



DAIWABO HOLDINGS REPORT 2023



Purpose

Connecting
people and society
to the future
with our value chain



We believe that the purpose of the group's existence is to **connect and link** people in business, **companies, and local communities** in the value chain that consists of various social activities. We will **demonstrate our collective strength** by focusing on **partnership, branding the entire value chain**, and organically collaborating and cooperating with others to address social issues that would be difficult to solve by our group alone.

Also, "**Connection to the future**" expresses our determination to realize a future with **comfort, safety and security, and happiness for people and society**. We are aiming to achieve this by **constantly exploring and experiencing new technologies** through the promotion of diverse advanced IT products and services and through the quest of research and development that can contribute to daily life and many industries, and by **feeding back those technologies to our value chain**.

We will not only support the infrastructure of modern society but also make a wide range of contributions to creating a more comfortable future society by catching changes in the business environment and values.

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KEY POINT

Our origin and future visions —Connecting people and society to the future

This section introduces the history of Daiwabo Group, which has been growing by creating values for society through our three core businesses. In the president's message pages, we present our goals, the process of value creation to achieve them, and our materiality that we revised in March 2023.

Path to medium- to long-term growth —Sustainable management in full scale

This section explains our Medium-Term Management Plan in light of the assessment by the director in charge of Corporate Strategy and from the perspective of each business activity. It also introduces our efforts to secure and strengthen our capital, which is the source of our business.

Editorial policy

The Daiwabo Group has decided to publish the Integrated Report this year as a communication tool to help stakeholders understand the group's values, business model, and other value creation stories for sustainable corporate value improvement. In addition to financial information on management strategies and business activities, this Report also includes non-financial information such as how our group businesses contribute to the society and the environment. We will continue to enhance the content of the Report to help our stakeholders to more deeply understand the attractiveness and growth potential of our group.

* "Daiwabo Group" refers collectively to Daiwabo Holdings Co., Ltd. and its consolidated subsidiaries.

Targets of this report

In principle, this Report and related data are aimed at the Daiwabo Holdings Co., Ltd., but some contents are directed at only those in Japan.

Guidelines and other references

- IFRS Foundation, *International <IR> Framework*
- Ministry of Economy, Trade and Industry, *Value Co-Creation Guidance 2.0*
- GRI (Global Reporting Initiative), *GRI Standards*

Value creation foundation

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Achieving transparent, fair, and prompt decision making

This section outlines our corporate governance initiatives. A total of five outside directors, including a newly appointed one, participated in a roundtable discussion in which they objectively evaluate the effectiveness of governance, sustainability, and their expectations for the company from an outside perspective.

Prerequisite information to understand the Daiwabo Group

This section provides information such as our directors and officers, their resumes, corporate information, consolidated subsidiaries, stock information, and dividends per share. Financial and non-financial highlights section shows our major financial and non-financial data, as well as their historical changes over the years, with graphs for each item.

Reporting period

FY2022 (April 1, 2022 to March 31, 2023)
Some activities included in this Report were out of this period.

Issuance

November 2023

Forward-looking statement disclaimer

The forward-looking statements in this Report, including business forecasts, represent our current judgment based on information available to us as of August 2023, or during the preparation of this Report, and are subject to risks, uncertainties, and other factors. They are also subject to external factors such as economic conditions, market trends and exchange rates. Please note that actual results may differ due to changes in various factors.

Contact

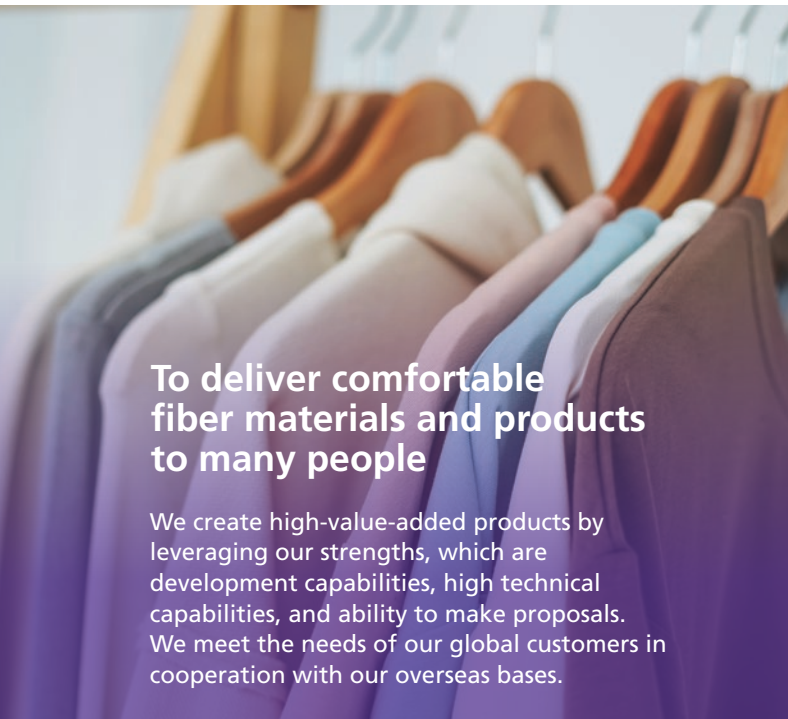
Daiwabo Holdings Co., Ltd.

✉ Contact us



Our purpose

Our history and values we have provided to date



To deliver comfortable fiber materials and products to many people

We create high-value-added products by leveraging our strengths, which are development capabilities, high technical capabilities, and ability to make proposals. We meet the needs of our global customers in cooperation with our overseas bases.



To provide safety and security of aircraft engines and power generation equipment, etc.

Taking pride in retaining high market share for vertical lathes, we provide our unique high-precision machinery while responding to diversifying user needs.

Our history of business development and growth in response to social needs and challenges

1982

IT Infrastructure Distribution Business

1941

Fiber Business

1949

Industrial Machinery Business

1941

- Daiwabo is established, with its head office in Osaka, through the merger of four companies: Kinka Boseki, Hinode Boshoku, Izumo Seishoku, and Wakayama Boshoku.

1949

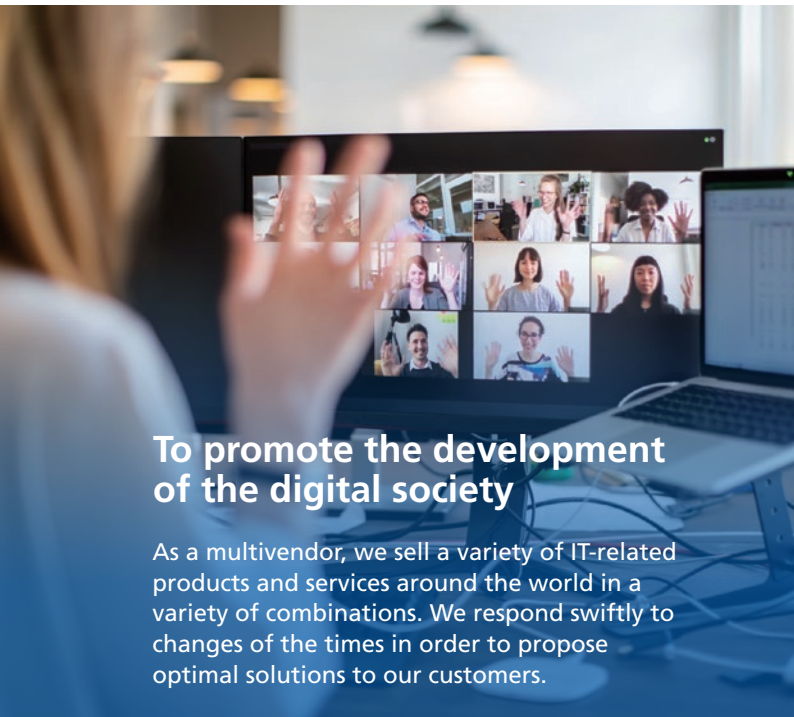
- Daiwabo is listed on the Tokyo Stock Exchange.
- Daiwabo spins off its Shinji Factory to establish Daiwa Machinery Co., Ltd. (currently O-M Ltd.). In 1960, Daiwa Machinery Co., Ltd. merges with Osaka Kikai Seisakusho—a manufacturer of machine tools and spinning machines—to form O-M Ltd.

1982

- As part of new business development, Daiwabo establishes DAIWABO INFORMATION SYSTEM CO., LTD. (DIS) to advance into an information-related business.

1992

- DIS establishes DIS Logistics Co., Ltd. (currently DIS Service & Solution Co., Ltd.) to expand into the logistics industry.



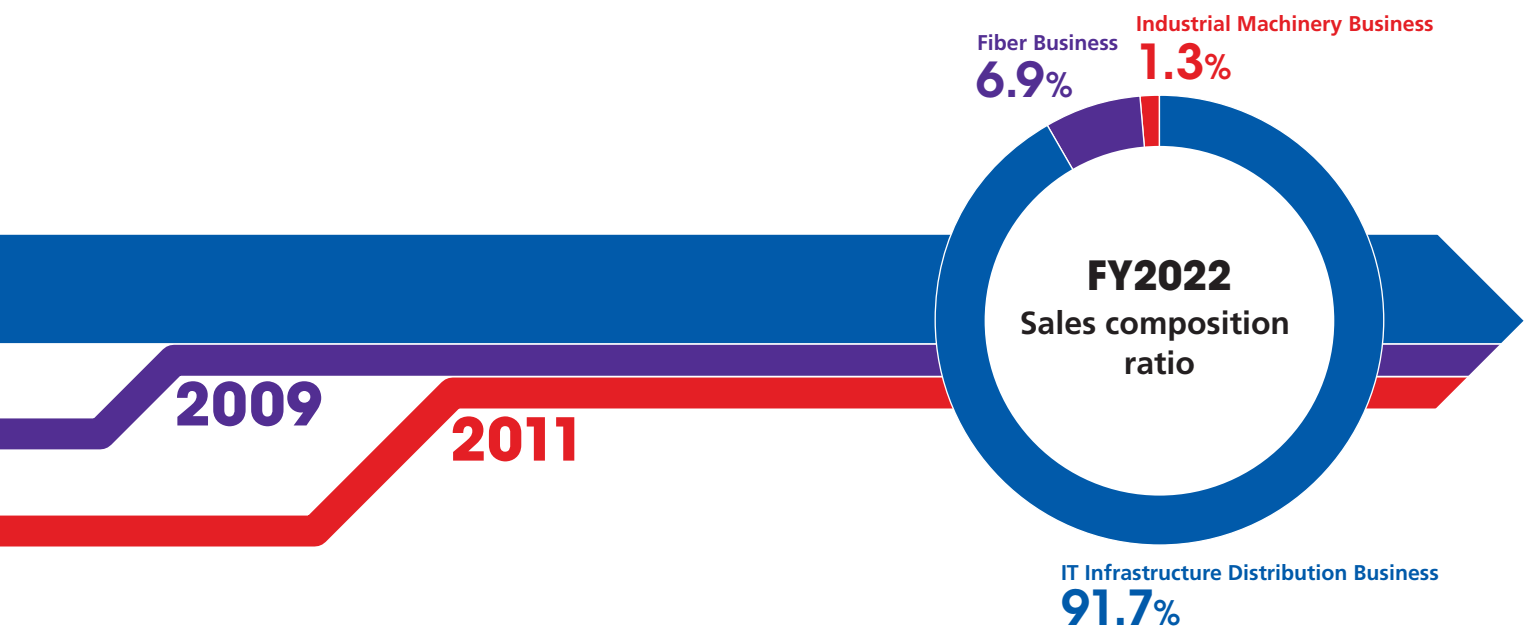
To promote the development of the digital society

As a multivendor, we sell a variety of IT-related products and services around the world in a variety of combinations. We respond swiftly to changes of the times in order to propose optimal solutions to our customers.



