



## Guidelines for Corporate Governance

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# **Taiwan High Speed Rail Corporation**

## **Guidelines for Corporate Governance**

### **1. General Principles**

#### **1-01 (Purpose)**

These Guidelines are adopted to establish an optimal corporate governance system that protects shareholder rights and interests, strengthens the operations of the Board of Directors ("Board"), and fulfills social responsibilities of the Corporation.

#### **1-02 (Legal bases)**

The Corporation shall implement its corporate governance system in accordance with these Guidelines, except as otherwise provided by law or regulation or the Articles of Incorporation or otherwise resolved by a shareholders' meeting.

#### **1-03 (Independent Directors)**

The Corporation, as provided by the Articles of Incorporation, shall install Independent Directors to enhance the professionalism and objectivity of Board resolutions.

#### **1-04 (Functional committees)**

The Corporation shall establish under the Board a Sustainable Development & Nominating Committee, an Audit Committee, and a Remuneration Committee, to strengthen active participation by the Directors and to increase the effectiveness and quality of oversight and decision-making by the Board.

The Board may in due course establish other functional committees as appropriate to the ongoing operations of the corporate governance system.

#### **1-05 (Shareholder disputes)**

The Corporation shall appoint personnel exclusively dedicated to handling shareholder proposals or disputes.

#### **1-06 (Provision of resources)**

The Corporation shall provide the Board and the functional committees with the resources necessary to execute their duties, including the planning and allocation of budget, funding, human resources, and physical resources, and the hiring of outside experts.

#### **1-07 (Fiduciary duty)**

The Directors shall act in good faith, with loyalty, due diligence, and care, in accordance with laws and regulations, the Articles of Incorporation, these Guidelines, shareholders' meeting resolutions, and other relevant bylaws of the Corporation. If a Director breaches such duty, causing damages to the Corporation or infringing the rights or interests of any third party, the Director shall be held liable under the law.

#### **1-08 (Liability insurance)**

The Corporation may take out liability insurance for Directors and managerial officers during their term of office, with respect to their liability under the law for their actions in the exercise of their duties.

The content of liability insurance contracts under the preceding paragraph shall be resolved by the Board.

#### **1-09 (Deleted)**

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### **2. Protecting the Rights and Interests of Shareholders**

#### **2-01 (Protecting Shareholders' Rights and Interests)**

The Corporation's implementation of the corporate governance system shall protect the rights and interests of shareholders, treat all shareholders equitably, and seek to maximize the rights and interests of shareholders.

The Corporation shall establish internal regulations prohibiting company insiders from trading securities using undisclosed information.

Shareholders, in accordance with the class of shares they hold, enjoy rights and bear obligations as set out in laws and regulations and the Articles of Incorporation. Shareholders holding the same class of shares shall enjoy equal rights and bear equal obligations.

#### **2-02 (Shareholders' rights to be informed, participate, and vote)**

The Board shall fully utilize all means and methods, including but not limited to contemporary information technology and equipment, to ensure that shareholders are able to fully enjoy their shareholder rights, such as the rights to be informed, participate, and vote.

#### **2-03 (Shareholders' right to place proposals on the agenda)**

When the Board calls the annual general shareholders' meeting, it shall give public notice announcing acceptance of proposal in writing or by way of electronic transmission, the place and the period for shareholders to submit proposals to be discussed at the meeting; and the period for accepting such proposals shall not be less than ten (10) days, as provided for by the Company Act and related laws and regulations.

Proposals submitted by shareholders under the preceding paragraph shall be specified as motions for board meetings and be specified in the meeting notice as subjects to be discussed at the general shareholders' meeting, unless there is a basis in law or regulation for not placing the proposal on the agenda. With regard to the proposals submitted by shareholders but not included in the agenda of the meeting, the cause of exclusion of such proposals and explanation shall be made by the board of directors at the shareholders' meeting to be convened.

Proposals raised by shareholders at a shareholders' meeting (including motions for amendment to a proposal or alternative proposals) shall meet the following requirements:

1. Comply with the procedures and requirements set out in laws and regulations, the Articles of Incorporation, and the Corporation's shareholders' meeting rules of procedure.
2. Address a specific issue and propose a concrete matter for resolution.

#### **2-04 (Material financial and business transactions)**

In entering into material financial and business transactions such as acquisition or disposal of assets, engaging in derivatives transactions, lending funds to others, and making endorsements or providing guarantees for others, the Corporation shall faithfully comply with applicable laws and regulations, shareholders' meeting resolutions, and relevant bylaws and rules of the Corporation, to protect the rights and interests of shareholders.

#### **2-05 (Cumulative voting)**

In the election of Directors at a shareholders' meeting, the number of votes exercisable in each share is equal to the number of Directors to be elected, with the total number of votes exercisable equally spread over the number of ballots equal to the number of Directors to be elected. A voter may cast all the voter's ballots for a single candidate or split them among

multiple candidates. The numbers of non-independent Directors and independent Directors to be elected shall be calculated separately, and the candidates receiving a prevailing number of ballots in each group shall be elected, in accordance with the provisions of the Securities and Exchange Act and related laws and regulations and the Articles of Incorporation.

**2-06 (Nomination and election of Directors)**

The candidate nomination system shall be adopted for the election of the Corporation's independent Directors and non-independent Directors. Shareholders shall elect the Directors from the slate of nominated candidates of which the Board gives public notice.

The nomination of the roster of candidates under the preceding paragraph shall be done in accordance with laws and regulations, the Articles of Incorporation, and these Guidelines.

Elections of independent Directors and non-independent Directors shall be held together, with the numbers of Directors to be elected calculated separately for each group.

