

ESG Information

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Corporate Governance

Central Objectives

The USHIO Group recognizes that realizing the vision set forth in its Management Philosophy and promoting sustainable growth of the Company and increasing corporate value over the medium to long term will bring satisfaction to all stakeholders. In order to achieve this goal, the Company strives to ensure the transparency and efficiency of corporate management and to reinforce corporate governance for realizing speedy and resolute decision making.

Corporate Governance Framework

At the Annual General Meeting of Shareholders on June 29, 2016, USHIO transitioned from a company with an audit & supervisory board structure to a Company with Audit and Supervisory Committee. The aim was to further strengthen the supervision function of the Board of Directors as part of a drive to reinforce corporate governance in order to ensure transparent and efficient corporate management and speedy and resolute decision-making.

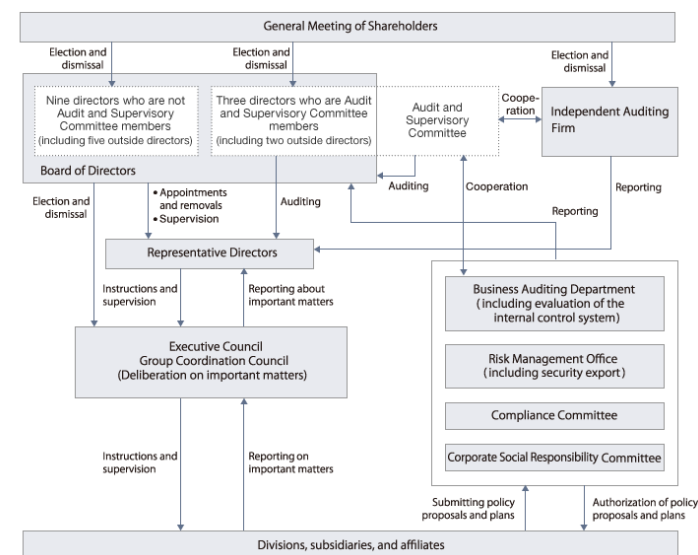
This transition will foster speedy decision making by delegating decisions for certain important business matters from the Board of Directors to executive directors. It will also strengthen the supervision function of the Board of Directors by ensuring that most of its members are outside directors. The new setup will also reinforce audit and supervision functions by establishing an Audit and Supervisory Committee with the authority to assess the legality and validity of board members in performing their duties.

The Board of Directors comprises 12 directors. Nine are not Audit and Supervisory Committee members (including five outside directors) and three are Audit and Supervisory Committee members (including two outside directors). The Board of Directors oversees decision-making and business execution for top priority issues, including basic management policy.

Delegating decisions on certain important business execution to overseeing directors has accelerated decision-making. At the same time, the executive officer system has led to more accurate and speedier business execution. USHIO established the Executive Council and Group Coordination Council to discuss and report on priorities in business execution.

The Audit and Supervisory Committee which comprises three directors (including two outside directors) audits and oversees directors' performance of duties in line with its own audit and supervising standards. USHIO appointed a full-time Audit and Supervisory Committee member to enhance the efficacy of audits by collecting information from directors (excluding those who are also Audit and Supervisory Committee members) and employees and coordinating smoothly with the Internal Audit Department and independent Auditing Firm.

USHIO's Internal Control Framework



Stance on Corporate Governance Code

USHIO is reinforcing its corporate governance in line with the Corporate Governance Code of the Tokyo Stock Exchange. While it has yet to comply with the Supplementary Principle covering the analysis, evaluation, and disclosure of the Effectiveness of the Board of Directors, the Company recognizes the need to assess this area.

See the Corporate Governance Report for more details.