To help children cultivate the ability to live in a digital society

For the benefit of the children who will lead the next generation, we promote the optimization of the information and communication technology (ICT) environment for STEAM Education and inquiry-based learning. We also support teachers in improving their ICT-based instructional skills.



2009

- Daiwabo Co., Ltd. and DIS integrate their management structures.
- Daiwabo Co., Ltd. changes its trade name to Daiwabo Holdings Co., Ltd.
- Daiwabo Co., Ltd., an intermediary holding company, is established to oversee 12 consolidated subsidiaries engaged primarily in the fiber business.

2011

- Daiwabo Holdings Co., Ltd. and O-M Ltd. integrate their management structures.

2020

- Daiwabo Co., Ltd., an intermediary holding company in the Fiber Business, becomes the core business company in the Fiber Business through the merger of five subsidiary companies.

2021

- DIS group companies DIS SERVICE & SUPPORT CO., LTD., and DIS Solution Co., Ltd. merge to start business as DIS Service & Solution Co., Ltd.



Using our competitive
advantages to become
a company indispensable
to society

Yukihiro Nishimura

Representative Director, President and Chief Executive Officer

The reason we exist

A Purpose centered on “connections”

This is the Daiwabo Group’s first Integrated Report. The report is the result of a year-long collaborative project between the holding company and our group companies. This close collaboration also led to one other result—the definition of our Purpose. The Purpose communicates the reason for our existence in society and our long-term vision for value proposition as well as our approach to materiality toward 2030.

Our mindset and pride are expressed in our purpose statement: “Connecting people and society to the future with our value chain.” The group plays an important role in the value chains of a wide range of social activities, and we create value by playing an important role creating and maintaining business connections between people, companies, and local communities. The process of defining our Purpose reaffirmed for us the reason we exist for society.

One of the best examples of how we create value for society is our contribution to the Japanese government’s GIGA School Program launched in 2019. The idea of the GIGA School was to provide every elementary and junior high school student with a computer as a way to facilitate a creative environment for using information and communications technology. The program was vastly accelerated due to outbreak of the COVID-19 pandemic, which created an urgent need to equip schools throughout the country with computers, tablets, and other devices so they could conduct online classes. This was an overwhelming task for the schools as well as for the Board of Education.

The Daiwabo Information System was instrumental for us to demonstrate our strength in creating the “connections” needed for the program’s success in the adverse conditions. We leveraged our nationwide network of over 90 sales bases and about 19,000 dealers to provide the fully integrated one-stop service that was needed for everything from procuring and flexibly delivering the large volumes of computers and network equipment to setting up the network environments at each school, and providing follow-up support. Right at that time, the supply of electronic devices ground to a halt around the world. Coordinating the delivery dates was extremely difficult, but the strong relationships of trust and collaboration structure we have with the equipment manufacturers and sellers helped us meet the needs of the education system and play a fundamental role in realizing the GIGA School Program.

While providing technical support for the GIGA School Program, the group is also helping introduce platforms for STEAM Education to provide foundations in science, technology, engineering, art, and mathematics for future generations of human resources. Students who learn in a fully functional and connected learning environment will be fully prepared to create a whole new future. That may well be the ultimate value that we as a company can provide to society.

Management philosophy

Management informed by dialogue with the capital markets

I have always considered communicating with the capital markets to be one of the most important aspects of being a manager. When I was a senior executive managing officer in 2018, I led the creation of a system for conducting our IR activities. I believe one of our most important roles as a holding company is to provide shareholders and investors with information about the characteristics and strengths of

our three business segments, their specific activities, financial status, and business prospects.

I have continued to emphasize IR activities since I became president in April 2020 and have worked to strengthen our information communication structure and to make the information easier to understand for people both inside and outside the company. In 2022, we added an IR Division to the Corporate Strategy

Message from the President

Department, which is responsible for overseeing strategy across the group, and stepped up monitoring and PDCA checks for the progress of our business plans. We also actively host briefing sessions for institutional investors and financial institutions, investor and shareholder relations meetings, and seminars for private investors. The IR Division conducts vital functions for communicating information about our holding company operations, ranging from distributing videos and scripts of our performance results announcements and Medium-Term Management Plan briefings as well as ensuring extensive information is available in English.

Close dialogue with capital markets also helps our management evolve and improve. One specific example of this has been the reaffirmation of the importance of continuing to improve our capital efficiency. This led us

to add ROIC to ROE as group management indicators in the current Medium-Term Management Plan and to communicate targets for both, including the target to raise ROIC above the weighted average cost of capital (WACC). We are also taking steps to improve the group's overall capital efficiency.

Our communications with the capital markets have also reconfirmed the importance of initiatives related to non-financial value, such as environmental, social, and governance (ESG) activities. We created the ESG Promotion Committee, with myself as the chair, in FY2020 (fiscal year ended March 31, 2021), to oversee all of the group's ESG activities. In April 2022, we created the ESG Promotion Department to ensure we provide full disclosure of non-financial information required for a company listed on the Prime Market of the Tokyo Stock Exchange.

Material issues

Focus on strengthening human capital throughout the group

The Medium-Term Management Plan launched in FY2021 (fiscal year ended March 31, 2022) set the following three years as the transition period for future development. This will be the starting point for the forces that will drive our business for the next 10 years, and a fundamental strategy for the period is "the creation of next-generation growth drivers." Each of our three business divisions will be pursuing this in specific ways. The core segment of IT Infrastructure Distribution Business is focusing on developing original products and services with the aim of forming a new business model. The business is seeking to establish a presence as a cloud distributor in addition to its main hardware-based operations. We are also strengthening our business foundation following our Basic Policy by fortifying the Fiber Business's R&D structure and expanding the Industrial Machinery Business's range of services.

Human resources are the most important management resource for carrying out these strategies and ensuring ongoing business growth. We are continuing strategic investment in line with the plan's strategies to "create an organizational culture that encourages human resource development and growth."

A key element behind the IT Infrastructure Distribution Business's success has been the quality and quantity of back-office support staff and the sales representatives who are the points of contact with our 19,000 dealers. We recognize that developing young

employees to support our growing subscription business and the accelerating digitalization of businesses are of utmost importance for the sustainable growth of our business.

Our society is increasingly emphasizing diversity and well-being, and employees are changing what they expect of their company. Interviews with job candidates increasingly include questions about the management of work hours, where the work must be done, and the status of women's participation in the company. We need to be responsive to the changing conditions and create a work environment that encompasses a wide range of values and lifestyles. Our employee management must also evolve from the old system of mass hiring and one-size-fits-all learning because it does not bring out each person's individual characteristics and potential. Providing a work environment where employees with different values and abilities and of all ages and genders feel motivated and eager to be active on the front lines of our businesses will be essential to sustainable development of our operations.

Increasing the diversity of our workforce is vital to successfully meeting the changing needs of the markets. We are instilling diversity management that approaches employees on an individual basis. We have also made appointing female managers a priority for all group companies with the expressed aims of



increasing the number of candidates for managerial positions and creating an environment that supports extended long-term careers for women.

We also recognize that good physical and mental health is a prerequisite for employees to be able to

work to the best of their abilities, and we will continue to put special effort into health management, such as by examining internal systems to support employee efforts to maintain and improve their health and by continuing to improve the workplace environment.

Creating long-term growth

Establishing a business portfolio to maximize our corporate value

The group's long-term vision is to manage its business by following the newly defined Purpose and engaging in business that provides solutions for social issues and establishes sustained growth in corporate value. We are focusing all of our management resources on addressing issues and also using our strong relationships of trust with suppliers and partner firms to form tie-ups and collaborations for organic partnerships to pursue solutions for issues that are beyond the scope of our capabilities alone. Through these efforts, we are aiming to become a corporation delivering two types of value—value for the Company by enhancing our corporate value and value for society by addressing social issues.

To achieve that status, it will be vital for us to continue growing the IT Infrastructure Distribution

Business, which is the core operation that drives our business. The latest advances in technologies for 5G mobile networks, generative AI, and robotics are opening the doors for new solutions to issues such as the growing manufacturing labor shortage in Japan, and we believe they are creating a tailwind for expanding our business domains. This is a major trend and, while we will need to overcome the major challenges of strengthening our international competitiveness in the IT field and securing IT human resources, we will be exploring every opportunity to grow our business. We plan to continue demonstrating our superiority in the industry by leveraging our strength as a multi-vendor capable of handling any product on a worldwide scale, anticipating market changes, and

Message from the President

stably procuring and providing strategic products. We are also branching out from our current operations to create new businesses, such as subscription businesses.

As we pursue growth into new business realms, we will continue to actively consider M&A, alliances, and other methods to accelerate our objectives. We are extremely selective when targeting business areas for M&A, and two of the areas we are considering are DX and online subscription businesses where we anticipate growing markets. We are also looking into areas where we can help address social issues, such as by contributing to creating environmental products and improving safety. We start an M&A process by considering a wide range of areas and then narrowing our search by considering perspectives including business growth potential, sale and profit scale, investment performance indicators, and management strategies.

We also need to formulate the optimal portfolio for maximizing corporate value over the longer term. We

will do this by actively increasing investment in businesses with growth potential and by carefully selecting and concentrating the businesses in our portfolio to make our group even stronger. Steps to optimize our business portfolio include thoroughly reviewing the businesses in terms of various factors, including the guidelines of the Ministry of Economy, Trade and Industry. On May 15, 2023, we disclosed information about these activities in our publication entitled Priority Considerations and the Examination System for Formulating the Next Medium-Term Management Plan. One of the strategic options we are considering is spinning off the Fiber Business to be an independent entity. We are considering all options for raising the value of all of our businesses with the intention of identifying the method that is in the best interest of shareholders, employees, and our business partners.

Sustainability

A company that is indispensable for the happiness of people and society

Sustainability is essential to our business continuity and growth, and is crucial to improving our corporate

value. The ESG Promotion Committee oversees the activities of all group companies aimed at bolstering



business sustainability and growth. The Medium-Term Management Plan applies an ESG approach to business to address social issues as a core theme as well as creates a business model for sustainable growth and maximizes the value of the human resources that will create the future.

When we were re-envisioning our value creation process in March 2023, we identified priority issues of “materiality” that we need to address to ensure our company continues to thrive in a sustainable society. The issues were defined as materiality based on important global themes, such as the sustainable development goals, as well as key issues related to our shareholders, investors, customers, trading partners, employees, and local communities. We also considered the potential future impact of the issues on the economy, environment, and society. We then categorized the materiality issues under key words and identified potential business opportunity and risk with social and environment issues that require addressing and issues that present opportunity for group business growth.

Through extensive discussions about the group’s and each group company’s long-term projects, we defined 10 material items in the four areas of society & industry, the environment, people, and governance. We particularly see opportunity to use our businesses to demonstrate our group’s character and strengths for materiality in the area of industry & society, specifically by using our business to develop local economies, contributing to a sustainable society, and contributing to a digital society.

Another item of materiality is our corporate governance. The ability to quickly strengthen the governance structure is becoming essential in the changing business environment. To improve this ability, in June 2023, we increased by one the number of outside directors on the Board of Directors. Five of the eight members of the Board are independent outside directors, two of whom are women. ESG assessment organizations give our Board of Directors high marks for independence and diversity and the strength of our management oversight.

The Board of Directors discusses and decides issues related to each business strategy, and actively examines plans to increase corporate value from a medium and long-term perspective. The opinions and recommendations from the outside directors have been invaluable. The Board has been becoming increasingly effective each year, and we will continue to improve its effectiveness because I believe it will be key to achieving sustainable growth.