**2-07 (Remuneration of Directors)**

The remuneration paid to Directors for their services as Directors, including Board meeting attendance fees, salary and pay, and profit-sharing compensation paid to Directors as set out in the Articles of Incorporation, shall be discussed and determined by the Board separately for each Director, in accordance with laws and regulations, the Articles of Incorporation, and these Guidelines, with consideration to the level of involvement and value of the contribution of each Director, and taking into reference the usual pay level in the industry domestically and abroad. Expenses incurred by Directors in the faithful execution of their duties, as well as injury suffered or debt incurred therefrom, shall be borne by the Corporation.

**2-08 (Information Disclosure)**

To encourage shareholders to actively participate in corporate governance, and ensure that they are able to be informed about the Corporation's finances, business, and other operational developments, the Corporation shall make timely, true, and complete disclosures of information in accordance with laws and regulations and these Guidelines, to strengthen information transparency.

**3. The Board of Directors**

**3-01 (Size and composition of the Board)**

As provided by the Articles of Incorporation, the Corporation's Board shall have not less than 9 and not more than 17 Directors, with the number to be determined by the Board of Directors.

When the Corporation is to hold elections, the Sustainable Development & Nominating Committee shall review the size of the Board under the preceding paragraph and its composition, with consideration to the Corporation's stage of development, the representativeness of shareholding ratios, the Board's current composition, and the social and economic environments domestically and abroad. If it deems any adjustment or amendment necessary, it shall make a timely recommendation to the Board.

**3-02 (Duties and primary missions of the Board)**

The Board is charged with making significant financial, business, and operational decisions of the Corporation and overseeing the performance of functions by management, and has the following primary missions:

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1. Reviewing and deliberating the adoption and amendment of an internal control system, and evaluation of effectiveness of an internal control system.
2. Reviewing and deliberating significant bylaws and rules.
3. Reviewing and deliberating the Corporation's significant financial plans, long-term and short-term goals, business plans, and budgets and final accounts.
4. Drawing up proposals for the distribution of profits and offsetting of losses and for increases or decreases in capital.
5. Reviewing and deliberating the setting up, closing down, or change of branches.
6. Reviewing and deliberating matters that may involve the personal interest of a Director.
7. Reviewing and deliberating material asset or derivatives transactions and material loans of funds or endorsements or guarantees.
8. Reviewing and deliberating any offering, issuance, or private placement of securities.
9. Reviewing and deliberating the appointment, dismissal, and compensation of the attesting CPAs (external auditor).
10. Appointing, dismissing, and supervising senior managerial officers and the chief financial officer, chief accountant, and chief internal auditor.
11. Reviewing and deliberating any matter presented by the Chairman, or submitted by a functional committee, or submitted by a Managerial Officer and then presented by the Chairman.
12. Supervising the Corporation's operating results and risks, and ensuring compliance with relevant laws and regulations.
13. Planning directions for future development.
14. Enhancing the Corporation's image and fulfilling social responsibility.
15. Reviewing and deliberating other significant matters requiring resolution by the Board as provided by laws and regulations, the Articles of Incorporation, shareholders' meeting resolutions, these Guidelines, or other relevant bylaws of the Corporation.

### **3-03 (Rules of procedure for Board meetings)**

The Corporation shall formulate rules of procedure for Board meetings, to govern key agenda content, procedures, matters to be recorded in the meeting minutes, public notices, and other matters for compliance.

The rules of procedure for Board meetings under the preceding paragraph, and any amendments to those rules, shall be drafted by the Sustainable Development & Nominating Committee and submitted for a resolution by the Board.

### **3-04 (Frequency of Board meetings)**

Board meetings shall be held at least once every 2 months, and shall be called and chaired by the Chairman. However, the first meeting of each newly elected Board shall be convened and chaired by the director that received votes representing the largest portion of voting rights. In case the director elect receiving the ballot representing the largest number of votes fails to convene the meeting within the legal time limit, then the majority or more of the directors elect may convene the meeting on their own.

### **3-05 (Audio recording of the entire proceedings)**

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When the Board or a committee meets, the entire proceedings shall be recorded and preserved by means of audio recording or another electronic medium.

### 3-06 (Meeting minutes)

When the Board or a committee meets, detailed and accurate minutes of the meeting shall be taken.

The minutes of a meeting of the Board or a committee must be signed or sealed by the meeting chair and the minutes taker.

The minutes of a Board or committee meeting are important documents of the Corporation, and shall be kept safe permanently during the life of the Corporation.

### 3-07 (Deleted)

### 3-08 (Secretariat Division under the Board)

A Secretariat Division is installed under the Board to be in charge of corporate governance affairs, and provides the Board and the functional committees with the necessary resources or assistance to execute their duties, to facilitate the smooth operation of the Corporation's corporate governance system.

The Secretariat Division has the following primary missions:

#### 1. Administrative tasks

- (1) General administrative affairs relating to the calling of, notices for, holding of, and record-keeping for shareholders' meetings, Board meetings, and committee meetings.
- (2) Production and preservation of meeting documents, records, and other materials.
- (3) Liaison with management.
- (4) Assisting in onboarding and continuous development of directors and supervisors.

#### 2. Information disclosure tasks

- (1) Assistance with deliberation, supervision, or processing relating to the planning and review of systems for liaison and interaction between the Corporation and shareholders, employees, consumers, stakeholders, and the general public.
- (2) Assistance with deliberation and supervision relating to the Corporation's information disclosure system.

#### 3. Professional tasks

Allocating appropriate professional personnel to carry out the following matters:

- (1) Assisting the Board or committees with drawing up annual work plans and meeting agendas, and collecting, researching, analyzing, or providing related materials.
- (2) Providing analysis and opinions on the legality, appropriateness, and feasibility of proposals to be deliberated by the Board or committees, for reference by the Board or committees during deliberations.
- (3) Ensuring that the operations of the Corporation's shareholders' meeting, Board, and committees do not violate laws or regulations, the Articles of Incorporation, shareholders' meeting resolutions, and these Guidelines.
- (4) Assisting with the drafting of bylaws required for the corporate governance system.