<http://www.ushio.co.jp/en/ir/library/governance/>

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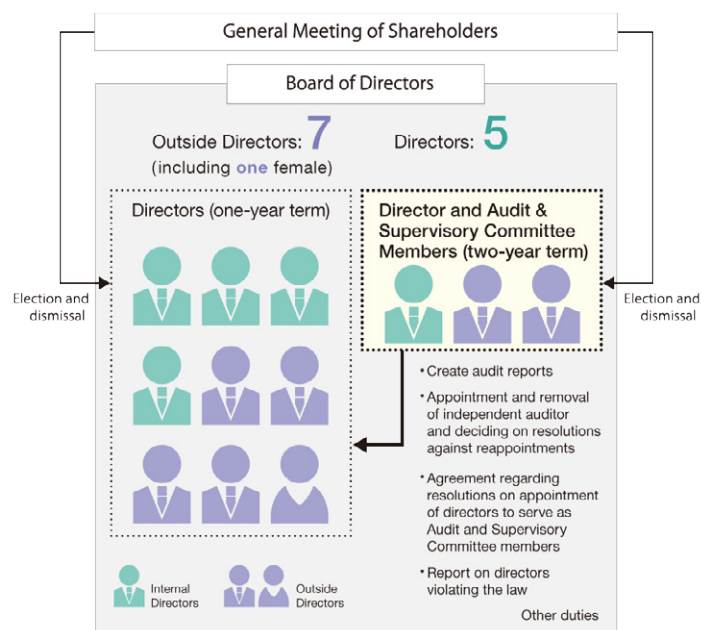
○ Transition to a Company with Audit and Supervisory Committee Structure

USHIO added three independent outside directors and three independent outside Audit and Supervisory Board members, and put in place a Remuneration Advisory Committee which consists of a chairperson and members with outside director comprising the majority in keeping with efforts to reinforce corporate governance.

USHIO has transitioned to a Company with Audit and Supervisory Committee structure to strengthen the supervision function of the Board of Directors and foster speedy decision-making by delegating judgments on certain important business matters to executive directors and executive officers.

After the transition, the Company has an Audit and Supervisory Committee comprising at least three directors of whom a majority are outside directors.

USHIO appointed a full-time Audit and Supervisory Committee member to enhance the efficacy of audits by collecting information from directors (excluding those who are also Audit and Supervisory Committee members) and employees and coordinating smoothly with the Internal Audit Department and independent Auditing Firm.



○ Message from Director and Audit & Supervisory Committee Member

In line with its transition to a Company with Audit and Supervisory Committee structure, USHIO has chosen the majority of its directors externally and reinforced supervision functions by obtaining valuable advice and guidance relating to corporate management from the outside directors. The Company has accelerated decision-making on business execution by delegating authority to executive officers. It also focused more on execution ability in selecting the directors.



Nobuyuki Kobayashi
Director and
Audit & Supervisory Committee Member

Broadly assuming that the Audit and Supervisory Committee focuses on compliance and safeguarding corporate value, one new audit point to be focused on is assessing the validity of business execution. The Audit and Supervisory Committee considers it important to help enhance corporate value through corporate governance, and looks to help improve management transparency and efficiency, foster speedy business execution, and ensure thorough risk management and compliance.

USHIO celebrated its 50th anniversary in 2014. The Company will pursue further growth by continuing its discussion on how best to commercialize high-value-added businesses and products.

○ Stance on Directors Remuneration and Decision Making Approach

The remuneration system comprises monetary compensation and stock-based compensation consisting of a basic amount based on position and an amount determined based on operating performance and performance evaluation. Resolutions by the Board of Directors regarding remuneration are reached based on deliberation conducted in advance by the Remuneration Advisory Committee, which consists of a chairperson and a majority of outside director members. This composition is from the perspective of ensuring fairness and appropriateness regarding the remuneration system and standards and the assessment of contribution to the Company's operating performance.

Total Remuneration and Other Payments by Director Category, Total Amounts by Types of Remuneration, and Other Payments and Number of Eligible Directors

Director categories	Total remuneration and other payments (millions of yen)	Total amounts types of remuneration and other payments (millions of yen)					Number of eligible directors
		Basic compensation	Stock options	Bonuses	Stock-based compensation for directors	Retirement benefits	
Directors (excluding outside directors)	366	292	—	—	73	—	9
Audit and Supervisory Committee members (excluding outside members)	25	25	—	—	—	—	3
Outside directors	36	36	—	—	—	—	7

Note: Stock-based compensation for directors is based on expenses recorded in the consolidated financial results for the fiscal year ended March 31, 2016, under Japanese GAAP.