Our updated purpose statement is “Our value chain is connecting to people, connecting to society, and connecting to the future,” and it is important that we ensure it permeates to all employees, and that they fully adopt and implement it in their daily work. I would like all of our managers and employees to share the idea that we are “an indispensable company for the happiness for people and society!” and to work together as a unified group to attain sustainable growth.

We, the Daiwabo Group, will always be grateful to all of our stakeholders and will continue to advance research and development to make new IT products and services widely available and to contribute to industry and to people’s daily lives. By constantly pursuing new technologies and integrating them back into the value chain, we will provide comfort, safety, and security as well as happiness for people and society while aiming to enhance our corporate value over the medium and long term. We deeply appreciate your warm understanding and support.

感謝

The Japanese word *kansha* means gratitude. I would like to stress to our stakeholders my sincerest appreciation for their continued support.

Yukihiro Nishimura

Representative Director,
President and Chief Executive Officer

Purpose

Connecting people and society to the future with our value chain

A business group which continues to provide the added value that the world needs

Input

Financial capital → For more details, see page 29

Using stable cashflow to expand the scale of business operations and strengthen the company's financial foundations

- Using capital efficiency indicators for monitoring
- Balancing growth investment and shareholder returns

Intellectual and manufacturing capital → For more details, see page 31

First-rate distribution capabilities and product lines, proprietary technologies and technical know-how

- Cutting-edge distribution centers and the latest IT knowhow
- Effective R&D, realizing distinctive proprietary technologies

Human capital → For more details, see page 33

Building a human resource portfolio based on business-specific human resource development

- Employee-friendly systems and a comfortable working environment
- Promotion of diversity and inclusion

Social capital → For more details, see page 37

Strong partnerships with customers and with other companies in the industry

- A community-based structure in cooperation with its sales offices throughout Japan
- Promotion of supply chain management

Natural capital → For more details, see page 41

Effective utilization of energy and natural materials

- Transition to low-carbon energy
- Effective utilization of natural resources and natural materials

Materiality

Addressing issues in four areas over the period between now and 2030

Social / Industry

- Promoting business for local economic development
- Contributing to sustainable social infrastructure
- Contributing to a digital society

Environment

- Making efforts toward achieving a decarbonized society
- Contributing to a circular economy
- Promoting global environmental conservation

People

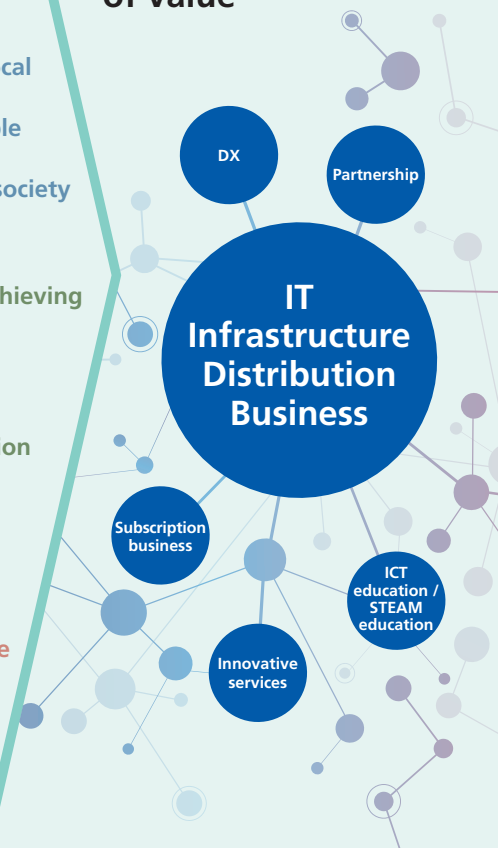
- Respecting human rights in business
- Expanding human capital
- Diversifying the workforce and improving wellbeing

Governance

- Corporate governance

Business model

Striving to build an optimal business portfolio for the maximization of value



Daiwabo Holdings has built up robust management resources, expanding its business areas, which help to address contemporary social issues and meet social needs, and building up a strong network that extends into every part of Japan. Developing its businesses in an organic manner that leverages the company's flexible management structure, Daiwabo continues to provide value to sustainably build a connection to the future for society.

Output Outcome

Creating value for society

Taking the digital society to a higher level

- Adoption of world-leading technologies
- Reducing regional disparities in education by utilizing ICT

Improving social infrastructure

- Helping to realize a circular economy by increasing the adoption of subscription-based services
- Contributing to industries that support society

Contributing to the environment

- Sale of environmentally-friendly products
- Contributing to the renewable energy industry

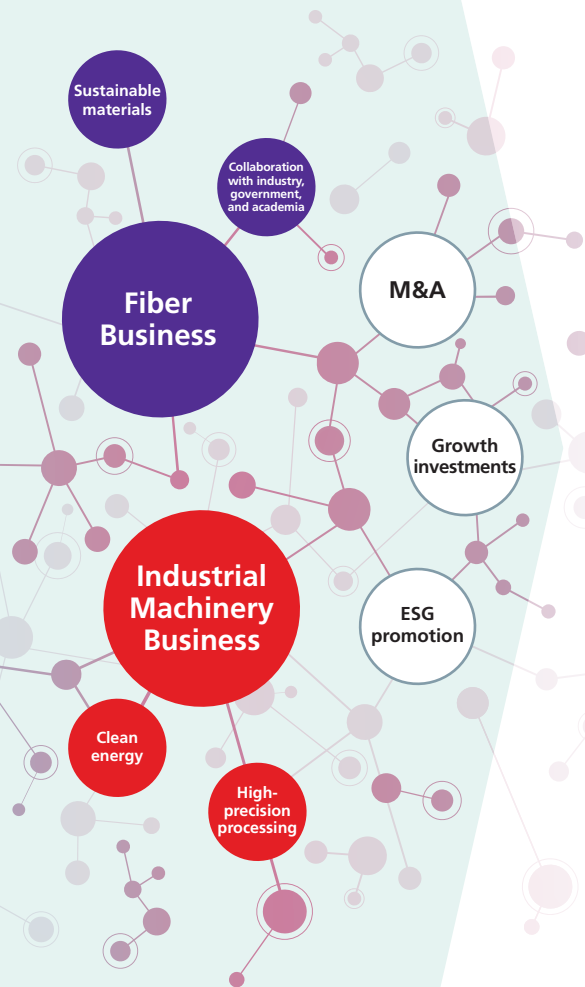
Creating economic value

Enhancing sustainable corporate value

- Achievement of Medium-Term Management Plan goals
- Improvement of capital efficiency (ROE and ROIC)
- Enhancing shareholder returns

Toward the realization of a sustainable society by 2030

Making a wide range of contributions toward creating a more comfortable future society by identifying changes in the business environment and in values



Business model of each business unit

Power to distinguish our businesses (assets for our earnings)

IT Infrastructure Distribution Business

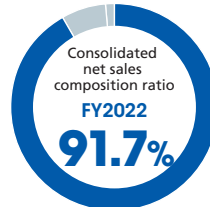
Operating Company: DAIWABO INFORMATION SYSTEM (DIS)

- 90% of the group's total sales
- 36.8% share of the corporate PC market*
One of Japan's largest trading companies specializing in IT
- Scale expansion of IT device distribution and subscription services for educational institutions

Main customers

Information equipment sales companies, IT trading companies, system integrators, mass retailers, and e-commerce operators, etc.

→ For more details, see page 45



Intellectual and human capital

- A sales system capable of speedily proposing IT trends, products, and services to anywhere in Japan through strong partnerships with a variety of domestic and overseas manufactures and vendors (suppliers)

Manufacturing capital

- Always 40,000 items in stock at our distribution center network covering Japan

Social capital

- Built relationships with over 1,400 manufactures and vendors (suppliers)
- Established strong relationships with 19,000 dealers throughout Japan, creating a mutually efficient business structure

Fiber Business

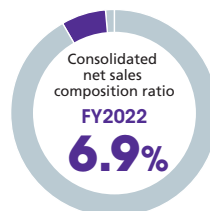
Operating Company: Daiwabo Co., Ltd.

- Establishment of an integrated production system from material development through R&D to final products
- Focus on the development of functional and sustainable materials such as biodegradable materials

Main customers

Hygiene and skin care product manufacturers, clothing manufacturers and retailers, civil engineering and construction companies, etc.

→ For more details, see page 49



Intellectual and human capital

- Investment in the development of new functional materials and training of human resources

Manufacturing capital

- Development and production in nine factories in Japan and six overseas

Social capital

- Joint research with universities and other institutions to develop materials

Industrial Machinery Business

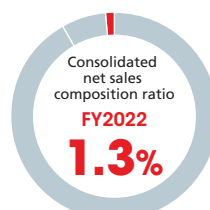
Operating Company: O-M Ltd.

- A high market share of vertical lathe, a machine tool used mainly in heavy industries such as aerospace and railroad industries, which allows us to make behind-the-scene contributions to various infrastructure industries
- Manufacture of automated packaging machinery for a wide range of industries

Main customers

Heavy industry manufacturers, railroad companies, food manufacturers, pharmaceutical manufacturers, etc.

→ For more details, see page 51



Intellectual and human capital

- Business operations that identify customers' needs and link them to our product developments
- Training system and work environment to ensure that our experts' skills are passed on within the company

Manufacturing capital

- Development and production in two factories in Japan

Social capital

- Involvement in various infrastructures through machine tools and automated machinery

* DIS's share of the domestic corporate PC market, calculated based on MM Research Institute survey results

Actions for growth

Achieving market share in each category of IT device distribution

- Effective proposals and support system utilizing information infrastructure, such as sales force automation (SFA) and customer relationship management (CRM)
- Pursuit of competitive advantages through partnership in each area
- Wide range of proposals and support for ICT development in the education area

Implementing and bolstering advanced support functions

- Developing the technical capabilities and ability to make proposals in order to meet diverse needs
- Creation of driving force for new business by training up an engineer

Transforming into a company worth working for based on ESG

- Development of biodegradable, biomass, recycled and other environmentally friendly products
- Improvement of operational efficiency through working environment improvement, personnel training, and IT utilization

Bolstering development of unique materials by pursuing the fiber strategy

- Cross-sectional R&D structure through the establishment of a new Technology and Development Division

Business expansion into potential markets of machine tools

- Response to changes in the energy industry caused by decarbonization
- Meeting demand for 5G-related small power generation equipment and offshore wind power generation
- Response to Japanese and overseas demands for machinery specialized for railroads
- Expansion of proposal-based sales activities to improve customers' work efficiency

Branding as a cloud distributor

- Expansion of the user base of iKAZUCHI, a subscription management portal, by increasing its services and features
- Provision of "DX Academy Service" that supports digital transformation (DX) of corporate enterprises across Japan, to promote application of our dealers' own DX to users' DX

Enhancing productivity across the entire supply chain

- Continuous investment in information systems for purposes such as enhancing sales activities with technologies, including robotic process automation (RPA) and business intelligence (BI) tools, and supporting tactical operation through SFA and CRM

- Sales expansion by utilizing functional and sustainable materials
- Application of materials and post-processing technologies across the group
- Expansion of R&D areas through industry-academia-government collaboration

Business activities considering efficiency of invested capital

- Sales expansion of fiber products through R&D

Capturing demands for automated packaging of automated machinery

- Quality improvement and cost reduction through standardization of automatic feeding machines
- Enhancement of competitiveness in the Chinese pharmaceutical industry market
- Development of new products and equipment to meet labor-saving needs

Enhancing profitability by improving services

- Establishment of a service system through the service improvement project
- Responding to customers' needs through proposals of retrofit or overhaul