3-09 (Proposal procedure (1))

Proposals that are required to be deliberated by the Board or a committee under these Guidelines shall be compiled and submitted by the Secretariat Division. The Secretariat Division shall assist the Board chair or the committee convener, after soliciting the opinions of the individual Directors or committee members, to determine the time and agenda for the meeting, and handle meeting notice matters.

3-10 (Proposal procedure (2))

For any proposal that should undergo preliminary deliberation by a committee, the Secretariat Division shall first submit the proposal to the committee for preliminary deliberation, and only after such preliminary deliberation may it submit the proposal to the Board.

To ensure that deliberation procedures proceed smoothly and efficiently, the Secretariat Division, for any proposal that should undergo preliminary deliberations by a committee, shall submit the proposal to the committee convener and ask the convener to convene the committee and deliberate the proposal at an appropriate time before the convening of the Board meeting.

If the committee convener fails to convene the committee to deliberate a proposal in accordance with these Guidelines, the Secretariat Division shall immediately inquire into the circumstances and reasons for the failure, and shall submit a report to the Board containing the management's proposal together with a statement of the reasons why the committee failed to convene and conduct preliminary deliberations in accordance with these Guidelines, and request the Board's further instructions.

3-11 (Research and Analysis by the Secretariat Division)

For proposals to be deliberated by the Board or a committee, the Secretariat Division may, at the request of the Board or the committee, submit research and analysis or solicit opinions from outside experts.

3-12 (Deliberation procedure)

After a committee has conducted preliminary deliberation of a proposal, the Secretariat Division shall submit the conclusions of the discussion together with the original proposal content to the Board for its deliberation. The committee convener or the convener's deputy shall report their deliberative opinion to the Board, so that the board can deliberate the proposal objectively and efficiently.

If any committee member in attendance holds a dissenting opinion, the committee convener may consider the reasons for the dissent and the impact on the Corporation, and decide at his or her discretion whether to additionally conduct preliminary deliberation of the dissenting opinion or submit it directly for a resolution by the Board.

If a proposal undergoing preliminary deliberation by a committee does not obtain assent of the majority of members in attendance, unless the Chairman instructs that the proposal shall directly be put to the Board for deliberation, the proposal may be returned to management for fresh study and discussion.

3-13 (Good faith reliance by the Board)

When the Board, in accordance with these Guidelines, deliberates proposals submitted by the committees and management, it shall rely in good faith on the truthfulness and completeness of the deliberations of the committee, the proposal by management, and the



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materials submitted by the committee and by management. Unless the Board knows or negligently fails to know other facts, the Board may confine its deliberations to the content and scope of the deliberative opinion of the committee, the proposal by management, and the materials submitted by them.

### 3-14 (Handling of Director dissent)

When the Board deliberates on the proposals listed below, if any Director expresses dissent, and the dissent is on record or stated in a written statement, the Corporation shall send the materials related to the Director's dissent to each Independent Director:

1. A proposal for adoption or amendment of the Corporation's Procedures for the Acquisition or Disposal of Assets, Operational Procedures for Endorsements and Guarantees, or Operational Procedures for Loaning Funds to Others.
2. A proposal for acquisition or disposal of assets that is required to be submitted for deliberation by the Board pursuant to the Corporation's Procedures for the Acquisition or Disposal of Assets or pursuant to law.
3. A proposal for adoption or amendment of the Corporation's internal control system or internal audit guidelines.
4. Any other proposal for which Director dissent materials are required to be sent to the Independent Directors pursuant to law or regulation or the Corporation's bylaws.

### 3-15 (Director resignation)

If a Director resigns during the Director's term of office, the Director shall do so by written notice to the Board. The Sustainable Development & Nominating Committee shall immediately ascertain the circumstances and reasons for the Director's resignation, and assess its impact on the Corporation's overall operations, and report the same to the Board.

When a Director's engagement with the Corporation is terminated because of resignation, discharge, expiration of term, or any other reason, the Director shall continue to bear the duty of confidentiality with respect to all trade secrets of the Corporation known to the Director, after the termination of the engagement and until such time as the trade secret becomes public information.

### 3-16 (Deleted)

### 3-17 (Board meetings without the presence of managerial officers)

At least once every year, the Board should hold a meeting from which any managerial officers and Directors who concurrently serve as managerial officers shall physically absent themselves or take leave, at which to discuss the Corporation's finances, business, and other operational condition.

### 3-18 (Division of duties)

Clear distinctions shall be drawn between the powers and duties of the Board and the management and between the powers and duties of the Chairman and the President.

The Sustainable Development & Nominating Committee shall produce, and submit to the Board, analysis and recommendations for the separation of powers and duties between the Board and the management and between the Chairman and the President referred to in the preceding paragraph.

### 3-19 (External auditor)

The Corporation's Board shall engage professional, responsible, and independent attesting

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CPAs as the external auditor, which shall perform regular reviews of the Corporation's financial reports.

### 3-20 (Legal counsel)

The Corporation shall engage a professional and competent lawyer as legal counsel, to provide adequate legal consultation services to the Board, the functional committees, and the management, and to assist them to develop and update their knowledge of laws and regulations and related developments in practice, to ensure that corporate governance matters proceed smoothly in accordance with the relevant legal framework and statutorily prescribed procedures.

When Directors or the management, in the course of performing their duties, become involved in litigation, or in a dispute with shareholders, the Corporation may retain legal counsel to provide assistance as necessary with respect to operations and management and to risk control.

### 3-21 (Briefings)

After the Directors take office, the Corporation shall arrange briefings to introduce matters related to the Corporation's finances, business, relevant laws, personnel, and other aspects of its operations and management.

## 4. Independent Directors

### 4-01 (Number)

The Corporation shall have independent Directors as stipulated in Article 17-1 of the Corporation's Articles of Incorporation.

