant parties in each country regarding the transfer pricing that arises from these transactions. In addition to accurately reporting the Group's business transactions, we exchange information with a focus on fairness, and promote efforts aimed at the proper payment of taxes. We have established a system for handling important matters related to the payment of taxes under which the CFO reports to the Board of Directors as appropriate, and instructions can be received from the Board of Directors. Furthermore, the Group does not engage in the systematic utilization of tax havens outside the countries in which we operate.

### **Disclosure of Information on Corporation Taxes, etc.**

Information on the Kikkoman Group's corporation taxes, etc. is disclosed in the company website(\*). In FY 2018, the total corporation tax on the Group's net sales of 430,602 million yen was 11,841 million yen. The effective tax rate was 30.7%.

\* Factbook Business Information Fiscal 2018 \*Only available in Japanese  
<http://www.kikkoman.com/finance/library/factbook/index.shtml>

Annual Report

<http://www.kikkoman.com/finance/library/annual/index.shtml>

## Anti-Corruption Policy

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As the Kikkoman Group Code of Conduct states, the Group does not tolerate bribery, graft, and other corrupt practices. Moreover, Kikkoman Corp. signed the UN Global Compact in 2001, and has enforced the Ten Principles including the anti-corruption principle since its inclusion in 2004. Amidst intensifying efforts worldwide to prevent corrupt practices, particularly the Foreign Corrupt Practices Act (US FCPA) in the United States and the Bribery Act of 2010 in the United Kingdom, the Group is also strengthening our efforts toward this objective.

### **Statement on the Anti-Corruption Policy in the Kikkoman Group Code of Conduct**

In August 2008, the Group formulated the Kikkoman Group Code of Conduct based on the approval of the Board of Directors of Kikkoman Corporation. Among the six principles, the fifth one states “Observation of laws and regulations in Japan and abroad, and maintenance of social order,” and our Anti-Corruption policy is expressed in this principle. In addition to the Japanese version of the Kikkoman Group Code of Conduct, the Group has issued English, Chinese, German, French, Spanish, and Russian editions of the text in an effort to ensure its accessibility in each Group company in Japan and overseas. In addition, all employees holding the positions of director, corporate officer, or manager/supervisor within Kikkoman, as well as the presidents and executives of the Group companies are required to submit an annual promissory letter pledging their compliance with the Code of Conduct.

### **Internal Communication and Training**

The Kikkoman Group disseminates messages from the CEO on rigorous legal compliance, including anti-corruption, at senior management meetings and through internal communication. Group companies in Japan and overseas also read the Code of Conduct aloud in order to make it well known to their employees. In addition, the officer in charge of legal affairs and compliance and others conduct annual inspection tours on the state of compliance and undertake awareness-raising activities rooted in the workplace.

### **Risk Assessment Related to Prevention of Corrupt Practices**

In FY 2013, the Kikkoman Group used the UN Global Compact Self Assessment Tool to carry out a self-assessment, which included anti-corruption items. In FY 2017, we conducted a Corporate Social Responsibility Survey using our own assessment standards to investigate the state of anti-corruption practices at the Group companies covered by the survey. We also reviewed the specific business measures in the regions where the risk of bribery is a concern, and thereafter conducted a follow-up.

### **The Kikkoman Group Corporate Ethics Committee**

The Kikkoman Group has established the Kikkoman Group Corporate Ethics Committee, which strives for compliance with the Kikkoman Group Code of Conduct. With a total of six members including two outside experts such as lawyers, as well as a director and officers from Kikkoman Corporation, the Committee has established a system for reporting to the CEO, Board of Directors, and the Audit and Supervisory Board on matters of compliance, including the prevention of corrupt practices, and for receiving instructions as needed.

### **The Kikkoman Group Corporate Ethics Hotline**

The Kikkoman Group has established a Group Corporate Ethics Hotline as the internal reporting hotline for inquiries from employees across all the Group companies in Japan. We are also establishing internal reporting hotlines at the principal Group companies overseas. We have established a system based on the Corporate Ethics Committee Regulation that allows anonymous reports and inquiries, if desired, to protect the identity of employees who provide information to internal reporting hotlines on various matters, including corrupt practices.

### **Working with Suppliers**

The Kikkoman Group's Policy for Business Partners was established in FY 2014 to communicate our policy about business transaction to our business partners including service contractors. When we introduce the Policy to our suppliers, we explain about the ten principles of the UN Global Compact including anti-corruption as well as the Group's basic approach on this subject. Moreover, among the key factors that the Kikkoman Group expects from our business partners, "Business transactions" lists those related to anti-corruption such as "Prohibit inappropriate exchange of gifts or client entertainments."

### **Penalties/Settlements in relation to Corrupt/Anti-Competitive Practices and Measures Taken**

In FY 2017, there were neither penalties nor related to corrupt and anti-competitive practices in the Kikkoman Group. In addition, there were no internal reports related to such practices. Accordingly, no measures were taken against infringements.