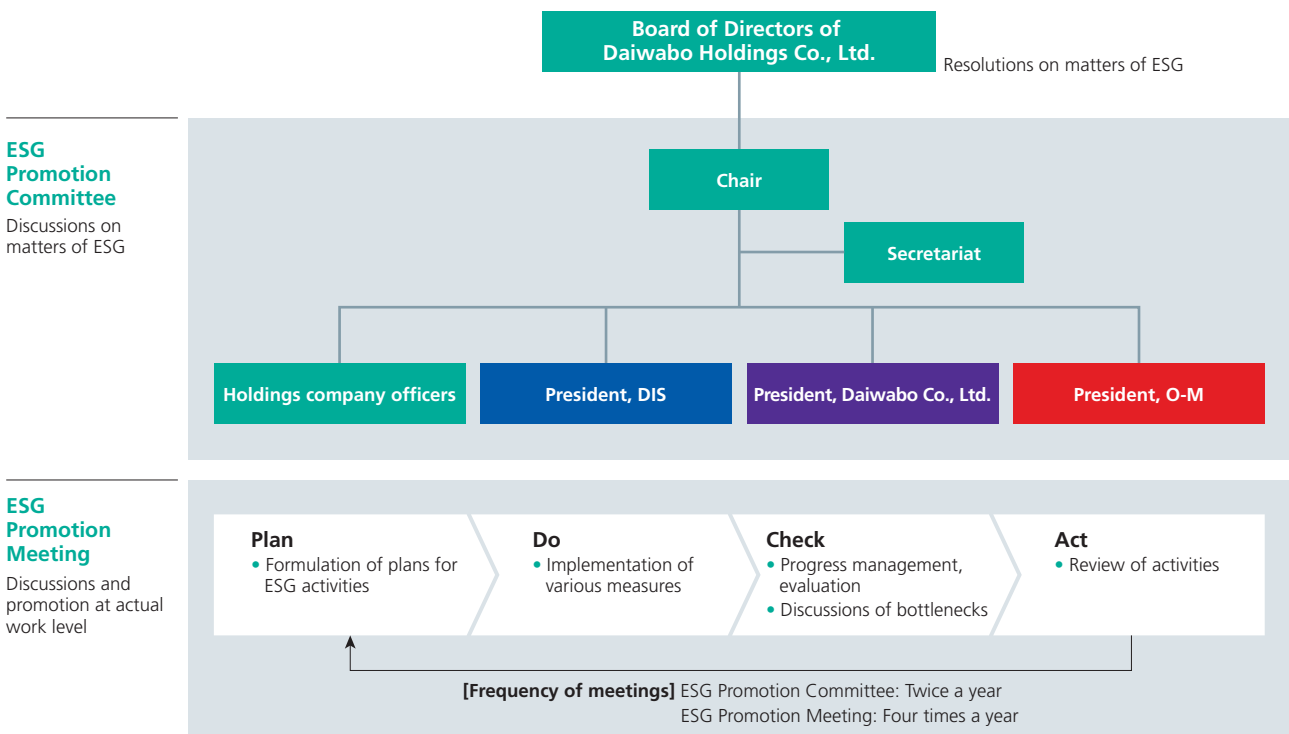
Approach to sustainability management

Governance in sustainability management

In April 2020, our group established the ESG Promotion Committee, chaired by the Representative Director, as an advisory body to the Board of Directors to deliberate on environmental, social, and governance issues. The ESG Promotion Meeting has been established as a subordinate organization of the ESG Promotion Committee for practical discussions about and the promotion of activities.

The ESG Promotion Committee identifies and targets basic policies and material issues related to ESG promotion, discusses various measures proposed by the ESG Promotion Meeting, and reports to the Board of Directors. The Board of Directors resolves matters reported by the ESG Promotion Committee, and gives relevant instructions and supervision. In addition, reports and recommendations are made to the Risk Management Committee as necessary.

ESG promotion system



Risk management and process

The ESG Promotion Meeting evaluates risks and opportunities to businesses with regard to social issues, including climate change, and sustainability issues, in cooperation with each operating company of the Daiwabo Group. After reporting and making recommendations to the ESG Promotion Committee, reviews and improvements are made on a regular basis.

In addition, reports and recommendations are made to the Risk Management Committee as necessary.

The group contributes to the sustainable growth and value creation of the entire group by minimizing risks and pursuing new opportunities through the risk management process of sustainability management.

Daiwabo Sustainable Action: 10 materiality items set and linked to activity items

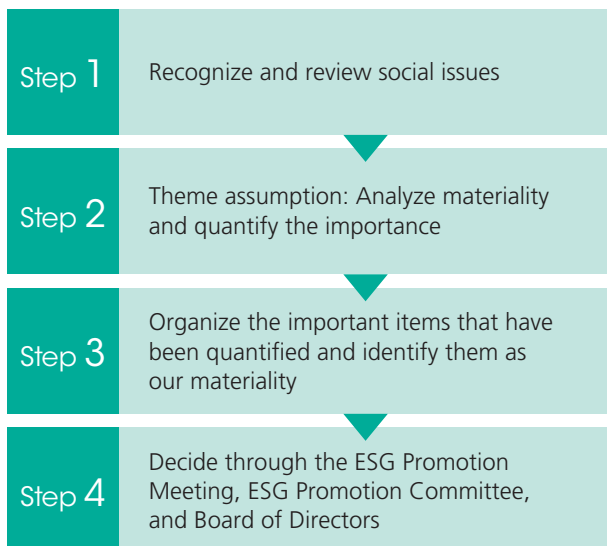
Background of materiality review

In 2020, we identified materialities as issues that are both important to our stakeholders and have a large impact on our company. Since then, the importance of sustainability, such as ESG and the SDGs, has been increasing worldwide, and trends that may affect our business are constantly changing, so we decided to review those materialities.

Based on international standards and guidelines such as the GRI Standards, the International Integrated Reporting <IR> Framework, and the Sustainable Development Goals (SDGs), we have realigned business opportunities and risks on the two axes of “social and environmental issues to be resolved” and “Group business growth,” formulating priority issues toward FY2030 as materialities.

Process of determining materiality

The Daiwabo Group’s materiality is evaluated and reviewed annually through the ESG Promotion Meeting and the ESG Promotion Committee. This review ensures the appropriateness of issues and plans.



Recognition of risks and opportunities (from long-term and sustainability perspectives)

Recognizing risks and opportunities from a long-term sustainability perspective is essential for sustainable growth and social responsibility. In terms of risks, it is important to understand the potential impact of climate change, human rights issues, and other issues on our business and to formulate appropriate countermeasures, and recognize that it is necessary to steadily implement risk management to address these risks. At the same time, we believe that we can seize potential opportunities such as increasing market demand through sustainability initiatives and developing new business areas. For example, environmental issues such as climate change and resource depletion are not only risks but also create new business opportunities such as a circular economy. We, the Daiwabo Group, will appropriately evaluate these risks and opportunities, and continue working on these initiatives in order to further enhance sustainability.

Regarding risks and opportunities in the field of sustainability, together with materiality identification, we took into account the location of sustainability risks and opportunities in the business model of each business and their impact on the group, and reflected them in our materiality.

Materiality and major KPIs were determined by the Board of Directors after deliberation by the ESG Promotion Committee.



Social / Industry

Supporting creation and innovation in both society and industry

The Daiwabo Group constantly explores new technologies through the spread of diverse and advanced IT products and services, and the pursuit of research and development that can contribute to daily life and many industries. By returning this to the value chain, we aim to realize comfort, security and safety, and happiness for people and society, as well as to increase corporate value over the medium to long term.



Environment

Supporting harmonious coexistence with the environment

The impact on the global environment, such as climate change and increasing demand for resources against the backdrop of population growth and economic development, is reaching a critical point. As a corporate responsibility, the Daiwabo Group will focus on reducing environmental risks. Furthermore, by taking a bird's-eye view of the entire supply chain, we view the contribution to decarbonization and the circular economy demanded by the times as business opportunities, and use the power of digital technology to contribute to the recycling and efficient use of energy and resources.



People

Valuing people

For the future of society, human resources are the most important management resource for promoting activities in line with our strategy to the creation of next generation growth drivers.

The Daiwabo Group will invest in human capital and promote a human resources strategy based on respect for human rights. In addition, we will instill diversity management tailored to each employee, and at the same time, we will focus on further improvement of the work environment and health management.



Governance

Contributing to all stakeholders by strengthening governance

In order to enhance corporate value and contribute to all stakeholders as a group, the Daiwabo Group recognizes that it is required to make swift decisions based on changes in the business environment under an appropriate governance system.

To this end, we will maintain an independent and diverse Board of Directors system, and will continue to work strengthening the system and improving its effectiveness. In addition, we will recognize diversifying management risks and promote a system to manage them.



Materiality and KPIs

Areas	Materiality	Primary items
Social / Industry	1 Promoting business for local economic development	Developing local communities through community-based management
		Enhancing customer relationships
		Local disaster prevention and mitigation
	2 Contributing to sustainable social Infrastructure	Assisting industries to balance economic development with a resilient society
		Achieving a global society where life is easier through technological innovation
	3 Contributing to a digital society	Providing digital transformation support across all industries
		Promoting the spread of the latest technology
		Contributing to the field of education through informatization
	Environment	4 Making efforts toward achieving a decarbonized society
Promoting products and services that encourage decarbonization		
Avoiding procurement- and production-related risks from the transition to a decarbonized society		
5 Contributing to a circular economy		Working with partners to achieve a circular economy
		Promoting business activities that contribute to resource recycling
		Breaking away from a society of mass consumption of resources
6 Promoting global environmental conservation	Environmental management	
People	7 Respecting human rights in business	Fostering a corporate culture that respects human rights
		Establishing a supply chain that ensures respect for human rights
	8 Expanding human capital	Optimizing our human resources portfolio
		Developing a flexible work style and growth environment
	9 Diversifying the workforce and improving wellbeing	Promoting diversity and inclusion
		Creating a healthy work environment that allows employees to continue to work
Governance	10 Corporate governance	Achieving sustainable corporate growth
		Group governance
		Risk management

Company-wide Daiwabo Holdings Co., Ltd. and its consolidated subsidiaries

Daiwabo Holdings Daiwabo Holdings Co., Ltd.

IT DIS

Fiber

Daiwabo Co., Ltd.