### 4-02 (Independent Director qualifications)

Independent Directors of the Corporation shall meet statutory qualifications, and additionally, the candidates nominated by the Board shall possess a macro and international perspective and outstanding operational or management expertise, to meet the requirements of the Corporation's operations and development and to raise the Corporation's image and standing. Independent directors of the Corporation may not concurrently serve as independent director for more than three other public companies, and may not hold office concurrently as a director (including independent director) or supervisor of more than five other TWSE/TPEX listed companies.

In addition to ensuring that candidates nominated for Independent Director meet the requirements of the preceding paragraph and the qualifications submitted by the Sustainable Development & Nominating Committee under Article 5-2-02 of these Guidelines and passed by a Board resolution, the Board when nominating candidates for Independent Director additionally shall thoroughly and carefully assess a candidate's suitability to serve as an Independent Director with consideration to the following matters:

1. Whether there is any interest relationship, in terms of identity, property, finances, profession, occupation, or other economic stake, between the candidate or any related party thereof and the Corporation or any Director, managerial officer, employee, or other related party of the Corporation, that could affect the candidate's independence.
2. Based on consideration of the candidate's subjective willingness and on objective factors such as his or her identity, occupation, or concurrent occupations, whether the candidate would be able to fully participate on the Board and functional committees and focus on and devote his or her efforts to executing the duties of an Independent Director.

**4-03 (Nomination of Independent Directors)**

Independent Director candidates shall be nominated by shareholders and the Board in accordance with Article 2-06 of these Guidelines.

For nominations by the Board as referred to in the preceding paragraph, the Sustainable Development & Nominating Committee shall draft a recommended slate of candidates and submit it to the Board for deliberation. However, if the Sustainable Development & Nominating Committee is for some reason unable to assemble, or fails to submit a recommended slate of candidates within an adequate time before the Board deliberations, the Board may proceed directly to resolve to nominate candidates.

With respect to matters in connection with the recommending of Independent Director candidate nominees, the Sustainable Development & Nominating Committee, may, based on the current composition and structure of the Board, and making accommodations for the Corporation's subsequent development needs, adopt rules for the recommendation of Independent Director nominees, and submit them to the Board for deliberation.

If a Director is nominated or recommended as a candidate, the Director shall recuse himself or herself from drafting and deliberation of the slate of candidates, and may not participate in the deliberation and voting, neither in his or her own capacity, nor acting on behalf of another person.

**4-04 (Assessment of Independent Director Qualifications)**

When the Sustainable Development & Nominating Committee recommends Independent Directors, it shall first obtain the consent of each nominee, and then state its opinion on whether each nominee meets the qualifications and conditions set out in Article 4-02 of these Guidelines, and attach thereto each nominee's educational background, work experience, current occupation and any concurrent occupations, and submit the opinion and related documents to the Board for deliberation.

When a shareholder nominates an Independent Director, the shareholder shall duly submit the relevant documents in accordance with law. The Sustainable Development & Nominating Committee shall deliberate them and state its opinion on whether the nominee meets the statutory qualifications and conditions for an Independent Director, and submit the opinion and related documentation to the Board for deliberation.

Independent Director candidates that are recommended or nominated under the preceding two paragraphs and that pass deliberation by the Board shall be included in the slate of Independent Director candidates, which shall duly be publicly announced and submitted to the shareholders' meeting for election.

The Board may not refuse Independent Director nominations by shareholders, unless a nominee fails to meet statutory qualifications or conditions or there is some other statutory grounds for refusal.

**4-05 (Term of Independent Directors)**

Independent Directors shall serve the same term as the Directors, and may be re-elected to consecutive terms. However, in the case of an Independent Director who has served three or more consecutive terms the Sustainable Development & Nominating Committee shall report to the Board, and state whether it considered any alternative candidates when it prepared the slate of recommended candidates and its reasons for continuing to recommend the candidate's re-election.

**4-06 (By-Elections to Fill Independent Director Vacancies)**

When there is any vacancy in an Independent Director seat, such that the number of Independent Directors falls below the number originally elected, a by-election shall be held at the next shareholders' meeting to fill the vacancy. In the event that the independent directors have all been dismissed, the Corporation shall convene a shareholders' meeting to hold a by-election to fill the vacancies within 60 days from the date on which the situation arose.

**4-07 (Independent Director Participation in Deliberations)**

When the Board or functional committees meet for deliberations, they shall give full consideration to the opinions of each Independent Director. If an Independent Director has expressed dissent or reservations, the Independent Director's specific opinion shall be recorded in the minutes of the Board or functional committee meeting.

For a proposal on which an Independent Director has expressed dissent, if the proposal is passed by the Board or the functional committee, the reasons for its passage shall be specified in the minutes of the Board or functional committee meeting.

**5. Functional Committees**

**Section 1 General Provisions**

**5-1-01 (Establishment of committees)**

The Corporation shall establish under the Board a Sustainable Development & Nominating Committee, Audit Committee, and Remuneration Committee, and may in due course establish other functional committees.

**5-1-02 (Positioning of committees)**

The functional committees are organs charged with conducting preliminary deliberations on matters before the matters are put to the Board.

The functional committees shall be accountable to the Board, and proposals deliberated by the committees shall be put to the Board for resolution, unless otherwise provided by these Guidelines or the related bylaws of the Corporation.

The functional committees are subordinate to the Board. Unless otherwise provided by these Guidelines, the committees may not externally issue any document or make any other expression of intent in their own names nor may they represent the Corporation or the Board to do so.

**5-1-03 (Selection of committee members)**

The Sustainable Development & Nominating Committee, after inquiring into the willingness of prospective committee members and considering the professional background of each prospective member, shall submit to the board proposals and recommendations for the members of each functional committee.

The selection of a member of any functional committee shall require the assent of a majority of the Directors present at a meeting attended by two-thirds or more of the Board.

Unless otherwise provided by law or regulation, the members of the functional committees shall be selected by the Board from among the Directors.

**5-1-04 (Committee conveners)**

Each functional committee shall have one convener, who shall be selected by and from among the members of the committee, and who shall handle the overall administration of

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meeting matters. However, for the Audit Committee and the Remuneration Committee, an Independent Director shall serve as convener.