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Internal Auditing and the Audit and Supervisory Committee Audits

The Internal Audit Department performs on-site audits to check the appropriateness of operational controls and procedures. The department submits an annual audit plan to the Audit and Supervisory Committee and explains its specific auditing policies. It also reports as necessary to the committee on the results of internal audits.

The Independent Auditor submits annual plans to the Audit and Supervisory Committee and explains its specific auditing policies. It also presents reports summarizing reviews and audit results for quarterly reviews and accounting audits for quarterly and year-end results.

The Audit and Supervisory Committee, Internal Audit Department and independent auditor exchange information and opinions and cooperate with each other.

Compliance

USHIO has established "10 Action Guidelines" in order to define standards for behavior that require everyone at the Group to comply with laws, regulations, the Articles of Incorporation, and management philosophy. The Compliance Committee is responsible for ensuring that employees observe these guidelines. The Business Auditing Department and Compliance Committee jointly perform audits to monitor the status of compliance and submit audit reports as necessary to the Board of Directors and Audit and Supervisory Committee. Furthermore, information involving the performance of directors' duties is recorded, stored, and managed, in documentary and electronic formats. This enables the directors and Audit and Supervisory Committee members to view the information at any time and take timely and appropriate action as required.

To reinforce awareness of the importance of compliance, all Group companies use USHIO's standards for behavior and other guidelines and the Business Auditing Department performs audits of the Group companies.

Risk Management

In its risk management regulations, USHIO has specified departments responsible for respective risk categories, including compliance, the environment, product quality, finance, legal matters, natural and other disasters, information management, and export controls. Each responsible department is to establish rules and guidelines, conduct training, and produce and distribute manuals and so forth. When a new risk emerges, a director or an executive officer is to be promptly appointed to take responsibility for handling it. Furthermore, if a risk materializes and is expected to incur significant damage, the responsible director or executive officer is to report it promptly to the Board of Directors.

Information Security and Protection of Personal Information

USHIO acquires and holds a variety of information in the course of conducting its business operations. We are well aware of the importance of safeguarding information about customers and suppliers, personal information, confidential business information and other important information, and have established rules for the proper handling of this information. There are stringent requirements concerning the protection of confidential information, whether the information is internal or related to a customer or business partner. Another priority is compliance with Japan's Personal Information Protection Law. To reinforce everyone's commitment to complying with this law and ensure its effective enforcement, all USHIO departments use a cycle of self-assessments to determine the status of compliance and carry out continuous improvements based on these assessments.

IC cards are one way that the USHIO protects information. We use these cards to keep track of when employees enter and leave particular rooms and record their working hours. IC cards restrict access to sensitive areas and keep records of when employees enter these areas, which helps prevent unauthorized access to important information. Using servers for the centralized oversight of computer software assets and computer virus protection is another measure that protects information, which upgrades our ability to manage information while reducing the amount of time and resources needed. For confidential information received from customers and business partners, we have regulations covering every step from the receipt and storage of information to its ultimate disposal and perform periodic checks of the system. Customers and business partners perform on-site confirmations of our information security measures. We study the results of these confirmations to reexamine and reinforce information security measures and how they are used.

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Newly-appointed Outside Directors

Outside Director, Sakie T. Fukushima



For over 30 years, I have worked at solving problems for foreign-affiliated and Japanese companies at a consultant services company that advises on the management strategy and human resources strategy of foreign-owned companies. At the same time, I have served as an internal director of a foreign-affiliated company at its global headquarters for 12 years and as an outside director at nine Japanese companies from 2001, and I have helped with the development of corporate governance at Japanese companies. I came to believe that the essence of good management is to have an unshakeable corporate philosophy along with human resources that act as an "iron fist in a velvet glove" to cope flexibly with change while maintaining this philosophy.

In the niche market of optical technologies, USHIO maintains a large global market share. Furthermore, I believe that USHIO is providing solutions to the problems of society and other companies through applied optical technologies.