Industrial Machinery O-M

Secondary items	Representative KPIs
<ul style="list-style-type: none"> Contribution to regional economic development through support for the realization of diverse work styles and job creation Construction of a regional distribution network in cooperation with dealers Revitalization of local stakeholders by resolving issues faced by local companies and governments 	<p>IT</p> <p>Maintenance of relationships with 19,000 dealers</p>
<ul style="list-style-type: none"> Implementation of distinctive businesses in cooperation with dealers in each area Expansion of business through nationwide deployment of know-how accumulated through solving issues in each area 	
<ul style="list-style-type: none"> Support of community-based disaster responses at our nationwide bases 	
<ul style="list-style-type: none"> Contribution to the energy development, transportation and shipping industries Contribution to the medical and hygiene industries Contribution to measures to address national land resilience and aging infrastructure 	<p>Fiber</p> <p>Sales growth rate for socially and environmentally friendly products (Target for FY2023: +20% YoY)</p>
<ul style="list-style-type: none"> Contribution to the improvement of livability through technology Pursuit of improved product functionality and high quality through research and development Contribution to technology that supports security, safety, and health 	<p>Industrial Machinery</p> <p>Sales growth rate for the energy industry (Target for FY2023: +20% YoY)</p>
<ul style="list-style-type: none"> Spread of IT device solutions that take advantage of multivendor strengths Implementation of high-level support functions 	<p>IT</p>
<ul style="list-style-type: none"> Fast-track adoption of the latest global technology Response to diversifying user needs through cooperation with dealers Development of products and services that enhance cybersecurity 	<p>Number of PC shipments (Target for FY2023: 3.16 million units)</p> <p>Percentage of active cloud platform* vendors (release actual results only from FY2023)</p> <p>Number of new solutions developed (release actual results only from FY2023)</p>
<ul style="list-style-type: none"> Digitization of learning environments and reduction of regional disparities Establishment of a one-stop service system from introduction to operation at schools Promotion of the spread of new learning trends using ICT 	
<ul style="list-style-type: none"> Introduction of low-carbon energy Reduction in energy costs through efficiency Timely and appropriate disclosure of information regarding environmental activities 	
<ul style="list-style-type: none"> Proposal of products that contribute to efficiency and automation, and early commercialization through research and development Response to demand for decarbonization solutions 	<p>Company-wide</p> <p>Total Scope 1 and 2 emissions (Japan)</p> <p>Target for FY2030: 30% reduction compared to FY2013</p>
<ul style="list-style-type: none"> Appropriate control of rising product and raw material costs Response to stagnation in production bases and supply chains due to disasters caused by climate change Maintenance of comfortable working environments as a countermeasure against global warming, and disease countermeasures 	
<ul style="list-style-type: none"> Enhancement of collaboration with suppliers and dealers that play a role in the circular economy Product development based on the premise of recycling and reuse 	<p>IT</p>
<ul style="list-style-type: none"> Expansion of the use of renewable resources and raw materials Reduction in the use of resources within the company 	<p>Growth rate of cloud platform transaction volume (release actual results only from FY2023)</p>
<ul style="list-style-type: none"> Construction of a business model that suppresses resource consumption 	
<ul style="list-style-type: none"> Compliance with environmental laws and regulations Environmentally-friendly business operations Reduction of water risk 	<p>Company-wide</p> <p>No violations of environmental laws and regulations</p>
<ul style="list-style-type: none"> Clear indication of corporate stance that respects human rights Elimination of risk factors for discrimination and harassment, and appropriate response 	<p>Company-wide</p>
<ul style="list-style-type: none"> Elimination of human rights risks in the supply chain Provision of solutions that help customers respect human rights 	<p>Roll out of CSR Procurement Guidelines to suppliers (Target for FY2023: First implementation)</p>
<ul style="list-style-type: none"> Identification and management of the strategically required skill sets Reinforcement of recruitment strategy Smooth transfer of skills to the next generation 	<p>Company-wide</p>
<ul style="list-style-type: none"> Creation of a virtuous cycle of retention through flexible work styles Creation of a medium- to long-term growth environment for employees 	<p>Enhancement of the education and training system (Japan) (release actual training hours per employee for the entire group)</p>
<ul style="list-style-type: none"> Diversification of human resources as a foundation for comprehensive human resource improvement Creation of a work environment that embraces diverse human resources 	<p>Company-wide</p> <p>Target for percentage of women in managerial positions by FY2030: 3% or more (Japan)</p>
<ul style="list-style-type: none"> Promotion of health and productivity management as part of the growth strategy Insurance of occupational health and safety 	<p>Implementation of progress monitoring of the percentage of women in executive positions (Japan) (Executive positions: includes managers, section chiefs, and supervisors)</p>
<ul style="list-style-type: none"> Construction of businesses and organizations based on growth strategies Appropriate corporate control by the Board of Directors Active dialogue with stakeholders 	<p>Daiwabo Holdings</p> <p>The percentage of independent outside directors to be appointed (maintaining a majority)</p>
<ul style="list-style-type: none"> Display of initiative by the group headquarters Respect of the autonomy and uniqueness of each group company 	<p>Number of Meetings of Compliance Management Committee and Risk Management Committee (4 times and 2 times a year, for a total of 6 times)</p>
<ul style="list-style-type: none"> Enforcement of management risk management and compliance Cybersecurity measures Promotion of supply chain management 	<p>Company-wide</p> <p>Compliance education attendance rate (Maintain 100%)</p>

* Cloud service that provides IaaS/PaaS IT infrastructure, middleware/development environment, etc.



Tsukasa Igari
Director

Message from the director in charge of corporate strategy

Creating an equity story to further enhance our corporate value

Background and progress forming the plan

The current Medium-Term Management Plan marks a transition period for the group's future development

The current Medium-Term Management Plan was launched in April 2021, roughly one year after the start of the worldwide COVID-19 pandemic. Business conditions during the pandemic were extremely uncertain while the pandemic undermined any visibility for the future, and the Fiber Business and Industrial Machinery Business both were strongly impacted. Our core IT Infrastructure Distribution

Business faced serious supply chain disruptions, but diligently responded to growing demand from the spread of telework and upfront investment in the GIGA School Program. As a result, the group posted strong growth in both sales and profits in FY2020 with sales exceeding ¥1 trillion for the first time and profits reaching a record high.

Having previously completed measures designed to improve our financial position, the group's management foundation is now solid. Our main focus during the year was on establishing a new growth story for the IT Infrastructure Distribution Business when demand recoils from the surge during the pandemic, and on how to increase profitability in the Fiber Business and Industrial Machinery Business amid the severe business conditions during the

pandemic. Our response was for the current Medium-Term Management Plan to serve as “a turning point anticipating development into the future.”

The plan’s primary strategy involves the creation of next-generation growth drivers that will support the group’s future development. The key will be to reconstruct our business model through selection and concentration of our business domains with a focus on the new trends in society. This is particularly important for the IT Infrastructure Distribution Business, and we plan to firm up our main strength in the distribution of IT equipment while continuing to expand the subscription business to further establishing our presence as a distributor of cloud-based products and services.

The second strategy is to use our status as a leader in our industry to grow our businesses by further increasing our contributions to addressing social issues. The third strategy is to transform our management base through measures including maximizing the value of the human capital that is the company’s greatest asset and strengthening the effectiveness of corporate governance.

In the plan’s first year of FY2021, sales and operating profit both fell short of our targets due to supply side impacts that included a shortage of semiconductors amid worldwide supply chain disruptions. During the supply uncertainty, we leveraged the strong relationships of trust that we have long cultivated with manufacturers to propose and secure alternative components. This enabled us to put our business back on a recovery track in the second half of the fiscal year and demonstrate our capabilities as a global multivendor of the complete range of IT products.

The plan’s second year of FY2022 was characterized in the first half by delayed product shipments caused by the semiconductor shortage along with rising procurement prices due to sharp depreciation of the Japanese yen. The impact of these conditions eased in the second half, and we ultimately boosted full-year sales and operating profit by double-digit percentage points over the previous fiscal year. In the IT Infrastructure Distribution Business, we diligently captured corporate demand and secured high growth rates in our strategic priority area of subscription businesses, such as with our original management portal iKAZUCHI.

In the Medium-Term Management Plan’s final year of FY2023, the business conditions are still not favorable, but we are consolidating the strengths of each business, which I believe is making us leaner and stronger overall. We recognize that our human capital is vital to our ongoing development, and the plan budgets for investment in education and training and to improve employment conditions and the work environment.

The Next Medium-Term Management Plan

Next Medium-Term Management Plan framework and focus areas

As we work to enhance our corporate value, I believe that it is important that we clearly demonstrate the value that the group provides and all the elements of our equity story, including our growth potential and sustainability.

The Next Medium-Term Management Plan beginning in FY2024 will be set as a period for a new leap forward for the group when we will vigorously implement concrete strategies designed to generate new growth. In preparing for this stage, our managers are discussing the best practices for maximizing corporate value and seeking input from our outside directors, external advisors, and institutional investors.

Prior to announcing the plan, we published the publication entitled *Priority Considerations and the Examination System for Formulating the Next Medium-Term Management Plan* in May 2023. The material disclosed the contents of Board of Directors meeting resolutions, and summarized items that had been examined, the priority considerations that were examined, and the system for conducting the examinations. Items examined included capital allocation for growth investment and for optimizing shareholder returns.

We disclosed these materials one year prior to releasing the new plan because we believe it is important to communicate the points we consider as priority issues at an early stage so shareholders and stakeholders will have ample time to become familiar with the issues we are seeking to address. Expanding our investor relations activities has been a management strategy in recent years. The management briefings and other occasions we provide as part of our efforts to actively communicate with shareholders and investors also provide opportunities for us to share the opinions and requests that we receive with our group companies and incorporate them into our management activities. Our objective is for the Next Medium-Term Management Plan to be another solid step forward for enhancing corporate value. I look forward to your continued understanding and support as we continue strengthening our equity story to further enhance our corporate value.

Medium-Term Management Plan

(FY2021–FY2023) As of the time of declaration in May 2021

Positioning of the Medium-Term Management Plan

A turning point anticipating ongoing development into the future

- A period in which we will challenge ourselves to realize business model reform aimed at sustainable growth
- Contributing to the resolution of social issues through business with an ESG perspective
- Maximization of the human resource value that will create the future

Basic group policy

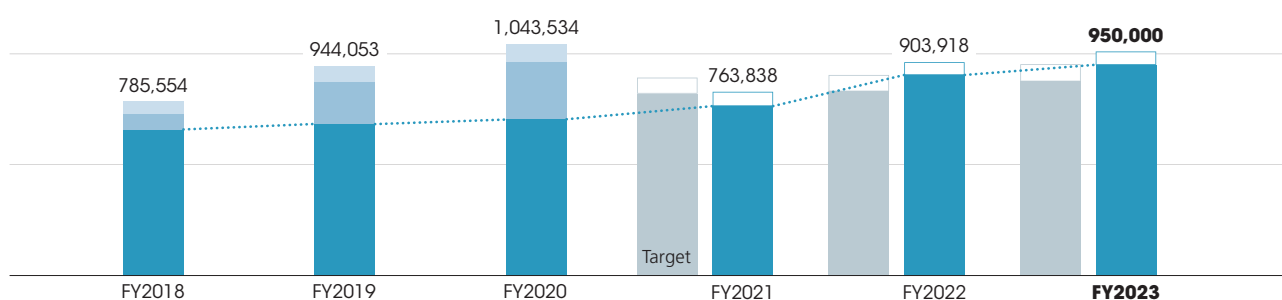
1. The creation of next generation growth drivers
2. Contributing to the creation of a new society as a leading company
3. Reform of management foundations

Progress of the Medium-Term Management Plan <revenue indicators>

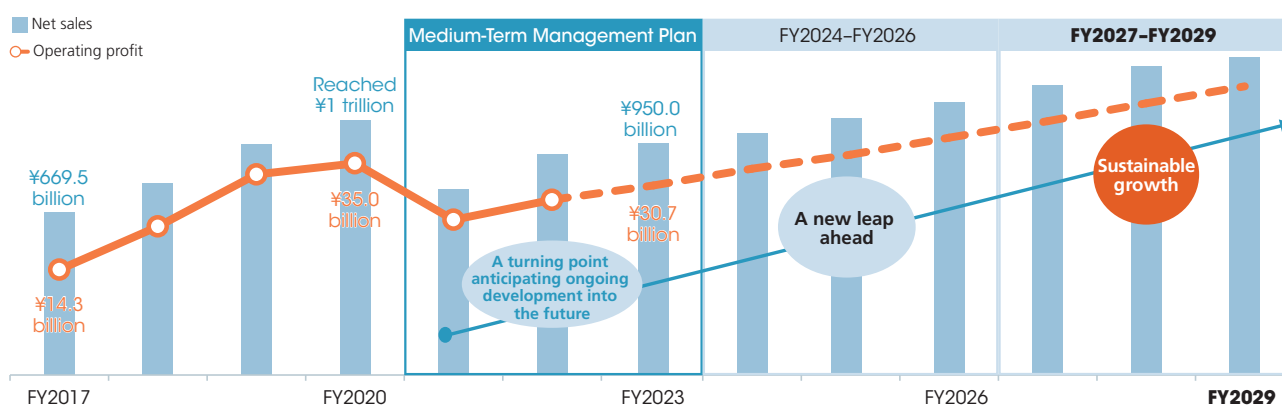
(millions of yen)	FY2021		FY2022		FY2023	
	(Target)	(Results)	(Target)	(Results)	(Target)	(Forecast)
Net sales	820,000	763,838	830,000	903,918	875,000	950,000
Operating profit	28,500	24,059	28,600	27,944	31,400	30,700
Operating profit margin	3.5%	3.1%	3.5%	3.1%	3.6%	3.2%

Anticipated trend in net sales

- Approximate impact before revenue recognition *Approximate values based on actual results
- Net sales deriving from concentrated terminal demand
- *Approximate values based on certain conditions (Windows updates, the GIGA School Program, teleworking demand, etc.)