### 5-1-05 (Rules of procedure)

The Corporation's rules of procedure for Board meetings shall apply mutatis mutandis to the convening, attendance, resolutions, minutes, and other matters of committee meetings.

### 5-1-06 (Committee duties)

Except as otherwise provided by law or regulation, the Articles of Incorporation, these Guidelines, or other basic bylaws of the Corporation, the procedures, content, and scope of the duties to be exercised by each functional committee shall be submitted by the Sustainable Development & Nominating Committee to the Board for adoption by resolution of the Board.

### 5-1-07 (Good faith reliance by the functional committees)

When a committee, in accordance with these Guidelines, deliberates proposals submitted by management, it shall rely in good faith on the professional opinions of management and the truthfulness and completeness of the assessments, judgments, and materials submitted by management. Unless the committee knows or negligently fails to know of other facts, the scope of the committee's duty of review shall be confined to the content of the proposals and recommendations of management and the materials provided by management for review.

## Section 2 Sustainable Development & Nominating Committee

### 5-2-01 (Sustainable Development & Nominating Committee members)

The Sustainable Development & Nominating Committee is composed of 5 to 7 members, at least half of whom shall be Independent Directors.

### 5-2-02 (Primary missions of the Sustainable Development & Nominating Committee)

The Sustainable Development & Nominating Committee has the following primary missions:

1. Formulating the qualifications for Independent Directors and the composition of the Board and the committees.
2. Nominating Independent Directors and non-Independent Directors.
3. Formulating and assessing slates of potential candidates for Independent Director and non-Independent Director seats.
4. Formulating and reviewing the execution of duties for all Directors and Functional Committees.
5. Reviewing the status of information disclosures.
6. Drafting, amendment, and review of these Guidelines and important Sustainable Development bylaws and rules.
7. Planning and recommendations for the Sustainable Development system, and review of the effectiveness of its implementation.
8. Other duties as set out in the Articles of Incorporation, these Guidelines, or Board resolutions.

After the close of each fiscal year, the Sustainable Development & Nominating Committee shall report to the Board on its execution of duties.

Before the annual general meeting of shareholders each year, the Sustainable Development & Nominating Committee shall issue a report on the implementation of Sustainable Development by the Corporation, and the report, after review by the Board, shall be included in the Shareholders' Meeting Agenda Handbook.

**5-2-03 (Functional subcommittees of the Sustainable Development & Nominating Committee)**

For the execution of its duties in accordance with these Guidelines, the Sustainable Development & Nominating Committee may establish subcommittees for purposes of handling corresponding duties and functions.

**5-2-04 (Organizational charter)**

For the execution of its duties in accordance with these Guidelines, the Sustainable Development & Nominating Committee may adopt an organizational charter, and implement it after submitting it the Board for passage by a resolution. The content of the organizational charter shall include at least the Sustainable Development & Nominating Committee's purpose of establishment, authority and duties, and the procedures for exercising its powers.

**5-2-05 (Submitting a recommended slate of Director candidates)**

The Sustainable Development and Nominating Committee shall follow the provisions of Articles 2-06, 4-03, and 4-04 of these Guidelines to carry out the nomination and recommendation of Independent Director candidates.

The provisions of the preceding paragraph shall apply mutatis mutandis to the nomination and recommendation of candidates for non-Independent Directors of the Corporation.

**5-2-06 (Performance evaluation)**

After the close of each fiscal year, the Sustainable Development & Nominating Committee shall submit an evaluation and recommendations with respect to the execution of duties by all of the Board and the functional committees, and submit it to the Board for review.

**5-2-07 (Deleted)**

**5-2-08 (Reporting on any changes in the identity of the Independent Directors)**

If there is any change in an Independent Director's occupation, identity/status, or shareholding, or something else occurs that could cause the person to no longer meet the qualifications and conditions for Independent Director as set out in these Guidelines, that Independent Director shall immediately report to the Sustainable Development & Nominating Committee.

**Section 3 Audit Committee**

**5-3-01 (Audit Committee members)**

The Audit Committee shall be composed of all the Independent Directors. It may not be fewer than three persons, one of whom shall be convener. Its members shall be free of any circumstance set out in Article 4-02, paragraph 2, subparagraph 1 of these Guidelines.

**5-3-02 (Deleted)**

**5-3-03 (Primary missions of the Audit Committee)**

The Audit Committee has the following primary missions:

1. Adopting or amending the internal control system pursuant to Article 14-1 of the Securities and Exchange Act.

2. Evaluating the effectiveness of the Corporation's internal control system.
3. Adopting or amending the procedures for material financial or operational acts such as acquisition or disposal of assets, derivatives trading, loaning of funds to others, or providing endorsements or guarantees for others, pursuant to Article 36-1 of the Securities and Exchange Act.
4. Reviewing matters that may involve the personal interest of a Director.
5. Reviewing material asset and derivatives transactions.
6. Reviewing material loans of funds or endorsements or guarantees.
7. Reviewing the public offering and issuance of securities or private placement of equity securities.
8. Evaluating the appointment, dismissal, and compensation of the attesting CPAs (external auditor).
9. Evaluating the appointment and dismissal the Corporation's chief financial officer, chief accountant, or chief internal auditor.
10. Reviewing the annual financial reports.
11. Reviewing the Q1 to Q3 quarterly financial reports.
12. Reviewing the Corporation's accounting system and financial condition.
13. Evaluation of the Corporation's risk management policies and risk measurement standards.
14. Reviewing the procedures for material financial and operational acts.
15. Evaluating, examining, and monitoring existing or potential risks to the Corporation of any kind.
16. Examining the Corporation's compliance with laws, regulations, and rules.
17. Other material matters as provided by the competent authority.
18. Other duties pursuant to the Articles of Incorporation or Board resolutions.

After the close of each fiscal year, the Audit Committee shall report to the Board on its execution of duties.

