

Corporate Governance Report

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Nankai Electric Railway Co., Ltd.

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The corporate governance of Nankai Electric Railway Co., Ltd. (the “Company”) is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

We recognize that the strengthening of corporate governance functions is an important management issue. For this reason, we strive to implement strict adherence to laws and regulations first of all, while seeking to practice very transparent management and fair and rational decision-making, as well as strengthen the supervisory functions that oversee these processes. At our company, we respect all of the principles in “Japan’s Corporate Governance Code,” which was established by the Tokyo Stock Exchange. We will continuously make efforts to examine and enhance our corporate governance functions with the aim of achieving sustainable growth and the enhancement of corporate value over the medium and long term.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code] **Updated**

[Principle 4-11]

Currently, while the Board of Directors on the whole is well-balanced in knowledge, experience and skills, going forward, the Company shall proactively give greater consideration to the employment of women, so as to further increase diversity on the Board.

[Disclosure Based on the Principles of the Corporate Governance Code] **Updated**

[Principle 1-3]

The Company strives to strengthen its financial standing, placing great emphasis on the balance between interest-bearing debt and cash flows. We have also been making efforts to achieve the sustainable growth of corporate value while promoting investment that contributes to the improvement of profitability in the future. With respect to the return of gains to shareholders, the Company intends to pay stable dividends to its shareholders. In the medium term business plan, the Company discloses quantitative targets; consolidated operating income, and the ratio of interest-bearing debt to EBITDA.

[Principle 1-4]

If the Company determines that a business relationship with any party contributes to the improvement of the Group’s corporate value in the medium to long term, the Company holds strategic shareholdings with a view to maintaining and strengthening such business relation.

Shares currently held as strategic shareholdings are reviewed every year at the Board of Directors' meeting where they are examined quantitatively using the Company's cost of capital as the standard. If the rationality of strategic shareholding is deemed to be weak for certain stocks, the Company shall reduce the number of shares held as swiftly as possible.

With respect to the exercise of voting rights, in cases such as the following where there will be a significant impact on the issuing company's corporate value or on its transactions with the Company, the Company shall determine whether it is for or against proposals based on dialogues, etc. with the issuing company as necessary.

- When a significant worsening of business performance has persisted for a period of time
- When there is a major scandal
- When a proposal that goes against the interests of controlling shareholders is submitted
- When a proposal is submitted regarding a capital policy that brings about a change in the Company's control or large-scale dilution
- When a proposal that will have a significant impact on the issuing company's transactions with the Company is submitted

[Principle 1-7]

With regard to conflict-of-interest transactions by Directors, the Company requires an approval of the Board of Directors in compliance with the laws and regulations. The outline of the results shall be reported promptly at the Board of Directors' meeting following the execution of such transaction. However, the outline of the results concerning conflict-of-interest transactions on a recurring basis shall be reported on a quarterly basis. In addition, with regard to transactions with major shareholders (those holding voting rights equivalent to 10% or more of the total voting rights), the Company takes the same measures as those required for conflict-of-interest transactions by Directors at the Board of Directors' meeting. The Board of Directors shall deliberate on the relevant matters impartially with a view to ensuring the common interests of the Company and its shareholders.

[Principle 2-6]

For the management of the Company's corporate pension fund, an Asset Management Committee has been established. The said Committee receives reports on the management of the pension fund, and conducts monitoring efforts as appropriate. The said Committee is comprised of members with knowledge on the Stewardship Code and the management of funds, such as Chief Manager of Accounting & Finance Department and Chief Manager of Personnel Department.

[Principle 3-1]

(1) The Company discloses its Corporate Philosophy, Group business guidelines, Nankai Group Management Vision 2027 and the medium term business plan on the Company's website, etc.

- Corporate Philosophy
<http://www.nankai.co.jp/company/company/>
- Group business guidelines
- Nankai Group Management Vision 2027
- The medium term business plan
<http://www.nankai.co.jp/company/keikaku/>

(2) Basic views on corporate governance and basic policies are as provided above in "1. Basic Views."

(3) Policies and procedures for the Board of Directors of the Company to determine the compensation for Directors are as provided below in "Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods" shown in [Director Remuneration] included in "1. Organizational Composition and Operation" listed in "II Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management."

(4) The Company selects persons in managerial positions with knowledge about the Group's operations as well as specialists in safety management of transportation as candidates for Directors from within the Company. In addition, as candidates for Outside Directors, the Company selects persons who have knowledge and experience as business managers, and can be responsible for management supervisory

function from their independent standpoints without any mutual relationship which may impose significant control over the management of the Company.

With respect to candidates for Auditors, the Company selects persons well versed in the Group's operations as candidates for Full-Time Senior Corporate Auditors from within the Company. The Company also select persons as candidates for Outside Auditors who have knowledge related to legal affairs, finance and accounting, and can be responsible for the function to ensure the effectiveness of audits from their independent standpoints without any mutual relationship which may impose significant control over the management of the Company.

The matters related to the determination of candidates for Directors and the selection of Representative Directors and Corporate Officers are submitted to Nomination and Compensation Committee meetings for opinions and advice of Outside Directors, prior to the determination at the Board of Directors' meeting. For a Director or Corporate Officer for which any of the following applies, after deliberation via Nomination and Compensation Committee meetings, the Board of Directors shall determine if the said Director or Corporate Officer shall be dismissed from his or her position or responsibilities, and if necessary, submit a proposal to the general meeting of shareholders regarding the Director's dismissal.

- When there is a violation of obligations in duties, or negligence of duties
- When there is misconduct not befitting of a Director or Corporate Officer
- When there is a mental or physical disability that prevents the execution of duties, or makes the execution intolerable

(5) In the event of personnel changes in Representative Director(s), the explanation regarding the nomination of new Representative Director(s) is provided in a timely disclosure material at the time of selection. As for candidate(s) for Director(s) and Auditor(s), the explanation regarding the nomination of the respective candidate(s) is provided in the Reference Documents for the General Meeting of Shareholders.

On the other hand, when the Board of Directors decides to dismiss a Director or Corporate Officer from his or her position or responsibilities, or submits a proposal to the general meeting of shareholders regarding a Director's dismissal, the explanation regarding the dismissal is provided in a timely disclosure material at the time the dismissal is determined.

[Supplementary Principle 4-1-1]

In order to strengthen the supervisory function of the Board of Directors and establish agile business execution systems, the matters to be submitted to the Board of Directors' meeting shall be clearly defined by standards which specify the property, the amount of money involved, etc. based on the resolutions of the Board of Directors' meeting in consideration of the Company's consolidated total assets and risk of each item, etc. For the treatment of matters other than those mentioned above, the Company intends to develop internal regulations which clearly stipulates the standards for authority and decision-making in order to appropriately delegate authorities from the Board of Directors to the Company management team members, thereby the efficiency of business execution is optimized and increased.