Anticipated medium- to long-term growth (looking ahead to 2030)



Note: Fiscal years ended March 31

Next Medium-Term Management Plan (FY2024–FY2026)

Please refer to the following website for more details.



Before the scheduled release of the next Medium-Term Management Plan in May 2024, we have identified the important considerations and formed a dedicated working group. On May 15, 2023, we disclosed this information to our shareholders and stakeholders to seek their understanding regarding the issues we are currently aware of.

Important considerations for the next Medium-Term Management Plan

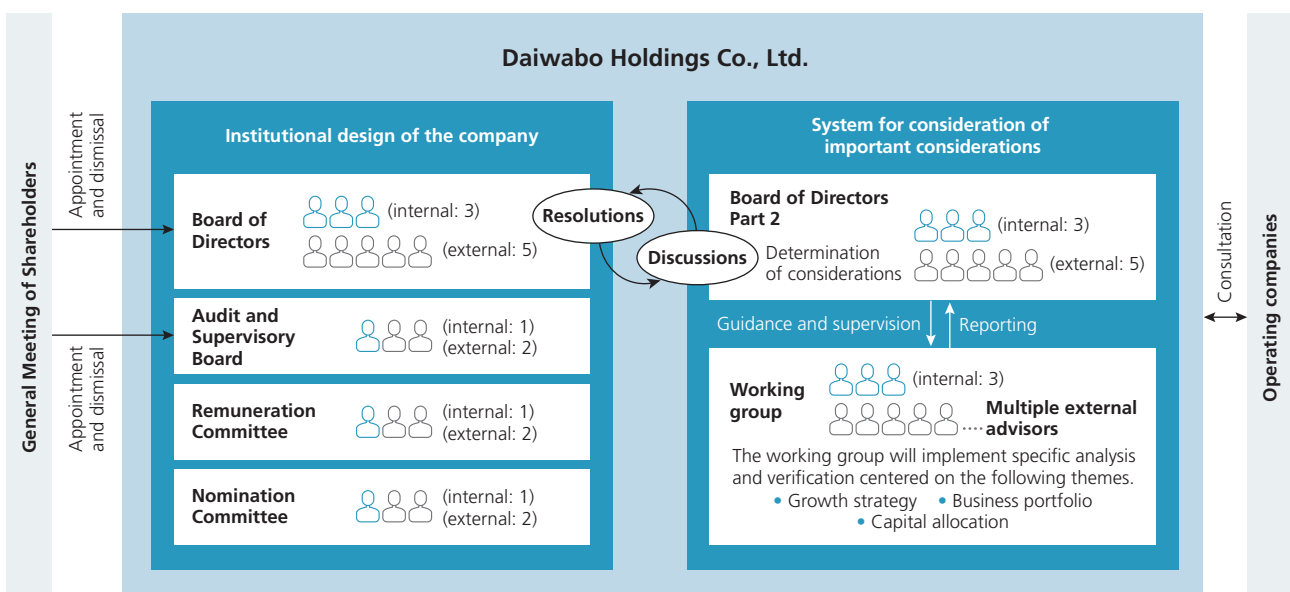
We will arrange the important considerations and the system for consideration ahead of the formulation of the next Medium-Term Management Plan scheduled to be announced in May 2024.

Considerations	Overview	Current status
Establishment of a company-wide purpose and formulation of a growth strategy	<ul style="list-style-type: none"> We will identify the group's identity and establish a purpose based on social trends and the DNA of our corporate organization. We will formulate a growth strategy from the perspective of what to make the core of the company and how to maximize profitability from that starting point and realize the social significance of the company. 	<ul style="list-style-type: none"> We are planning to announce the company's purpose in the integrated report this fiscal year. We are currently considering growth strategies while verifying which areas growth is expected in and whether there is added value. Challenges include sustainable growth investment for the realization of the expansion of market share and customer value.
Establishment of the optimal business portfolio for the maximization of value of the group overall	<ul style="list-style-type: none"> We will establish the optimal business portfolio by implementing strategic options at the appropriate time for the maximization of corporate value after verifying the best owner principle, evaluation of the business environment and capital profitability of existing business with reference to Practical Guidelines for Business Transformations formulated by the Ministry of Economy, Trade and Industry, etc. 	<ul style="list-style-type: none"> We are currently considering making the Fiber Business independent from the group, as a strategic option for the maximization of corporate value. <p>Note: We have started specific discussions with Daiwabo and will consider options that would contribute to increasing the value of textile business by a method appropriate for shareholders, employees, business partners, etc.</p>
Realization of the optimization of growth investments and shareholder returns	<ul style="list-style-type: none"> We will formulate a capital allocation policy that aims to increase corporate value by realizing optimal growth investments and shareholder returns based on capital costs. Optimization of the allocation of resources - people, things, and money - and establishment of a capital policy that can maximize returns to shareholders. 	<ul style="list-style-type: none"> With regard to the policy for the allocation of the revenue generated by each operating company, we are currently considering capital allocation aimed at the maximization of the profitability of the group overall, rather than prioritizing only growth investment for expansion of the results of each respective business.

The system for consideration of important considerations

We will determine the matters to be considered by the Board of Directors, including outside directors, analyze and verify these matters in a working group with the participation of internal directors and external advisors, and then hold discussions and pass resolutions as appropriate at meetings of the Board of Directors.

The results of this consideration are scheduled for disclosure in the next Medium-Term Management Plan to be announced in May 2024, and if there is any action to be taken before then, we will make disclosures as appropriate.





Mitsushige Yasuda
Director

Message from the director of business administration

Striking a balance between sustained growth investment and stable, long-term shareholder returns

Basic approach

A focus on capital efficiency metrics and balanced fund allocation

As the director responsible for our corporate finances, I recognize the importance of not only maintaining financial soundness but also enhancing our capital efficiency.

As such, I emphasize metrics such as ROE and ROIC as indicators of capital efficiency. Under our current Medium-Term Management Plan (FY2021 to FY2023), we have set goals to maintain an ROE of 14% and

above and an ROIC of 11–12% across the entire group. We have also established key performance indicators tailored to each of our businesses, which are used to monitor progress based on specific action plans. For FY2022, both ROE and ROIC improved compared to the previous year, with ROE increasing from 12.9% to 13.7% and ROIC from 10.4% to 11.6%. While we have achieved our target for ROIC, we will continue our efforts to enhance capital efficiency from a financial perspective.

We believe that continued investment in our IT Infrastructure Distribution Business, which generates approximately 90% of our cash flow, is essential to

strengthening the group's profitability. We plan to invest as appropriate in expanding the sales of our main products, such as computers and subscription services, while we work to achieve low-cost operations through IT investments for business efficiency, which will help to reduce the sales to administrative expense (SAE) ratio. Furthermore, we have a robust policy of engaging in M&A investments that contribute to business growth.

With respect to financial soundness, we currently have a positive net cash position, and I recognize that we have sufficient liquidity and are capable of responding to unforeseen circumstances. I believe that our current level of liquidity is adequate to meet the funding needs of strategic product procurement in our core IT Infrastructure Distribution Business. We intend to allocate funds while maintaining a balance between shareholder returns, including share buybacks, and growth investments in existing and new areas.

Capital and investment strategies

Accelerating investment in growth areas based on our cash allocation policy

The cash allocation policy of our current Medium-Term Management Plan is divided into two major strategic investment policies from a medium- to long-term perspective: investments for the sustainable growth of existing businesses and investments for growth in new areas.

Our investments in existing businesses will intensify across several domains that include facilities and R&D in addition to marketing and talent acquisition and development. As for investments in new areas, business alliances, and M&A will take center stage. For growth across the entire group, we are prioritizing effective investments in promising new areas where we can anticipate profit expansion, especially within our IT Infrastructure Distribution Business.

The company's policy is to rely on the cash flow generated by each business to fund growth investments. However, in the event that large-scale financing is required for M&A or other reasons, the company's policy is to obtain such financing through Daiwabo Holdings. For investment decisions, we first conduct meticulous simulations of the future cash flow the investment will generate, as well as make rigorous estimates of the payback period and the impact on profits at the respective business. These are then brought before the Daiwabo Holdings Board of Directors, who make a final decision. Based on this policy, in FY2022, we invested approximately 2.15 billion yen to enhance our IT Infrastructure Distribution

Business systems, consolidate production facilities for our Fiber Business, and fund R&D.

For FY2023, we plan to allocate approximately 4 billion yen in capital investment aimed at enhancing productivity and advancing IT investments within our existing businesses. Separately, in April 2023, Daiwabo Information System, one of our group companies, acquired Alphatec Solutions, a systems integrator with strengths in IT infrastructure development and operation, through a full buyout of the company's shares. This move aligns with our mid-term cash allocation policy of investment for growth in new areas, and we intend to accelerate investment in growth areas where we anticipate future earnings growth.

Shareholder returns

Enhancing corporate value through profit sharing

We regard the return of profits to our shareholders as a crucial management issue, positioned as a fundamental policy to sustainably and stably distribute dividends, taking into account our financial situation and earnings trends. Under the current Medium-Term Management Plan the company has set a policy to continue to allocate stable annual dividends of 60 yen per share, with an increase in dividends to be considered based on earnings. For FY2022, we increased the shareholder dividend by 2 yen to 62 yen per share, resulting in a payout ratio of 30.6%. For FY2023, we plan to increase the dividend from the previous fiscal year by an additional 2 yen for a total annual dividend of 64 yen per share.

As one effective measure to return profits to shareholders, we have executed share buybacks, repurchasing approximately 2 billion yen of our shares in FY2021 and 3 billion yen in FY2022. As a result, the total payout ratio for FY2022, was 46.2%. We intend to continue considering the option of share buybacks subject to the market environment.

As we move forward, we will strive to boost our corporate value, enhancing adequate shareholder returns and engaging in dialogue with shareholders and investors for a deeper understanding of the business. We appreciate your continued support.

Financial capital strategy

Policy on financial strategy

The Daiwabo Group's fundamental policy prioritizes securing the liquidity and stable funding necessary for business operations. Short-term working capital is allocated from cash reserves or obtained through short-term loans payable from financial institutions. Capital investment and long-term working capital, on the other hand, are financed through long-term loans payable from financial institutions.

Additionally, the group employs a cash pooling system to centrally manage capital surplus from its group companies.