With respect to proposals relating to matters listed in the subparagraphs of paragraph 1, the Board shall give full consideration to the opinions of the Audit Committee. If the Audit Committee has expressed dissent or reservations about a proposal, and the proposal is nevertheless passed by the Board, the reasons for its passage shall be specified in the Board meeting minutes.

#### 5-3-04 (Organizational charter)

For the execution of its duties in accordance with these Guidelines, the Audit Committee may adopt an organizational charter, and implement it after submitting the charter, and likewise any amendments thereto, to the Board for passage by a resolution.

The content of the organizational charter shall include at least the Audit Committee's purpose of establishment, authority and duties, and the procedures for exercising its powers.

Powers conferred by the Securities and Exchange Act, the Company Act, or any other law, that are to be exercised by supervisors, except those powers set out in Article 14-4,

paragraph 4, of the Securities and Exchange Act, shall be exercised by the Audit Committee.

The provisions of Article 14-4, paragraph 4, of the Securities and Exchange Act regarding provisions of the Company Act involving acts done by supervisors or the role of supervisors as representatives of the Corporation, shall apply mutatis mutandis to the Independent Director members of the audit committee.

**5-3-05 (Internal audit report)**

The Corporation's internal auditors shall be detached, independent, objective, and impartial, in faithfully executing their audit duties, and shall, after having presented the audit and follow-up reports to their departmental superiors for approval, deliver them to the Audit Committee.

If an internal auditor discovers any material violation or any likelihood of material damage to the Corporation, the auditor shall immediately prepare and present a report to their departmental superiors for approval, and then notify the Audit Committee.

**5-3-06 (Evaluation of the attesting CPAs (external auditor))**

The Audit Committee shall reference Audit Quality Indicators (AQIs) and evaluate the independence and suitability of CPAs at the end of each year, and report findings to the Board.

If the Corporation engages the same external auditor for seven years without replacement, or if the external auditor is subject to disciplinary action or another circumstance prejudicial to its independence, the Audit Committee shall consider the necessity of replacing the external auditor, and submit its conclusion to the board of directors.

To avoid prejudicing the objectiveness and independence of the external auditor, if the external auditor is to be engaged to perform to engage any type of service other than auditing and attestation of the financial reports, including without limitation any tax-related services, on-site audits related to investment or mergers/acquisitions, or other customized services or consulting services, unless otherwise resolved by the Board, the proposed engagement for any such non-audit services shall be submitted for approval by the Audit Committee in advance.

**5-3-07 (Meetings)**

The Audit Committee shall convene at least once quarterly, and may call a meeting at its discretion whenever necessary.

**5-3-08 (Meetings with management, internal auditors, and the external auditor)**

The Audit Committee shall regularly meet with management, the internal auditors, and the attesting CPAs (external auditor), to review the Corporation's annual audit plan, examine the Corporation's financial reports, and gain an understanding of the financial condition of the Corporation.

**5-3-09 (Establishing channels and procedures for making and handling of complaints)**

The Audit Committee shall task management with establishing complaint mechanisms and handling procedures for complaints related to the accounting and internal control systems, financial auditing and corporate auditing, and compliance with laws and regulations, which shall include channels for receiving and processing complaints and measures for the confidentiality and protection of persons making complaints.

**Section 4 Remuneration Committee**



5-4-01 (Remuneration Committee members)

The Remuneration Committee is composed of 3 to 5 members. Its members shall be free of any circumstance set out in Article 4-02, paragraph 2, subparagraph 1 of these Guidelines, and more than half of the members shall be an Independent Director.

5-4-02 (Primary missions of the Remuneration Committee)

The Remuneration Committee has the following primary missions:

1. Prescribe and periodically review the performance evaluation and remuneration policy, system, standards, and structure for directors and managerial officers.
2. Periodically evaluate and prescribe the remuneration of directors and managerial officers.

After the close of each fiscal year, the Remuneration Committee shall report to the Board on its execution of duties.

If the Board's resolution on any proposal listed in the subparagraphs of paragraph 1 surpasses the recommendations of the Remuneration Committee, the Board shall specify the differences and the reasons in the Board meeting minutes.

5-4-03 (Principles for the exercise of powers of the Remuneration Committee)

When the Remuneration Committee performs its official powers, it shall follow the principles listed below:

1. It shall ensure that the performance evaluation and remuneration of Directors and managerial officers are geared toward productivity and incentivization and take into reference the typical pay levels adopted by peer companies, and give consideration to the reasonableness of the correlation with individual performance, the Corporation's business performance, and future risk exposure.
2. It may not give an incentive for the Directors or managerial officers to engage in remuneration-pursuing activity exceeding the risks that the Corporation can tolerate.
3. It shall take into consideration the characteristics of the industry and the nature of the Corporation's business when determining the ratio of compensation based on the short-term performance of its directors and senior management and the time for payment of the variable part of remuneration.

5-4-04 (Organizational charter)

For the execution of its duties in accordance with these Guidelines, the Remuneration Committee may adopt rules for the exercise of its powers or an organizational charter, and implement them after submitting them, and likewise any amendments thereto, to the Board for passage by a resolution.

The content of the rules for the exercise of powers or organizational charter under the preceding paragraph shall include at least the Remuneration Committee's purpose of establishment, authority and duties, and the procedures for exercising its powers.

5-4-05 (Meetings)

The Remuneration Committee shall meet at least twice each year.

6. (Deleted)

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## 7. Management

7-01 (Deleted)

7-02 (Reports by the President)

The President shall, in accordance with laws and regulations, the Articles of Incorporation, shareholders' meeting resolutions, or Board resolutions, report to the Board on the Corporation's finances, business, and operations, and report to the Board on future operational and development plans.