[Principle 4-9]

The standards for determining the independence of Outside Directors and Outside Auditors are as provided below in "Matters relating to Independent Directors/Auditors" shown in [Independent Directors/Auditors] included in "1. Organizational Composition and Operation" listed in "II Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management."

[Supplementary Principle 4-11-1]

Based on the Company's business characteristics whose social responsibility is to ensure safe transportation, the Company believes that it is necessary for us to appoint an appropriate number of Directors from within the Company who are well versed in the railway business and safety management of transportation. In addition, the Company shall appoint several Outside Directors with independence in order to ensure the objectivity and transparency of managerial decision-making processes.

The Company selects persons in managerial positions who are well versed in a diverse range of business operations including the railway business as candidates for Directors from within the Company. The Company also selects the candidates for Outside Directors in accordance with "Independence Standards for Outside Officers" provided in [Principle 4-9].

The matters related to the determination of candidates for Directors and the selection of Representative Directors and Corporate Officers are submitted to Nomination and Compensation Committee meetings for opinions and advice of Outside Directors, prior to the determination at the Board of Directors' meeting.

[Supplementary Principle 4-11-2]

Upon selecting the candidates for Outside Directors and Outside Auditors, the Company takes their status of concurrent positions into account. The status of significant concurrent positions of Outside Directors and Outside Auditors is disclosed on an annual basis in the Business Report attached to notice of convocation of the general meeting of shareholders as well as securities reports.

[Supplementary Principle 4-11-3]

The Company shall conduct annual analysis and assessment at the Board of Directors' meeting on the effectiveness the Board of Directors as a whole based on the results of self-assessment in a survey for all Directors and Auditors.

For fiscal 2017, the Company has concluded that the Board of Directors of the Company has been operated favorably for the most part, and the effectiveness of the Board of Directors as a whole was maintained as it was confirmed that issues identified as a result of the previous fiscal year's analysis and assessment were improved to a certain extent. On the other hand, issues that require improvement still remain; further enhancement of deliberation, reports on the status of progress regarding issues the Group needs to tackle, and securing of sufficient time for explanation and deliberation, etc. in the process of formulating the medium term business plan. In consideration of these issues, the Company will take initiatives for the further enhancement of the effectiveness of the Board of Directors as a whole.

[Supplementary Principle 4-14-2]

Necessary training is provided to Directors and Auditors so that they can fulfill their roles and responsibilities. The details of the training are as follows.

- New Directors and Auditors from within the Company will receive training from legal professionals, experts in corporate governance, etc.
- New Outside Directors and Outside Auditors will receive explanations regarding the Company's business description, financial condition, management strategy, etc.
- Directors and Auditors will be encouraged to attend external lectures and related expenses will be provided by the Company as appropriate.
- Tours of the Group's facilities etc. will be held for Outside Directors and Outside Auditors.

[Principle 5-1]

The Company designates the Administrative Planning Department as the department in charge of investor relations. Financial results briefings for institutional investors and securities analysts are to be held every six months in addition to holding small meetings, conducting individual visits, etc., as appropriate. The Company also proactively responds to various types of inquiries such as visits, phone interviews, etc.

2. Capital Structure

Foreign Shareholding Ratio	Less than 10%
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[Status of Major Shareholders] **Updated**

Name / Company Name	Number of Shares Owned	Percentage (%)
Japan Trustee Services Bank, Ltd. (trust account)	6,532,200	5.76
The Master Trust Bank of Japan, Ltd. (trust account)	3,417,700	3.02
Nippon Life Insurance Company	2,622,789	2.31
Japan Trustee Services Bank, Ltd. (trust account 5)	1,698,300	1.50
JP MORGAN CHASE BANK 385151	1,607,924	1.42
The Senshu Ikeda Bank, Ltd.	1,589,087	1.40
Sumitomo Mitsui Trust Bank, Limited	1,516,000	1.34

MUFG Bank, Ltd.	1,473,723	1.30
Sumitomo Mitsui Banking Corporation	1,429,417	1.26
Japan Trustee Services Bank, Ltd. (trust account 2)	1,294,400	1.14

Controlling Shareholder (except for Parent Company)	_____
Parent Company	None

Supplementary Explanation **Updated**

1. The description provided above is based on the shareholders' register as of September 30, 2018.
2. Percentages are calculated after subtracting treasury shares (57,779 shares).
3. In a change report dated September 6, 2018, and submitted for public inspection, Sumitomo Mitsui Trust Bank, Limited and Nikko Asset Management Co., Ltd. stated that they held the Company's shares as of August 31, 2018 as described below. However, as of September 30, 2018, the Company has not been able to verify the actual number of shares held. Accordingly, the description in [Status of Major Shareholders] provided above is based on the shareholders' register as of September 30, 2018.

The details of the change report are as follows.

Name	Number of shares held (Shares)	Ratio to the total number of outstanding shares
Sumitomo Mitsui Trust Bank, Limited	3,823,600	3.37%
Nikko Asset Management Co., Ltd.	791,100	0.70%

4. In a statement of large-volume holdings dated September 18, 2018, and submitted for public inspection, MUFG Bank, Ltd. stated that together with its joint holders, it held the Company's shares as of September 10, 2018 as described below. However, as of September 30, 2018, the Company has not been able to verify the actual number of shares held. Accordingly, the description in [Status of Major Shareholders] provided above is based on the shareholders' register as of September 30, 2018.

The details of the statement of large-volume holdings are as follows.

Name	Number of shares held (Shares)	Ratio to the total number of outstanding shares
MUFG Bank, Ltd.	1,473,723	1.30%
Mitsubishi UFJ Trust and Banking Corporation	2,479,220	2.19%
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	289,600	0.26%
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	1,519,179	1.34%

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Land Transportation
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 50 to less than 100

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

5. Other Special Circumstances which may have Material Impact on Corporate Governance

- About the Company's listed subsidiary
Shares of Nankai Tatsumura Construction Co., Ltd. are listed on the Second Section of the Tokyo Stock Exchange.
In order to maintain the independence and take appropriate control as a group company, the Company dispatches Directors and Auditors to the said subsidiary and provides financial management support as necessary.

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Auditors
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[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	15
Term of Office Stipulated in Articles of Incorporation	2 years
Chairperson of the Board	President
Number of Directors	13
Appointment of Outside Directors	Appointed
Number of Outside Directors	3
Number of Independent Directors	2

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Ichiro Masukura	From another company												
Hitoshi Murakami	From another company												
Kiyoshi Sono	From another company								○				

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/auditor.