Financial KPIs in the Medium-Term Management Plan

The group incorporates financial key performance indicators (KPIs) to evaluate the progress of management goals subjectively while striving to maximize shareholders' equity and profitability. Within the current plan, the group aims to maintain a return on equity (ROE) above 14% and a return on invested capital (ROIC) within the range of 11% to 12% over a three-year period. By prioritizing capital efficiency, we will consistently enhance corporate value.

Dividend policy

Daiwabo Holdings has positioned dividends as an important issue in management. The company has a basic policy of returning profits continuously and stably in consideration of its financial situation and earnings trend, as well as distributing dividends from capital surplus twice a year, in the form of interim and year-end dividends.

Furthermore, we believe the acquisition of treasury stock to be one of the measures for returning profits to shareholders, so that we will consider the flexible implementation of such measures in accordance with the market environment.

Use of ROIC in business valuation

We place the utmost importance on the process itself when striving to achieve the target ROIC since it is crucial not to lose balance as we pursue the goal. We set KPIs for each business operating company and monitor the progress of improvements based on the concrete action plans as shown in the following ROIC tree. By having each business operating company keeping hurdle rates in mind, we will be able to create corporate value as a group.

Group management indicators

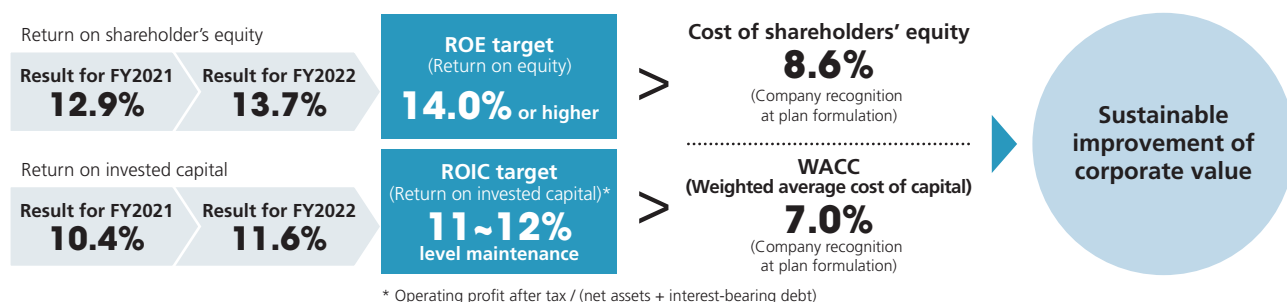
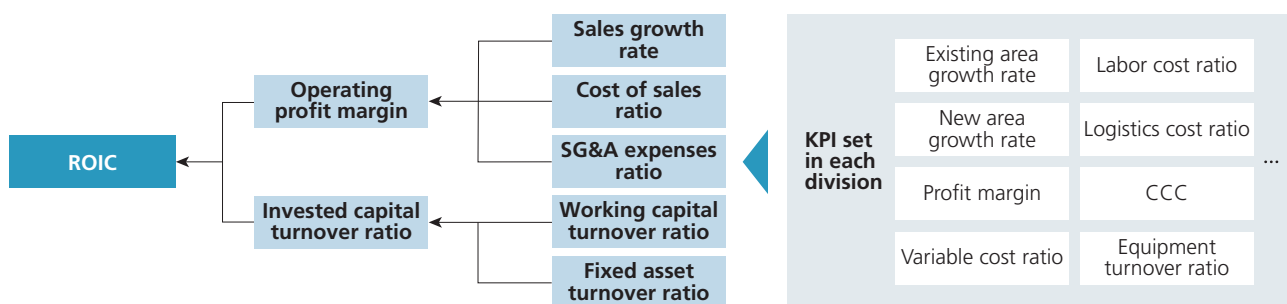


Image of use of ROIC tree



Medium-Term Management Plan—Cash allocation policy

Our Medium-Term Management Plan includes a cash allocation policy aligned with our financial strategy, implemented with clear objectives in mind.

Basic policy

- We will aim to enhance shareholder returns appropriately.
- We will make growth investments in new areas while continuing to invest towards the sustainable growth of existing business.
- We will prepare for strategic product procurement and unforeseen circumstances while securing a certain level of liquidity on hand.

Cash allocations

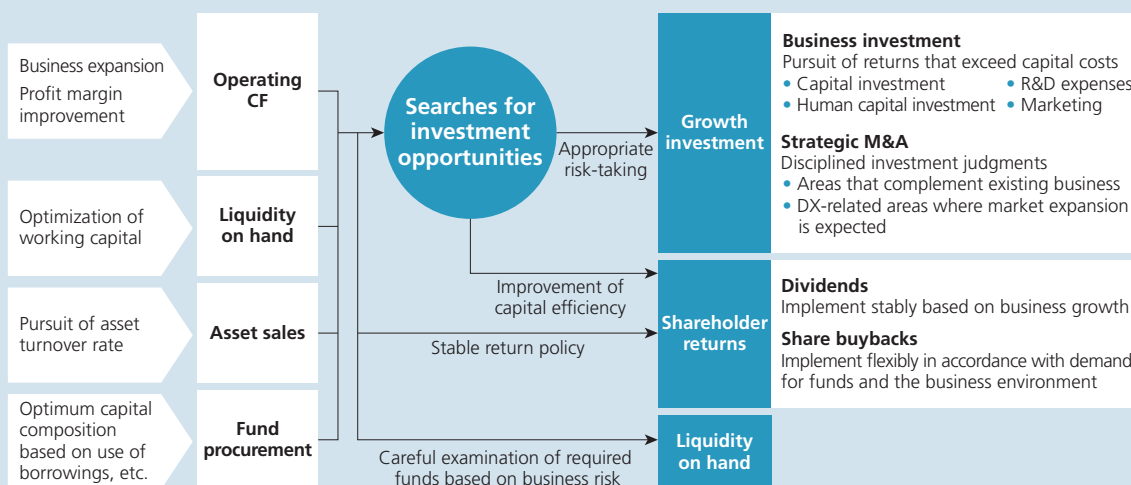
Dividends	Growth investment in existing areas	Growth investment in new areas	Acquisition of treasury stock	Securing of liquidity on hand
We will make a stable dividend of 60 yen per share (including interim dividends) our basic policy and also consider dividend increases matched to our cash situation.	We will invest in equipment towards the sustainable growth of existing business and implement marketing, R&D and the hiring of human resources.	We will start to consider business partnerships and M&A to nurture new business pillars, centered on DX-related areas where market growth is expected.	We will consider the flexible acquisition of treasury stock in accordance with the market environment.	Securing of liquidity on hand in readiness for fund demand in association with strategic product procurement in IT Infrastructure Distribution Business and unforeseen circumstances.

Capital allocation scenario for the next Medium-Term Management Plan (FY2024–FY2026)

The proposed capital allocation for our next Medium-Term Management Plan is shown below. We will establish a clear directionality for our capital allocation strategies, aiming to achieve a balanced spending on growth investments and shareholder returns.

We will aim for the improvement of corporate value by formulating and implementing appropriate investment evaluation standards to realize the optimal growth investments and shareholder returns.

Image of capital allocation



Strategies on intellectual capital and production assets

Intellectual capital

As part of our growth investments in existing fields, the Daiwabo Group is dedicated to R&D and development of the platform. We are working on this in line with the characteristics of the IT Infrastructure Distribution Business, Fiber Business, and Industry Machinery Business, respectively.

IT Infrastructure Distribution Business

The “creation of next-generation growth drivers” is a core principle of our current Medium-Term Management Plan. We are expanding our business by actively embracing digital technology, aiming to achieve digital transformation (DX) and establish ourselves as a leading cloud distributor.

In the IT Infrastructure Distribution Business, strong partnerships with various manufacturers and IT vendors allow us to provide advanced and global cloud services that fulfill the diverse needs of users, contributing to them to achieve DX. Simultaneously, we strive to improve the efficiency and safety of social infrastructure and public services, reduce environmental impact, and promote social inclusion, all aiming to build a sustainable society.

Our efforts to assist companies, especially small and medium size enterprises (SMEs), in achieving DX include various managed services to support IT operations and management designed to resolve workforce shortages and improve the productivity on the dealer and user side, as well as education services for the training of DX-ready professionals to promote the nationwide digital transformation.

Our cloud services provide a diverse range of solutions and support, including hybrid cloud solutions

with on-premises integration, as cloud computing continues to be utilized in increasingly versatile scenarios. We encourage the optimal cloud usage tailored to the users’ environments while promoting the development of new business models in combination with our dealers’ core businesses. Through these efforts, we provide opportunities for value creation in business and service design for our dealers and users.

Fiber Business

In the Fiber Business, we have set a policy of “realizing a sustainable society by developing original materials based on ESG management and research themes that will lead to achieving the SDGs,” and work to develop technologies that support people’s health and safety.

We are committed to selling products made from eco-friendly and biodegradable materials, as well as developing materials and products that contribute to environmental conservation by saving energy and incorporating water and air purification processes. We conduct joint development in collaboration with industry, government, and academia. We participate in the Green Innovation Fund Project* of the New Energy and Industrial Technology Development Organization (NEDO), aiming to promote the next-generation fiber through the development of concrete materials with carbon dioxide absorption and fixation properties.

* The program launched by NEDO, with the objective of achieving net zero GHG emissions by 2050, provides 10-year-long continuous support for companies involved in activities to accomplish these goals in priority areas including R&D, validation and implementation in society.

DX and measures of IT Infrastructure Distribution Business

<p>Transformation and new creation</p>	<ul style="list-style-type: none"> • Adoption and promotion of IT in elementary schools, junior high, and high schools, such as making PC classes into STEAM Lab • Rollout of DX Academy Service to encourage DX of corporations nationwide • Enhanced support structure through closer coordination with DIS Group companies to meet diversifying customer needs
<p>Deepening of the existing businesses</p>	<ul style="list-style-type: none"> • Continuous efforts to realize the GIGA School Program and support elementary schools, junior high, and high schools to achieve DX • Support activities to promote the DX in learning, led by an expert team dedicated to the education market • Support for SMEs to achieve DX through managed services and education services

Industrial Machinery Business

In machinery and software development, we ensure that our customers' needs for existing products are fulfilled and necessary safety measures are implemented.

In recent years, we have been putting more focus on responding to the needs from the aerospace and wind power generation industries: for example, an automatic tool changer compatible with high-pressure and high-capacity coolant, aiming to provide the aerospace industry with enhanced cutting performance for difficult-to-cut materials; structural changes to large-sized lathes for the wind power generation industry to improve transportation efficiency; a chip detection system using AI technology; and a carton refilling device responding to labor-saving needs.

In this way, we will continue to make technological developments and improvements to accurately grasp market needs.

Management of intellectual properties

Fiber Business / Industrial Machinery Business

In the following aspects of our work related to intellectual property (IP), we regularly organize briefing sessions with relevant departments to ensure that we stay informed about the progress of their activities.

- Result-oriented action plan from early phase
- Confidentiality management of proprietary technologies
- Preservation of evidence
- Mitigation of infringement risks related to intellectual property rights
- Patent clearance search
- Other companies' patent search

Investment in production facilities

IT Infrastructure Distribution Business

No production facility is needed for their business, but we invest in activities such as upgrading the internal systems and infrastructure, and optimization of logistics functions, especially at the east and west large distribution centers.