7-02-01 (Corporate Governance Officer)

The Corporation shall establish one corporate governance officer who serves as the highest-ranking manager responsible for corporate governance affairs; said officer shall have obtained the qualifications of a practicing lawyer or accountant, or have served in a managerial position at a unit handling legal, legal compliance, internal audit, finance, shareholder, or corporate governance affairs at a securities, financial, or futures institute, or a publicly listed company for more than three years. The position can be held concurrently by other personnel within the Corporation.

7-03 (Reports by managerial officers)

Except as otherwise provided by these Guidelines or otherwise resolved by the Board, the President and the managerial officers of relevant divisions shall attend Board meetings as non-voting participants to report to the Board or to respond to inquiries on the Corporation's finances, business, and operations, to assist the Directors to ascertain the current status of the Corporation and make appropriate resolutions.

The provisions of the preceding paragraph shall apply mutatis mutandis when a committee notifies management to attend committee meetings as non-voting participants.

7-04 (Preparation of materials and obligation of disclosure)

Except for matters involving secrets of the Corporation, for which the management may be

exempted from the requirement to prepare and issue materials in hard copy, when the Board or the committees meet, management shall prepare materials relating to the proposals to be discussed at the meeting and make them available, before or at the time of the meeting, for reading by the Corporation, the Board, or the committee, or a request may be made for management to appear and present, or make available, necessary explanations at the meeting.

**7-05 (Queries or explanations and reports)**

In the exercise of their powers, Directors may, after the Chairman or the committee convener has notified the Secretariat Division, make requests to refer to and read relevant materials at any time, and may request management to give explanations or reports.

**7-06 (Management's duty of care)**

When management prepares any proposal that is to be deliberated by the Board or committees pursuant to these Guidelines, it shall, based on objective and professional due diligence and care and subjective good faith conviction, and after thorough and prudent evaluation, submit concrete and specific recommendations, and specify the method and basis of the evaluation, the reasons for the recommendations, and other matters meriting attention. If the content of a proposal involves any economic interest connected with a major shareholder, Director, member of management, or departmental employee, or a family member of any of the above, or any other stakeholder, the specifics thereof shall be stated along with the proposal.

"Objective and professional due diligence and care" in the preceding paragraph includes without limitation exerting the utmost professional ability to prudently evaluate and confirm that the content of the proposal and recommendations are legal, appropriate, necessary, feasible, and consistent with the rights and interests of the Corporation and the shareholders. If there is any involvement of any economic interest connected with any stakeholder under the preceding paragraph, management shall furthermore evaluate and confirm that there is no conflict of interest with, or other circumstance prejudicial to, the rights and interests of the Corporation and shareholders.

"Subjective good faith conviction" in paragraph 1 means the conviction, based solely on concern for the rights and interests of the Corporation and the shareholders, that the content of the proposal and recommendations are consistent with the duty of due diligence and care under the preceding paragraph, and the willingness to take responsibility for the content of the proposal and the results of its execution, and not to look to the deliberations and resolutions by the Board or committee as a release from responsibility. This shall not apply, however, where the Board or committee's deliberation or resolution differs from the content proposed or recommended by management and management does not express support and affirmation on the spot.

**8 Prevention of Conflict of Interest**

**8-01 (Definition of related parties)**

The Corporation shall adopt rules for handling related party transactions. The aforementioned rules shall include management procedures for purchase and sales transactions, acquisition or disposal of assets, fund loans, or endorsements and guarantees.

The definitions of related parties and transactions referred to in the preceding paragraph shall be as set out in the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and shall be expressly set out in the rules under the preceding paragraph.

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When judging whether a counterparty to a transaction is a related party, consideration shall be given to the actual substance as well as the legal form of the relationship.

8-02 (Clear identification of relationships between related parties)

The Corporation shall clearly identify the division of authority and responsibility between it and its related parties with respect to management of personnel, assets, and financial matters.

The Corporation shall establish sound systems for the management of finances, operations, and accounting in accordance with applicable laws and regulations. It shall further, together with its affiliated enterprises, conduct an overall risk assessment of major banks, customers, and suppliers dealt with, and establish appropriate control mechanisms and firewalls to reduce risk.

8-03 (Managerial officers may not concurrently serve at related parties)

Unless otherwise provided by law or regulation, a managerial officer of the Corporation may not concurrently serve as a managerial officer of a related party.

8-04 (Non-competition by Directors)

A director who intends to engage in any conduct, for himself/herself/itself or on behalf of another person, that is within the scope of the Corporation's operations shall explain the major content of the conduct to the shareholders' meeting and obtain its permission.

8-05 (Deliberation of related party transactions)

Transactions between the Corporation and related parties shall be deliberated by the Audit Committee under the rules adopted pursuant to Article 8-01, paragraph 1 of these Guidelines.

8-06 (Related party transactions shall comply with relevant laws and regulations and official interpretations)

The Corporation's transactions with related parties shall comply with relevant laws and regulations including the Regulations Governing the Acquisition and Disposal of Assets by Public Companies, the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies, Regulations Governing Establishment of Internal Control Systems by Public Companies, and with interpretations issued by the competent authorities, the Articles of Incorporation, and these Guidelines.

8-07 (Principles for related party transactions)

The Corporation's transactions with related parties shall be based on the principles of fairness and reasonableness, so as to prevent non arm's-length transactions and tunneling of interests.

8-08 (Obligations of a government or juristic person shareholder with controlling power and management's reporting obligations)

A government or juristic person shareholder having controlling power over the Corporation, and any representative it appoints to serve as a Director, may not directly or indirectly do any of the following:

1. Cause the Corporation to conduct any operations that are not at arm's length or otherwise involve illegal interests.
2. Improperly intervene in the Corporation's decision-making or obstruct operational activities.

3. Restrict or impede the Corporation's production management through unfair competitive practices such as monopolizing procurement or closing off sales channels.

If the management learns of a circumstance under any of the subparagraphs of the preceding paragraph, it shall promptly report to the Board or the Audit Committee, and the Board or Audit Committee shall take appropriate measures.