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which and the Company outside directors/auditors are mutually appointed (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Ichiro Masukura	○	-----	<p>Although Mr. Ichiro Masukura has served at Takashimaya Company, Limited, he is currently not an executive of the said company, and more than 10 years have passed since his retirement from the position of the said company's executive (retired in March 2005). The Company has no material interest with him or no relationship potentially in conflict with general shareholders, as stipulated by the Tokyo Stock Exchange.</p> <p>He is expected to provide us appropriate advice and supervision for the Group's overall management based on his great insight cultivated through his career as a department store manager from his independent standpoint without any mutual relationship which may impose significant control over the management of the Company. For this reason, the Company appointed (designated) him as an Outside Director (independent Director).</p>
Hitoshi Murakami	○	-----	<p>Although Mr. Hitoshi Murakami has served at Sumitomo Trust and Banking Co., Ltd. (currently Sumitomo Mitsui Trust Bank, Limited), he is currently not an executive of the said company, and more than 10 years have passed since his retirement from the position of the said company's executive (retired in June 2005). The Company has no material interest with him or no relationship potentially in conflict with general shareholders, as stipulated by the Tokyo Stock Exchange.</p> <p>He is expected to provide us appropriate advice and supervision for the Group's overall management based on his great insight cultivated through his career as a bank manager from his independent standpoint without any mutual relationship which may impose significant control over the management of the Company. For this reason, the Company appointed (designated) him as an Outside Director (independent Director).</p>
Kiyoshi Sono		Mr. Kiyoshi Sono is concurrently serving as	Mr. Kiyoshi Sono is expected to provide us appropriate advice and supervision

		Director, Representative Corporate Executive Officer and Chairman of Mitsubishi UFJ Financial Group, Inc. The Company conducts transactions such as borrowing of funds, etc. with MUFG Bank, Ltd., a wholly owned subsidiary of the said bank, where he is concurrently serving as Deputy Chairman.	for the Group's overall management based on his great insight cultivated through his career as a bank manager from his independent standpoint without any mutual relationship which may impose significant control over the management of the Company. For this reason, the Company appointed him as an Outside Director.
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Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nomination and Compensation Committee	Nomination and Compensation Committee
All Committee Members	4	4
Full-time Members	0	0
Inside Directors	1	1
Outside Directors	3	3
Outside Experts	0	0
Other	0	0
Chairperson	Inside Director	Inside Director

Supplementary Explanation **Updated**

At the Nomination and Compensation Committee, the following matters are deliberated prior to their determination at the Board of Directors' meeting, thereby securing the objectivity, transparency and fairness of decision-making.

- Determination of the candidates for Director, selection of Representative Directors and election of Corporate Officers
- Dismissal of a Director or Corporate Officer, and dismissal of or decision to not reelect a Representative Director
- The specific status of implementation of the succession plan for the executive officer based on the ideal state of and selection policy for the executive officer determined by the Board of Directors
- Determination of the compensation for individual officers, and revision of the officer compensation system

[Auditors]

Establishment of the Board of Auditors	Established
Maximum Number of Auditors Stipulated in Articles of Incorporation	5
Number of Auditors	5

Cooperation among Auditors, the Accounting Auditors and Internal Audit Departments
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1) Cooperation between Internal Audit Departments and Auditors

The Internal Audit Department (16 members) and Compliance Management Promotion Department (7 members) collaborate with each other to conduct internal audits (including audits for group companies) with the aim of gaining an accurate understanding of the status of business operation, facilitating its improvement, maintaining compliance-based management, and achieving its further promotion. The Board of Auditors conducts interviews with these two departments on the audit plan, receives reports based on the plan, and asks for an explanation as necessary. The Board of Auditors has also been making efforts to strengthen autonomous monitoring function by attending field audits and exchanging opinions, which leads to the closer cooperation between internal audit and audit by Auditors, and consequently, results in the further enhancement of the effectiveness of audits backed by the collaborative effects.

2) Cooperation between Auditors and the Accounting Auditor

The Board of Auditors conducts interviews with the Accounting Auditor on the audit plan, receives audit reports in light of the plan on a quarterly basis, and hold question and answer sessions. The Board of Auditors has also been making efforts to improve the quality of both operational audits and accounting audits through closer cooperation with the Accounting Auditor such as by attending field audits conducted by the Accounting Auditor as well as by holding meetings with the Accounting Auditor where they can exchange information obtained at the Auditors' operational audits and the Accounting Auditor's accounting audits, respectively, as necessary.

3) Cooperation between the Internal Audit Department and the Accounting Auditor

The Internal Audit Department conducts interviews with the Accounting Auditor on the audit plan annually in July. Together with Auditors and related departments, the Internal Audit Department receives reports about the implementation status of audits from the Accounting Auditor. The Internal Audit Department has also strived to enhance the cooperation with the Accounting Auditor by attending field audits conducted by the Accounting Auditor as necessary.

Appointment of Outside Auditors	Appointed
Number of Outside Auditors	3
Number of Independent Auditors	3

Outside Auditors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Masayuki Oku	From another company										○			
Kozo Arao	Lawyer													
Koji Aiba	From another company										△			

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

c. Non-executive director or executive of a parent company of the Company

d. Auditors of a parent company of the Company

e. Executive of a fellow subsidiary company of the Company

f. A party whose major client or supplier is the Company or an executive thereof

g. Major client or supplier of the Company or an executive thereof

h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an auditor

i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the auditor himself/herself only)

k. Executive of a company, between which and the Company outside directors/auditors are mutually appointed (the auditor himself/herself only)

l. Executive of a company or organization that receives a donation from the Company (the auditor himself/herself only)

m. Others

Outside Auditors' Relationship with the Company (2)

Name	Designation as Independent Auditor	Supplementary Explanation of the Relationship	Reasons of Appointment
Masayuki Oku	○	Although Mr. Masayuki Oku has served at Sumitomo Mitsui Banking Corporation, he is currently not an executive of the said bank. The Company conducts transactions such as borrowing of funds, etc. with the said bank. He is currently serving as the President & Director of the Osaka Philharmonic Association, a public interest incorporated association. The Company is a full member of the said association and pays	The Company has no material interest with Mr. Masayuki Oku or no relationship potentially in conflict with general shareholders, as stipulated by the Tokyo Stock Exchange. He is expected to enhance the effectiveness of the Group's audits based on his great insight cultivated through his career as a bank manager from his independent standpoint without any mutual relationship which may impose significant control over the management of the Company. For this reason, the

		membership fee, etc. to the said association.	Company appointed (designated) him as an Outside Auditor (independent auditor). He also has knowledge of finance and accounting gained through his business experience in a bank.
Kozo Arao	○	-----	The Company has no interest with Mr. Kozo Arao or no relationship potentially in conflict with general shareholders, as stipulated by the Tokyo Stock Exchange. He is expected to enhance the effectiveness of the Group's audits based on his expertise as a lawyer and extensive experience through his years of engagement in corporate legal affairs from his independent standpoint without any mutual relationship which may impose significant control over the management of the Company. For this reason, the Company appointed (designated) him as an Outside Auditor (independent auditor). He also has knowledge of finance and accounting and is well versed in corporate legal affairs.
Koji Aiba	○	Although Mr. Koji Aiba has served at Nippon Life Insurance Company, he is currently not an executive of the said company. The Company conducts transactions such as borrowing of funds, etc. with the said company.	The Company has no material interest with Mr. Koji Aiba or no relationship potentially in conflict with general shareholders, as stipulated by the Tokyo Stock Exchange. He is expected to enhance the effectiveness of the Group's audits based on his great insight cultivated through his career as an executive of a life insurance company from his independent standpoint without any mutual relationship which may impose significant control over the management of the Company. For this reason, the Company appointed (designated) him as an Outside Auditor (independent auditor). He also has knowledge of finance and accounting through his business experience in a life insurance company.