In the future, while learning about the businesses of USHIO, I would like to fully understand its corporate strategy and, to the best of my ability, contribute as much as possible in areas related to governance and human resources strategies.

○ Biography

Jun. 1980	Joined Braxton International
Sep. 1987	Joined Bain & Company, Inc.
Aug. 1991	Joined Korn/Ferry International-Japan
May 1995	Director, Korn/Ferry International
Sep. 2000	Regional Managing Director, Korn/Ferry International-Japan
Jul. 2001	President and Representative Director, Korn/Ferry International-Japan
May 2009	Chairman & Representative Director, Korn/Ferry International-Japan
Mar. 2010	Outside Director, Bridgestone Corporation (incumbent)
Jul. 2010	President & Representative Director, G&S Global Advisors Inc. (incumbent)
Jun. 2011	Outside Director, Ajinomoto Co., Inc. (incumbent)
May 2012	Outside Director, J. Front Retailing Co., Ltd. (incumbent)

Outside Director, Audit and Supervisory Committee Member, Nobuyoshi Yamaguchi



I have worked for financial institutions or in related operations for 38 years, and currently serve as an outside director at two other companies. In that time, I have been in charge of market sectors, and overseas, inspection, trust, and real estate businesses. At the same time, I was able to make contact with a large number of clients. In the course of these activities, I came to realize that for the sustained growth of a company, a vibrant organization that possesses effective governance and diversity is needed above all else.

USHIO has been providing solutions while creating many products that possess top shares of the global market in a variety of fields that incorporate light. USHIO will naturally seek to enhance its superiority at each stage of "creating light," "using light," and "manipulating light," but we will also work to provide new solutions in the world of light through the cooperation of all departments. We hope that the result will be the understanding that the existence of Ushio is indispensable for society.

Looking ahead, expectations for USHIO are greater than ever before, but at the same time it seems that the pace of change in the market is accelerating. Although it seems that USHIO has almost reached a satisfactory level of

achievement for each of its basic strategies, in the future I hope to contribute to USHIO's next stage of advancement by sharing the direction we should proceed as indicated by management and the business execution departments, together with my own thoughts.

I want to take full advantage of my experience to contribute to USHIO's capability of responding to the new challenges and changes facing it, along with its movement toward the next level of achievement.

○ Biography

Apr. 1977	Joined The Kyowa Bank, Ltd. (currently Resona Bank, Ltd.)
Jun. 2003	Executive Officer, Resona Bank, Ltd.
Jun. 2010	Director and Senior Managing Executive Officer, Resona Bank, Ltd.
Apr. 2013	Representative Director, Resona Card Co., Ltd.
Jun. 2014	Outside Director, NAKABAYASHI CO., LTD. (incumbent)
Apr. 2015	Senior Director, TOKYO KANTEI Co., Ltd.
Dec. 2015	Outside Director, S·K·I. CORPORATION (incumbent)

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Directors

Directors (As of June 29, 2016)

**Jiro Ushio**Chairman and USHIO
Group Representative**Kenji Hamashima**President and Chief
Executive Officer**Shiro Ushio**Director
Chairman, USHIO
LIGHTING, INC.**Hiroaki Banno**Director
General Manager, SSL
Headquarters**Tadashi Nakamae**

Outside Director

**Yoshinari Hara**

Outside Director

**Yasufumi Kanemaru**

Outside Director

**Shuichi Hattori**

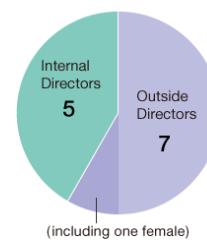
Outside Director

**Sakie T. Fukushima**

Outside Director

**Nobuyuki Kobayashi**Director
(Audit & Supervisory
Committee Member
(Full-time))**Masanori Yoneda**Outside Director
(Audit & Supervisory
Committee Member)**Nobuyoshi Yamaguchi**Outside Director
(Audit & Supervisory
Committee Member)

Board of Directors



Director and Audit & Supervisory Committee Members