**8-09 (Director obligations and recusal)**

Where a government or juristic person shareholder or its representative is elected as a Director, the government or juristic person shareholder shall ensure that its appointed representative shall fulfill its duty of loyalty, duty of due diligence and care, and duty of confidentiality, to the Corporation.

A director who has a personal interest, or represents a government entity or institution with interests in the matter under discussion at a board meeting shall explain to the board meeting the essential contents of such interest. Where the spouse, a blood relative within the second degree of kinship of a director, or any company which has a controlling or subordinate relation with a director has interests in the matters under discussion, such director shall be deemed to have a personal interest in the matter

When an item on the agenda of a Board meeting the personal interest of a Director, or an interest of a Government or juristic person represented by the Director, if there is any likelihood of prejudice to the interest of the Corporation, the Director shall physically absent and recuse himself or herself, and may not participate in the discussion and the voting, and also may not appoint another Director as his or her proxy to exercise voting rights, nor accept a proxy to exercise voting rights for another Director.

Under any of the following circumstances with respect to any meeting agenda item, a Director should refrain from being present for discussion and voting on the item by the Board or the relevant committee, and also should not appoint another Director as his or her proxy to exercise voting rights, nor accept a proxy to exercise voting rights for another Director:

1. There is a substantive interest relationship with an affiliated enterprise or related party of the Director or the Director's representative, such that there is a likelihood of prejudicing the interest of the Corporation.
2. The circumstance of the preceding subparagraph exists with respect to an affiliated enterprise or related party of the government or juristic person shareholder represented by the Director.
3. Any other circumstance in which the Board deems recusal necessary based on considerations of avoidance of conflicts of interest

If a Director does not recuse himself or herself under the preceding two paragraphs, the non-recusal shall be specified in the Board minutes, and may be disclosed on the Corporation's website or other appropriate place.

**8-10 (Major shareholders with controlling power)**

The Corporation shall keep an accurate list of major shareholders, and ascertain their ultimate controllers, for reference in identifying interested parties.

"Major shareholder" in the preceding paragraph means a shareholder who owns 5 percent or more of the equity shares or whose equity shareholding ratio is among the top 10 shareholders.

8-11 (Mutatis mutandis application where necessary to prevent conflicts of interest)

With respect to transactions between the Corporation and non-related parties, where necessary to prevent a conflict of interest, the provisions of this Chapter shall apply mutatis mutandis.

9. Respecting the Rights and Interests of Stakeholders

9-01 (Protecting stakeholders' rights and interests)

The Corporation shall maintain open channels of communication with government agencies, banks and other creditors, employees, suppliers, contractors, community, or other stakeholders of the Corporation, and respect and safeguard their legal rights and interests. When a stakeholder's legal rights or interests are harmed, the Corporation shall handle the matter in a proper manner and in good faith.

9-02 (Providing information)

The Corporation shall provide sufficient, true, and complete information to banks and other creditors to facilitate their evaluation of the operational and financial condition of the Corporation.

9-03 (Employee relations)

The Corporation shall strive to provide a safe and healthy work environment, establish good channels of communication with employees, and encourage employees to communicate directly with the management and Directors, so as to adequately reflect employees' opinions about the management and financial condition of the Corporation, or about matters that bear on the rights and interests of employees.

9-04 (Social responsibility)

The Corporation shall devote attention to public policy, economic development, consumer rights and interests, community concerns, environmental protection and sanitation, public safety, and other public interest issues, to raise the Corporation's image, and to faithfully fulfill its social responsibilities.

9-05 (Code of conduct)

The Corporation shall adopt a Code of Ethical Conduct, to guide all of its employees in complying with laws and regulations, upholding the rights and interests of the Corporation and its shareholders, and faithfully fulfilling social responsibilities.

The Corporation's management shall supervise and ensure that employees comply with the Code of Conduct under the preceding paragraph.

The Corporation shall see to it that its contractors, firms it does business with, counterparties to trades, or stakeholders, know and jointly put into practice the Code of Ethical Conduct under paragraph 1.

If any personnel of the Corporation discover any violation or substantial likelihood of violation of the Code of Ethical Conduct, the personnel shall file a complaint by the complaint mechanism set out in Article 5-3-09 of these Guidelines.

9-06 (Whistleblowing System)

The Corporation has established and announced channels for internal and external whistleblowers and has whistleblower protection mechanisms in place. The unit that handles whistleblowers' reporting is independent, provides encrypted protection for the files

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furnished by whistleblowers, and appropriately restricts access to such files. It also formulates internal procedures and incorporates those procedures into the Corporation's internal control system for management purposes.

### **10. Enhancing Information Disclosure**

#### **10-01 (Purpose and principles for information disclosures)**

The Corporation shall carry out information disclosures in accordance with relevant laws and regulations and these Guidelines, adhering to the principles of timely, accurate, and complete public disclosure, so that all shareholders and stakeholders are kept timely and fully informed of relevant information of the Corporation and can easily obtain such information, in order to put corporate governance into practice and protect the rights and interests of investors.

#### **10-02 (Adoption of information disclosure rules)**

The Corporation shall adopt information disclosure rules, specifying the information to be disclosed, the timing, methods, and procedures for disclosure, the responsible units, the spokesperson system, and the methods and policies for holding investor conferences and press conferences.

#### **10-03 (Deleted)**

#### **10-04 (Deleted)**

#### **10-05 (Deleted)**

#### **10-06 (Deleted)**

#### **10-07 (Deleted)**

### **11. Supplementary Provisions**

#### **11-01 (Interpretation)**

The interpretation and practical implementation of these Guidelines shall seek the substantial spirit of corporate governance rather than paying excessive attention to literal wording. If any question arises, the Sustainable Development & Nominating Committee shall present it to the Board for deliberation and settlement.

#### **11-02 (Adoption, amendment, repeal)**

These Guidelines, and any amendments hereto, shall take force after they have been submitted to the Board by the Sustainable Development & Nominating Committee, passed by the Board, and submitted to and approved by a shareholders' meeting.