[Independent Directors/Auditors]

Number of Independent Directors/Auditors	5
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Matters relating to Independent Directors/Auditors
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The Company stipulates the standards for determining the independence of Outside Directors and Outside Auditors as follows.

[Independence Standards]

The Company appoints Outside Directors and Outside Auditors on the precondition that the candidates do not have any material interest with the Company and do not fall under the conditions as lacking independence in the Independence Standards stipulated by the Tokyo Stock Exchange for the purpose of submitting notifications following the appointment of independent Directors and independent Auditors. The Company also requires candidates that have insight and experience necessary for supervising and auditing business execution not only in the railway business whose social responsibility is to ensure safe transportation but in a diverse range of the Group's business operations, as well as positive motivation and qualification to properly fulfill his/her assignment that is expected to be carried out from an independent standpoint. The Company believes that these requirements are essential to respond to our shareholders' mandate.

[Incentives]

Incentive Policies for Directors	Performance-linked Remuneration
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Supplementary Explanation

As provided below in "Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods" shown in [Director Remuneration].

Recipients of Stock Options	-----
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Supplementary Explanation

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	No individual disclosure
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Supplementary Explanation

The Company discloses the number of eligible officers, type and total amount of compensation, as well as total amount of compensation by category for Directors (excluding Outside Directors), Auditors (excluding Outside Auditors), Outside Directors, and Outside Auditors, respectively.

The total amount of compensation, etc. for the most recent fiscal year ended March 31, 2018 is as follows.

Category	Number of officers	Amount of compensation (basic remuneration)
Directors (excluding Outside Directors)	13 persons	267 million yen
Auditors (excluding Outside Auditors)	2 persons	47 million yen
Outside Directors	4 persons	26 million yen
Outside Auditors	3 persons	25 million yen

Policy on Determining Remuneration Amounts and Calculation Methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The form of compensation for the Company's officers is limited to cash. They do not receive any indefinite or intangible compensation. In order to promote business management with emphasis on shareholder value and stock prices as well as to further increase incentives for performance improvement, our basic compensation system shall be the combination of fixed compensation, compensation based on performance, and compensation through the allocation of corporate stock.

1) Compensation based on performance

Compensation based on performance is adopted for Directors. In the calculation of compensation based on performance, the respective evaluation results of company performance and individual performance are combined in a matrix, by which standard compensation is adjusted between 0% and 200%. Company performance is evaluated based on dividends and consolidated ordinary income for the previous fiscal year. Individual performance is evaluated by assessing the level of achievement of performance targets for the department the Director is in charge, which were set at an interview with the President. The Chairman, the President, and Non-executive Directors, however, are evaluated only by company performance to determine their amounts of compensation.

2) Compensation through the allocation of corporate stock

For Directors (excluding Outside Directors) and Full-Time Senior Corporate Auditors, the Company pays additional compensation separately from their fixed compensation. The amount of such additional compensation is determined by multiplying a certain percentage (varying depending on each Director's position) by the amount of their fixed compensation. This compensation amount is contributed to the Officer Shareholder Association and is appropriated for the allocation of the Company's shares.

[Supporting System for Outside Directors and/or Outside Auditors]

The General Affairs Department is the secretariat of the Board of Directors. In order to improve the effectiveness of supervising and auditing by Outside Directors and Outside Auditors, the General Affairs Department shall provide them with materials for the Board of Directors' meeting in advance whenever possible and as necessary, make an arrangement for them to receive explanation from each officer in charge, etc. about the agenda and the contents ahead of meetings. The secretariat also provides explanation on the agenda and the summary of matters to be reported to Outside Directors prior to the Board of Directors' meeting. Through the aforementioned initiatives, the Company strives to ensure the propriety of decision-making procedures at the Board of Directors' meetings. In addition, absent Outside Officers will receive materials on the deliberation and reporting, as well as the results.

The Corporate Auditor's Office is the secretariat of the Board of Auditors. The Corporate Auditor's Office conveys information such as the date and time of the Board of Auditors' meeting as well as the agenda in advance, while providing assistance on field audits to each business location as necessary. Information beneficial for the execution of audits are collected from the contents submitted to the Management Committee and other approval documents, and provided to Senior Corporate Auditors, who report and explain them to Outside Auditors as necessary.

[Retired Presidents/CEOs Holding Advisory Positions]

Information on retired presidents/CEOs holding advisory positions

Name	Job title/ position	Responsibilities	Employment terms (Full/part time, with/without compensation, etc.)	Date when former role as president/ CEO ended	Term
Shinji Watari	Senior Adviser	Advice in response to requests from the current management (as necessary) Activities as a member of the Management Committee of Osaka Metro Co., Ltd	Part time Compensated position	June 23, 2015	4 years

**Number of retired presidents/CEOs holding
advisory positions**

1

Others

**2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration
Decisions (Overview of Current Corporate Governance System) Updated**

(1) Business execution

1) Board of Directors

The Board of Directors (secretariat: General Affairs Department) consists of 13 Directors (including 3 Outside Directors) and 5 Auditors (including 3 Outside Auditors), and meets on a monthly basis in principle to make decisions on important business execution and to supervise the execution of duties by Directors.

2) Management Committee

Based on the fundamental management policies established by the Board of Directors, the Management Committee, which is comprised of Managing Directors (secretariat: General Affairs Department), meets once a week to discuss important management issues. They seek to comprehensively control business execution and optimize decision-making on management.

3) System of Corporate Officers

With the aim of reinforcing the supervisory function of the Board of Directors and establishing a system for agile business execution, the Company has adopted a system of Corporate Officers. Currently, 7 Corporate Officers are appointed and are working with executive Directors to optimize and improve the efficiency of business execution by, for example, sharing information such as issues on important business execution and operating performance.

(2) Audit and supervision

1) Audit by Auditors

The Board of Auditors, which consists of 5 Auditors (secretariat: Corporate Auditor's Office), meets once a month in principle and execute audits on business execution.

The Board of Auditors regularly exchanges opinions with Representative Directors and officers in charge of each department. For Senior Corporate Auditors, the Company has established a system in which they can

exchange opinions with Directors and other employees as necessary with respect to individual management issues. In addition, Senior Corporate Auditors attend the Management Committee and other important meetings and hear reports about issues that are important to the management of the Company and the Group, including the status of business execution, operating results and financial conditions. These Auditors also receive important documents, including draft plans after approval and internal auditing reports, for review. Senior Corporate Auditors report to Outside Auditors at the Board of Auditors' meetings about information gathered through these efforts and add appropriate explanations about such information from the perspectives of those well-versed in the business of the Company. In turn, Outside Auditors provide guidance and state opinions based on their expertise and experiences outside the Company. By following these different roles and mutually complementing each other's functions, they increase the effectiveness of audits by Auditors. In addition, we have established the Corporate Auditor's Office as an organization dedicated to handling work related to the Board of Auditors and audits by Auditors in order to strengthen Auditors' functions. The Corporate Auditor's Office consists of 2 staff members, who shall follow the commands and orders of Auditors. As for the personnel changes and evaluations of Corporate Auditor's Office members, the consent of Senior Corporate Auditors shall be obtained.

2) Accounting audit

For the purpose of the audits of consolidated financial statements and non-consolidated financial statements, the Company has entered into an auditing agreement with KPMG AZSA LLC. In the most recent fiscal year ended March 31, 2018, the following 2 certified public accountants were designated as executive partners in charge of audit attestation services.

Classification	Name	Years of continuous service
Designated limited liability partner	Kenryo Goto	3 years
Designated limited liability partner	Yasuyoshi Imai	7 years

Assistants of audit services were selected in accordance with the standards of KPMG AZSA LLC., namely, 10 certified public accountants, 7 associate members of the Japanese Institute of Certified Public Accountants, and 3 other members.

For the fiscal year ending March 31, 2019, the Company shall continue its auditing agreement with KPMG AZSA LLC, and the following 2 certified public accountants have been designated as executive partners in charge of audit attestation services.

Classification	Name
Designated limited liability partner	Kenryo Goto
Designated limited liability partner	Keiko Kitamura

3) Internal audit

For the purpose of accurately understanding the state of business operations and promoting the improvement thereof from the perspective of increasing management efficiency, we have established a system which enables the Internal Audit Department to systematically implement internal audits.

4) Cooperation among internal audit, audit by Auditors, and accounting audit

As provided above in "Cooperation among Auditors, the Accounting Auditors and Internal Audit Departments" shown in [Auditors] included in "1. Organizational Composition and Operation."

5) Relationship among internal audit, audit by Auditors, accounting audit, and the Internal Control Department

(i) Relationship between internal audit and the Internal Control Department

The Internal Audit Department is required to conduct audits to examine whether systems of each department responsible for the development and operation of the internal control system are properly developed and effectively operated. Chief Managers, Managers and related employees of departments subject to audit are required to cooperate so that the relevant audits are carried out smoothly and swiftly. The results of the relevant audits are promptly reported by the Internal Audit Department to the President. For the execution of internal audits (including audits on group companies), the Internal Audit Department collaborates with the Compliance Management Promotion Department to ensure the effectiveness of audits as necessary.

(ii) Relationship between audit by Auditors and the Internal Control Department

Senior Corporate Auditors have established a system in which they can carry out interviews individually with Officers, Chief Managers or Managers in charge of each department that develops and operates each system related to the internal control system, whereby Senior Corporate Auditors can confirm the effectiveness of the relevant systems.

(iii) Relationship between accounting audit and the Internal Control Department

Officers, Chief Managers, Managers, and related employees of the Internal Audit Department and the Accounting & Finance Department have established a system in which they can cooperate with the Accounting Auditor in order that accounting audits and field audits are carried out by the Accounting Auditor smoothly and effectively.

6) Nomination and Compensation Committee

As provided above in “Supplementary Explanation” shown in “Committee’s Name, Composition, and Attributes of Chairperson” included in [Directors] listed in “1. Organizational Composition and Operation.”

(3) Outside Directors and Outside Auditors

1) Functions and roles to be fulfilled in corporate governance

Outside Directors are expected to utilize their knowledge and experience as business managers for the management of the Company. They are responsible for the function which contributes to the improvement of efficiency and transparency in management from their independent standpoints without any mutual relationship which may impose significant control over the management of the Company.

Outside Auditors are expected to utilize their knowledge, experience and expertise as business managers or lawyers for the auditing of the Company. They are responsible for the function which contributes to the securing of transparency in management and the qualitative improvement of audits from their independent standpoints without any mutual relationship which may impose significant control over the management of the Company.

2) Cooperation among supervision/audit, internal audit, audit by Auditors, and accounting audit

(i) Cooperation between supervision/audit and internal audit

As provided above in “1) Cooperation between Internal Audit Departments and Auditors” shown in “Cooperation among Auditors, the Accounting Auditors and Internal Audit Departments” included in [Auditors] listed in “1. Organizational Composition and Operation,” the Board of Auditors obtains audit plans from the Internal Audit Department and receives reports on audits based on the plans, with the attendance of Outside Directors. Outside Directors and Auditors (including Outside Auditors) exchange opinions on audit plans and results, and request the Internal Audit Department and the Compliance Management Promotion Department explanations as necessary.

(ii) Cooperation between supervision and audit by Auditors (including audit by Outside Auditors)

By creating opportunities for Outside Directors and Auditors (including Outside Auditors) to exchange information and share their understanding, the Company aims to strengthen the information gathering capabilities of Outside Directors to support their activities as Outside Officers. In addition, the Company holds meetings for Outside Directors and the Board of Auditors to exchange opinions to maintain the effectiveness of audits by Auditors.

(iii) Cooperation between supervision/audit and accounting audit

As provided above in “2) Cooperation between Auditors and the Accounting Auditor” shown in “Cooperation among Auditors, the Accounting Auditors and Internal Audit Departments” included in [Auditors] listed in “1. Organizational Composition and Operation,” the Board of Auditors obtains audit plans from the Accounting Auditor with the attendance of Outside Directors. Outside Directors and Auditors (including Outside Auditors) exchange opinions on audit plans and hold question and answer sessions with the Accounting Auditor as necessary.

3) Relationship between supervision/audit and the Internal Control Department

As provided above in [Supporting System for Outside Directors and/or Outside Auditors] shown in “1. Organizational Composition and Operation.”

4) Agreement for limitation of liability

The Company has concluded an agreement with Outside Directors; Messrs. Ichiro Masukura, Hitoshi Murakami, and Kiyoshi Sono as well as Outside Auditors; Messrs. Masayuki Oku, Kozo Arao, and Koji Aiba to limit their liability described in Article 423, Paragraph 1 of the Companies Act, pursuant to Article 427, Paragraph 1 of the Companies Act as well as Article 26 and Article 33 of the Articles of Incorporation. The maximum amount of liability described in the agreement shall be the amount stipulated by laws and regulations.

3. Reasons for Adoption of Current Corporate Governance System Updated

While the Company has adopted an auditor system, based on the Company's business characteristics whose social responsibility is to ensure safe transportation, the Company believes that it is necessary to appoint an appropriate number of Directors from within the Company who are well versed in the railway business and safety management of transportation. In addition to this, the Company shall appoint several Outside Directors with independence in order to ensure the objectivity and transparency of decision-making process for important management issues including nomination and compensation. The functions and roles that the Company expects for Outside Directors are as provided above in "1) Functions and roles to be fulfilled in corporate governance" shown in "(3) Outside Directors and Outside Auditors" included in "2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)."

Furthermore, as described above, the Internal Audit Department shall provide the Board of Auditors with reports on the status of audits with the attendance of Outside Directors. The Board of Auditors, on the other hand, strives to enhance its own management supervisory function by exchanging opinions regularly with Representative Directors who are ultimately responsible for the development and operation of the internal control system.

Through such initiatives as the appointment of several Outside Directors with independence, their involvement in the election and dismissal of Representative Directors, Directors and Corporate Officers, succession plan for the executive officer and the decision-making process of Director compensation, as well as efforts to enhance the Board of Auditors' management supervisory function in cooperation with the Internal Audit Department, etc., the Company believes that its corporate governance system is functioning effectively.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholder Meeting	The Company sends the notice of convocation of the general meeting of shareholders in principle from around 3 to 6 business days prior to the statutory deadline. The contents of the notice are to be electronically disclosed on TDnet prior to dispatch in principle. As for the Notice of Convocation of the 101st Annual General Meeting of Shareholders, which is for the most recent fiscal year, the Company dispatched the Notice 5 business days prior to the statutory deadline, and electronically posted the contents of the Notice on TDnet 4 business days prior to dispatch.
Scheduling AGMs Avoiding the Peak Day	The Company sets the schedule for the general meeting of shareholders in principle to avoid the foremost peak day. The 101st Annual General Meeting of Shareholders, which is for the most recent fiscal year, was held on June 22, 2018, avoiding the foremost peak day.
Allowing Electronic Exercise of Voting Rights	The Company provides exercise of voting rights via the Internet, etc. for the general meeting of shareholders.
Utilization of Electronic Voting Platform and Other Methods to Improve the Environment for Institutional Investors' Voting	The Company participates in the Electronic Voting Platform operated by ICJ, Inc.
Providing Convocation Notice in English	The Company prepares an English version of the convocation notice including its reference documents.
Other	The notices of convocation are posted on the Company's website. (URL: http://www.nankai.co.jp/ir/soukai/)

2. IR Activities

	Supplementary Explanations	Presentation by Representatives
Formulation and Announcement of Disclosure Policy	The Disclosure Policy has been formulated and posted on the Company's website. (URL: http://www.nankai.co.jp/ir/disclosurepolicy/)	
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds briefings twice a year, in May and November. Following items are to be explained at each briefing session; the outline of financial results and financial results forecasts respectively for the first six months and the full-year, the progress of the medium term business plan, and other related items.	Available
Posting of IR Materials on Website	IR materials are posted on the Company's website. (URL: http://www.nankai.co.jp/company/)	
Establishment of Department and/or Manager in Charge of IR	IR activities are handled by Administrative Planning Department. The officer in charge of IR activities is Naoto Ashibe, Managing Director and General Manager, Corporate Planning & Management Division.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	<p>As an all-round lifestyle provider centering on the railway business, the Company established its Corporate Philosophy under the belief that it shall greatly contribute to the building of a better society through a wide range of businesses that support people's lives comprehensively. The Company also established its Code of Business Ethics for the sound growth of the Company and group companies as well as for the establishment of business ethics. Through these initiatives, we are committed to the promotion of compliance-based management.</p> <p>In addition, we have been promoting a group-wide campaign, "In Harmony with Customers." In this campaign, starting from setting annual targets for each of the Company's departments and group companies, we are engaged in various measures from viewpoints of our customers. The Company also takes all possible precautions to prevent accidents by continuing investment and employee training with a view to "assuring safety," which is the Company's most important responsibility. Preparing for the occurrence of disasters, in order to secure the safety of customers, the highest priority, and aiming for early recovery of our business activities, we have established the Disaster Countermeasure Regulations, in a commitment to fulfilling our corporate social responsibilities. In addition, in the case of an emergency such as a major earthquake, in order to prevent the interruption of important business activities, or to enable the recovery of such activities as quickly as possible in the event of interruption, we have formulated the Business Continuity Plan (BCP), which stipulates countermeasures to be taken beforehand and action plans.</p>
Implementation of Environmental Activities, CSR Activities, etc.	<p>In parallel with the promotion of compliance-based management as an effort in CSR, the Company has established the Environmental Philosophy as the foundation of its environmental measures and the Environmental Policies to clarify its policies concerning the environment. Based on these policies, we are promoting various initiatives in each division including the introduction of environment-friendly train stock, etc. The Company has established a system which facilitates the steady and proactive fulfillment of its social responsibilities by developing an environmental management system and making greater efforts to preserve the environment, which resulted in the acquisition of ISO14001 certification in the Headquarters Department and the Chiyoda Works. Additionally, as a part of social contribution activities, the Company has established a scholarship fund for high school students orphaned in traffic accidents mainly in Osaka Prefecture with the aim of contributing to the development of promising human resources. For details of our environmental preservation activities, CSR activities, and our Corporate Social Responsibility Report, please visit the Company's website (http://www.nankai.co.jp/company/).</p>
Development of Policies on Information Provision to Stakeholders	<p>For the purpose of timely disclosure of corporate information, the Company has internally appointed an officer in charge of handling information. We have also strived to properly comprehend material corporate information as well as to strictly control such information. In disclosing information, the Company prepares disclosure documents following the deliberation with related departments while receiving advice and instructions from the Accounting Auditor, etc. as necessary. Such documents are promptly disclosed following the resolution or reporting at the Board of Directors' meeting, etc. Additionally, we have been making group-wide efforts for the precise announcement of financial results within the month following closing date.</p>
Other	<p>The Company intends to appoint competent human resources as officers or managerial staff regardless of gender.</p> <p>The Company also intends to enhance its corporate value and steadily live up to the trust of society with a corporate culture in which each of the employees</p>

	<p>with various personalities and capabilities respects each other and proactively leverage those advantages.</p> <p>Particularly, in order to further promote female advancement, the Company will make efforts to increase the number of women employed in various fields and as various posts including managerial and leadership positions. We intend to steadily raise the percentage of women to the total number of recruits by setting a target ratio of around 30% of recruits with a college education or higher.</p> <p>Accordingly, the Company will continue to enhance its initiatives to provide more opportunities for women to play a greater role, such as the provision of expanded career development support, the improvement of the working environment, reforms of the workplace culture and employee's awareness, etc.</p>
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IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development

(1) Basic views

We recognize that the strengthening of corporate governance functions is an important management issue. For this reason, we have strived to implement strict adherence to laws and regulations. Additionally, we have been making efforts to achieve transparent management, fair and rational decision-making, and reinforcement of functions to oversee these operations.

(2) Progress of development

1) System to ensure that the execution of duties by Directors, etc. of the Company and its subsidiaries conforms to laws, regulations, and the Articles of Incorporation

For the sound growth of the Company and group companies and for the establishment of business ethics, in addition to creating Code of Business Ethics, we have created a dedicated organization responsible for the promotion of internal auditing and compliance-based management.

As a guideline to deepen the spirit of our Code of Business Ethics, the Company formulated a Compliance Manual which specifies the particular business operations and conducts required for each officer and employee of the Company and group companies. By conforming ourselves to the Compliance Manual and providing training sessions, we are committed to achieving the instilment of the philosophy of compliance-based management as well as the elimination of relationships with anti-social forces. We have also established a Corporate Ethics Hotline System where officers and employees can send reports or receive consultations, with the aim of early detection or correction of legal and ethical issues.

In addition, we have set up a Compliance Committee that deliberates various measures for the promotion of compliance-based management, whereby in the event of a serious compliance violation, the committee will make proposals for corrections and recurrence prevention measures.

Moreover, in addition to properly establishing and operating systems which are necessary for ensuring the reliability of financial reporting, we will be committed to maintaining and improving such systems through evaluations of their effectiveness by the Internal Audit Department.

2) Systems related to storing and managing information concerning the execution of duties by Directors

Documents related to the execution of duties by Directors, including circulated draft plans and the minutes of the Board of Directors' meetings and other important meetings, are prepared appropriately, stored and managed in accordance with our Document Regulations and other in-house company rules. In addition, we have established an Information Security Policy and arranged systems where we can appropriately safeguard our information resources and secure their "confidentiality," "completeness," and "availability."

3) Regulations and other systems related to the management of loss risk for the Company and its subsidiaries

The Company has established the Crisis Management Guidelines as comprehensive standards to prevent the occurrence of crises (excluding serious accidents and disasters) as well as to minimize damage to the Company, its officers and employees, travelers and customers should they occur. In addition, we have established the Disaster Countermeasure Regulations with the aim of fulfilling our corporate social responsibilities particularly by taking measures to minimize damage such as regulating a countermeasure organization and emergency handling procedures for occurrence or potential occurrence of major accidents and disasters, efforts for early recovery of the Company's operations, as well as commitment to secure the safety of travelers, customers, and our officers and employees.

Moreover, in the Group Company Management Regulations, it is stipulated that we shall work to grasp crisis information across group companies and conduct crisis management for group companies in accordance with our Crisis Management Guidelines.

In the railway business, for the purpose of securing transportation safety, the Company has established the Safety Management Regulations and the Safety Promotion Committee. Going forward, we will be committed to the further promotion of safety management.

With respect to risk management accompanying the respective business operations of each of the Company's departments and group companies, the relevant departments and companies have been taking measures such as the provision of training sessions, the development of manuals and regulations, etc., as necessary.

4) System to ensure the efficient execution of duties by Directors and others in the Company and its subsidiaries

In order to realize the systematic and efficient conduct of our business activities, in our in-house company rules, we have clearly stipulated the business organizations and the assignment of duties as well as the responsibilities, authorities, duties and other roles of the employees assigned to the respective positions.

Moreover, based on the fundamental management policies established by the Board of Directors, a Management Committee, which is comprised of Managing Directors, meets once a week to discuss important management issues. Through this and other efforts, we seek to comprehensively control business execution and optimize decision-making on management. We have also adopted a system of Corporate Officers with the aim of strengthening the supervisory function of the Board of Directors and establishing agile business execution systems.

For the execution of duties by Directors of Nankai group companies, based on our Group Company Guidance Policy, we have stipulated basic policies for organizational form and institutional design after considering their business scales, special qualities and characteristics while keeping in mind their agility and autonomy in management. Moreover, with the aim of ensuring the reliability of financial reporting and achieving the higher efficiency in business operations, we have adopted shared services for accounting operations.

In addition, for the purpose of enhancing management effectiveness, particularly in order to accurately understand the state of business operations and promote their improvement, we have established a system where the Internal Audit Department can systematically implement internal audits including audits for group companies.

5) Systems related to reporting to the Company about items concerning the execution of duties by subsidiary company Directors and other staff

Based on the Group Company Guidance Policy and the Group Company Management Regulations, we maintain close contact for mutual understanding between the Company and our group companies. We also require group companies to obtain advance approval from the Company for items of a certain importance on management such as important facility investments, and ask for reporting as appropriate.

6) Systems to ensure the propriety of business conducted by other group members

While we strive for unified management and effective control as a corporate group by dispatching our officers and employees to serve as officers and management personnel in our group companies, we seek to strengthen the functions of Auditors of our group companies and enhance their information sharing through the placement of Associate Auditors and discussions at the Group Company Auditor Counsel.

Furthermore, in addition to stipulating the IT Management Regulations for the establishment of IT control, the Company's Examination Committee has prepared strict screening procedures for the execution of financing to group companies in order to optimize the business operation of the Group as a whole.

7) System to ensure that the auditing by the Company's Auditors is conducted effectively

We have established a Corporate Auditor's Office as an organization dedicated to work related to the Board of Auditors and audits by Auditors. In accordance with the Company Regulations, the Corporate Auditor's Office is clearly separated from the command structure of Representative Directors and other executive Directors, and its staff members follow the directions and orders of Auditors. In addition, as for the personnel changes and evaluations of Corporate Auditor's Office members, the consent of Full-Time Senior Corporate Auditors shall be obtained.

The Company's Directors and other employees request that Senior Corporate Auditors attend the Management Committee and other important meetings where they report about issues that are important to the management of the Company and the Group, including the status of business execution, operating results, and financial conditions. We have also arranged a system for Senior Corporate Auditors where they can receive important documents, including draft plans after approval and internal auditing reports, for review. Moreover, in response to Auditors' requests, we conduct exchanges of opinions related to individual management issues.

For the operation of the Corporate Ethics Hotline System, the Corporate Ethics Hotline System Rules declare that officers and employees shall not treat informants disadvantageously or unfairly, nor shall they conduct acts of retribution or discrimination. Moreover, reports about the status of the operation are to be made regularly to Senior Corporate Auditors.

While setting a budget for ordinary auditing expenses based on the audit plans of the Board of Auditors, when expenses are claimed outside of the budget for special expenditures such as for when Auditors or the Board of Auditors consult lawyers, certified public accountants, and other experts outside the Company for their opinions in executing audits, the Company shall not unreasonably withhold payment except the case where the claimed expenses are deemed unnecessary for the execution of Auditors' duties.

2. Basic Views on Eliminating Anti-Social Forces

(1) Basic views

Striving for the establishment of corporate ethics, the Company has formulated the Code of Business Ethics to maintain and promote compliance-based management. The Code of Business Ethics specifies our intention to reject all contact with organizations involved in activities in violation of the law or accepted standards of responsible social behavior, and represents our efforts to break off any relationships with anti-social forces.

(2) Progress of development

The Company has formulated the Compliance Manual as a guideline to deepen the spirit of the Code of Business Ethics. As a dedicated department responsible for eliminating anti-social forces, the Company has set up the Risk Management Department, which is manned full-time by a former member of the police.

In addition to the aforementioned matters, the specific progress of internal system development and measures are as follows.

- 1) The President expresses the spirit of the Code of Business Ethics and gives statements in every possible occasion inside and outside the Company in order to deepen the spirit of the Group as a whole and each officer and employee.
- 2) If unreasonable demands are posed by anti-social forces, immediate reporting and consultation shall be made to the Risk Management Department. In response, the Risk Management Department shall not succumb to demands from anti-social forces, but support the initiatives to break off relationships by giving advice and instructions. Additionally, the Company has built close collaborations with external specialized organizations (the police, lawyers, the Osaka Center for Removal of Criminal Organizations, etc.), which enables us to consult them and receive advice as necessary.
- 3) Counterparties shall always be monitored whether they fall under anti-social forces by utilizing the Company's own database, information from external specialized organizations, etc. In addition, in the event of occurrence of any relationship with anti-social forces without prior knowledge, the Company shall promptly terminate the relationship after discovery or concerns to that effect.
- 4) In order to prevent damage in cases where anti-social forces become our business partners or shareholders and pose unreasonable demands, the Company has taken measures to include "clauses for the exclusion of organized crime groups" in contracts, trade agreements, and similar documents.
- 5) The Company participates in community activities and meetings hosted by the Osaka Prefectural Center for Removal of Criminal Organizations, the Osaka Corporate Defense Countermeasures Federation, etc. to eliminate anti-social forces including crime syndicates.
- 6) In the event that any damage is caused due to unreasonable demands, the Company shall clearly declare inside and outside the Company that it will not succumb to unreasonable demands, and diligently file a damage report to the police without hesitation to prevent the further spread of damage.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Adopted
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Supplementary Explanation

The Company believes that the decision in response to a takeover proposal involving a transfer of the Company's control shall be ultimately made based on the intent of our shareholders as a whole. We also believe that, in order for our shareholders to make an appropriate decision, it is essential for them to be provided with necessary and adequate information from both the Company's Board of Directors and the large-scale buyer, as well as a reasonable period of time where our shareholders and the Company's Board of Directors can review the large-scale purchase of the Company's shares, which also enables the Company's Board of Directors to present alternative proposals.

Accordingly, pursuant to the approval of our shareholders at the 99th Annual General Meeting of Shareholders held on June 24, 2016, the Company has renewed its countermeasures to large-scale purchases of the Company's shares (anti-takeover measures).

The effective period of the anti-takeover measures shall expire at the close of the Annual General Meeting of Shareholders for the fiscal year ending March 31, 2019.

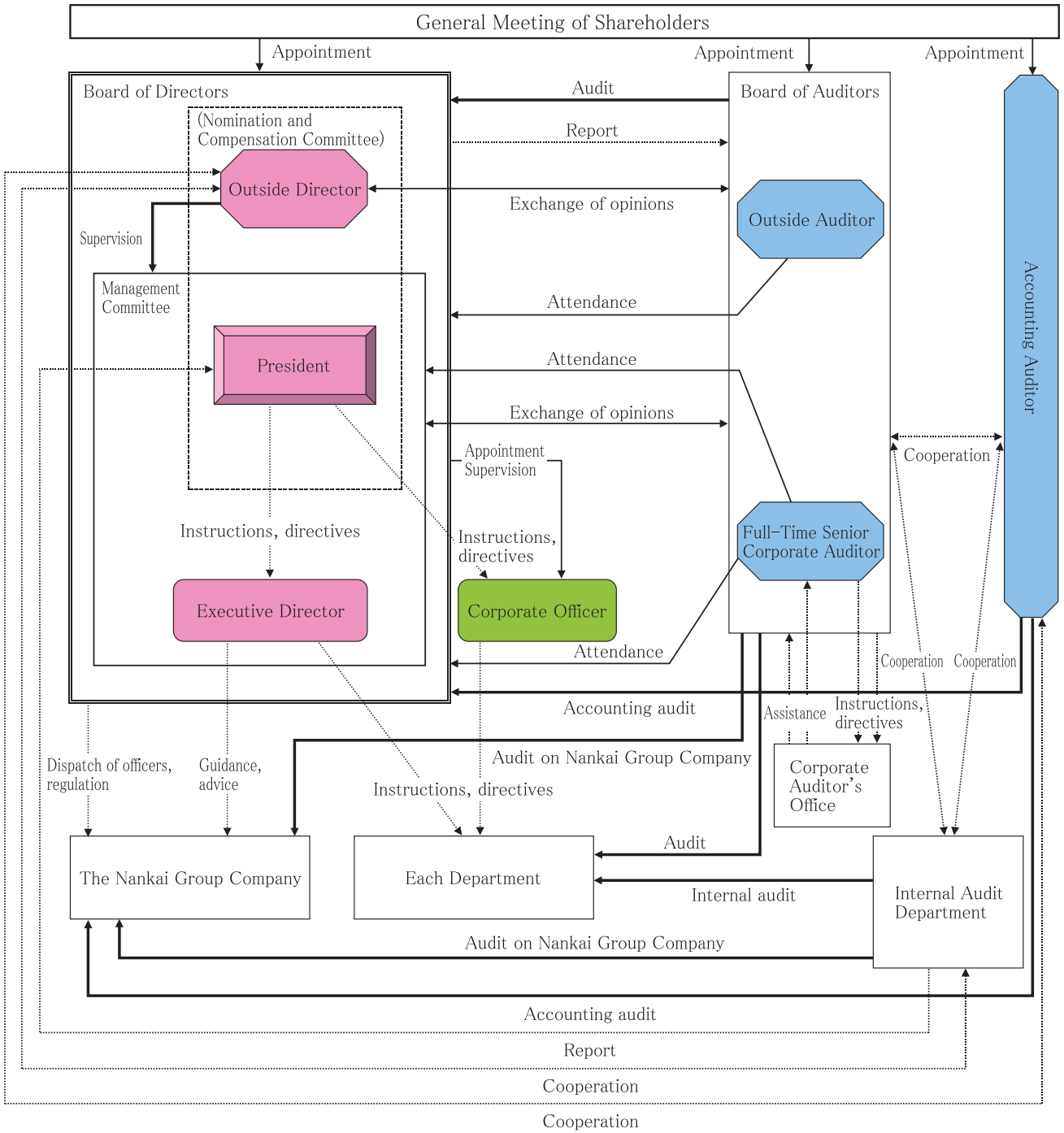
For the details of the anti-takeover measures, please visit the Company's website.

(<http://www.nankai.co.jp/ir/kaitsuke/>)

2. Other Matters Concerning Corporate Governance System

The Timely Disclosure System of the Company has been stipulated in the Disclosure Policy and posted on the Company's website. (URL: <http://www.nankai.co.jp/ir/disclosurepolicy/>)

[Corporate Governance System]



[Timely Disclosure System]