Fiber Business

We categorize our investments into the following four groups to allocate necessary funds effectively:

- (1) Investments in environment and safety
- (2) Renewal and taking of preventive measures against deterioration of facilities
- (3) Expansion of facilities, improvement of productivity and cost handling
- (4) Product development and quality improvement

Main facility investments in FY2022 include:

- Renewal of synthetic fiber stretching equipment
- Renewal of line inspection equipment
- Indoor air conditioning system

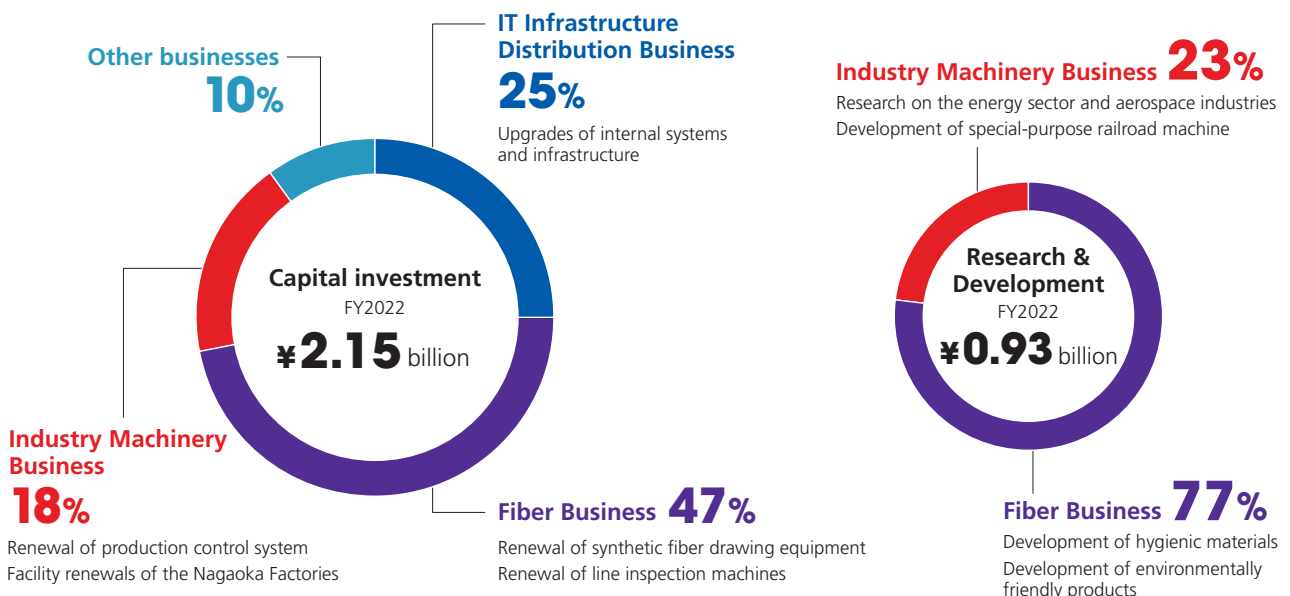
We will strategically allocate management resources to growth areas, leading to the sustainable enhancement of corporate value.

Industrial Machinery Business

We plan investments aimed at replacing aging equipment, expanding sales, and improving operational efficiency.

In FY2022, we renewed the production control system and the facilities at the Nagaoka Factory.

Capital investment and R&D



Human capital strategy

Optimization of personnel portfolio

Basic approach on human capital

Recognizing that human capital is our growth driver and the most valuable asset, the Daiwabo Group considers it essential to acquire and develop talent from diverse backgrounds, with various abilities, knowledge, and experience, to ensure the sustainable growth of the group. Under the Medium-Term Management Plan, with “maximization of the human resource value that will create the future” being defined as a goal, we are committed to building “corporate culture reform that supports human resource development and growth.”

We strategically invest in personnel recruitment, education, and training while working to create a collaborative environment and optimize personnel placement as an organization. In addition, we are striving to improve the working environment and conditions as well as the HR system in order to enhance employee job satisfaction and retention rate. As part of our commitment to developing human capital, we provide employee training, qualification support, and encourage education for career development.

Recruitment policy and strategies

To ensure our sustainable growth and development, we recognize the importance of strategic personnel planning aligned with the management strategies of each business unit. In the IT Infrastructure Distribution Business, the formation of a rich sales workforce that supports the branch network connected with a large number of partners is the strength of the group. In order to diversify customer touchpoints in the future, we believe it will be important to develop human resources with diverse abilities and knowledge, such as those capable of demonstrating technological capabilities including the promotion of digital transformation (DX), and to have their active participation. We are working on recruitment strategies that will enable us to expand our business with new strengths.

In our Fiber Business and Industrial Machinery Business, driven by our proprietary technologies, we have strategically cultivated a well-balanced workforce with technical capabilities in R&D and production, as well as those with marketing skills. To foster career development and skill acquisition, we offer one-on-one coaching through our mentor system, so as to enhance our proprietary technologies continuously.

We also started exploring more flexible hiring and recruitment processes. Traditionally, we used to rely on mass recruitment of new graduates. However, due to the declining birthrate, we have expanded our focus toward mid-career recruitment and local hiring. This approach allows us to align our personnel needs with our business needs and enables us to secure talent with diverse backgrounds. Furthermore, we pursue versatile recruitment strategies such as rehiring retired employees.

Regarding the recruitment of new graduates, each of our subsidiaries has their own hiring process, in addition to a group-wide recruitment conducted by the Daiwabo Holdings.

Higher engagement of employees

Encouraging communication and creating a better workplace

Higher employee engagement is crucial for the group's sustainable growth. We firmly believe that the well-being of employees is closely tied to the company's success. Effective communication and trust-building play a vital role as we work toward a shared goal in the same direction. We also believe that employees who contributed to the company's success should be rewarded appropriately.

It is important for us to improve the work environment and adopt necessary measures that lead to higher motivation of employees in a visible form.

Encouraging personnel development

Employee education, training, and career development

As part of our talent development efforts, we encourage employees to participate in training programs, take advantage of qualification support and career development courses. We offer company-wide training programs for employees to feel motivated and gain the knowledge and skill needed, as well as training programs for each business unit, with courses designed for respective career levels, job types, and departments.

Skilled IT professionals are especially essential for us to achieve DX and combat cyberattacks. Thus we offer training and reskilling programs for IT professionals through an outside organization.

Daiwabo Holdings prepared an education program aimed at equipping the group employees of the publicly listed company with the specialized skills and knowledge related to diversity and human capital development. The courses under this program became available in FY2023.

In addition, we foster employee motivation by implementing goal management programs to support their professional growth and success.

Reskilling programs

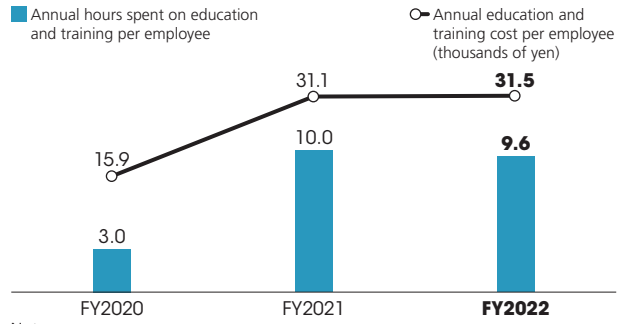
Each of our business unit values employees' personal development throughout their career path, encouraging their voluntary learning of diverse subjects from the basics. These efforts contribute to optimal personnel placement and skill enhancement for our employees.

As part of our education program, Daiwabo Holdings now offers reskilling courses consisting of online-based elective training, allowing participants to choose a program suited to their career path, so that they can leverage their strengths and overcome weaknesses. In FY2023, the program covers a diverse range of DX-related topics.

Successor and leadership development

We are preparing to launch an executive development program designed for candidates who are expected to

Annual training hours and costs per person



Notes:

1. The HR-hosted skill development courses, consolidated basis in Japan
2. Fiscal years ended March 31

become future executives of the group. The program includes sessions to learn about top management roles, including business strategy formation. By fostering candidates with a perspective of top management in the early phase of their careers, we aim to mitigate the risk of a successor shortage while ensuring the sustainable growth of the company. For individuals who will be promoted to a leadership position, we provide training courses on the basics of organizational management, helping them understand their expected roles, duties, and responsibilities. Employees being promoted to senior managerial positions will receive training on organizational management and the PDCA cycle, enabling them to oversee the entire organization effectively.

Overview of education and training program (partial)

Training program provided for each business unit, with courses designed for respective career levels and job types

	New employees	Mid-career employees	Leadership level	Managerial / Specialist levels
IT Infrastructure Distribution Business	New employee training	Business knowledge follow-up training	MG training	Career development training by age group
	Basic training for sales and promotion	Business skill development course	Coaching training	Manager training
	Qualification support program and e-learning			
Fiber Business	New employee training	Training on logical accountability	TWI/QC training	New manager training
	Follow-up training	Problem-solving training	Promotion training	Manager training
	Qualification support program and e-learning			
Industrial Machinery Business	New employee training	Mentor training	Leader training	New manager training
	Follow-up training	Communication skill training	Business skill development training	Manager training
	Qualification support program and e-learning			
Daiwabo Holdings	New employee training	General skill training	Leadership training	Manager training
	Follow-up training	Career design training	Specialized skill training	Diversity management training
	Qualification support program and reskilling training			

Value creation strategy

Promoting diversity & inclusion

Maintaining and promoting diversity of personnel

The Daiwabo Group firmly believes that diverse talent is indispensable for our sustainable growth. In line with this belief, our personnel management is dedicated to creating an environment where diverse individuals can thrive. We achieve this by providing career development and skill-building programs based on the Group Corporate Code of Conduct. We prioritize the health and safety of our employees while valuing diversity and accommodating the unique needs of each individual in our workplace. The group respects and accepts diversity within and outside the workplace, aiming to become an organization that builds a truly valuable future together with society.

Encouraging women's participation

With two women appointed as outside directors, the group's achievement has continued to be recognized in the MSCI Japan Empowering Women Index (WIN) as of June 2023.

Gender composition in the top management of Daiwabo Holdings

Directors (2 female and 6 male executives)



Auditors (1 female and 2 male executives)



However, our top management personnel portfolio, which has supported business expansion, is predominantly male. To build a well-diversified organization in line with our future business strategies, we recognize the need for a medium- to long-term approach. We created a road map to systematically facilitate the participation of women, and the group set a target of raising the proportion of female managers to 3% or higher by FY2030.

We have already adopted a policy of hiring and promoting employees regardless of gender, and will continue to encourage the participation and improve the retention rate of women. We anticipate, however, that it will take roughly 15 years to see a significant improvement in the percentage of women in managerial positions since most of the female employees in the group are relatively young.

Besides promoting internal recruitment of female managers, we are also reforming our corporate culture and implementing a step-by-step process of building

an environment that will encourage female employees to focus on career development and advancement, as well as actively recruiting female talent from outside the company. Positioning our targets for 2030 as only a milestone on the way to further progress in this area, from a longer-term perspective, we will be undertaking further discussion aimed at realizing steady, continued growth in the share of managers who are women, and will be implementing further measures to promote women's participation.

Our practices to encourage woman's participation

- Shortened work schedule for parenting is provided longer than the legal requirement
- Diversity management training provided
- Target ratio of women in new hires

Hiring persons with disabilities

Some of our business units are experiencing lower rate of employment of persons with disability due to resignations and other reasons, while companies with large number of employees maintain an employment ratio above the legal requirements. We plan to collaborate with public institutions such as Hello Work, an employment service center operated by Japanese government, and actively hire individuals with disabilities.

Elderly employment

We are exploring the optimal allocation of the retiring workforce and their job duties by extending the employment period beyond the current retirement age of 60, in addition to reemploying those who have reached retirement age.

Especially, we are seeking the optimal assignment of retiring-age employees on a group-wide level, with an emphasis on transferring their technical knowledge and expertise to ensure a smooth succession process. As the retirement age is expected to increase in the future, we need to reevaluate the current system to ensure workforce stability, particularly regarding job assignments after employees retire from their current positions at a certain age.

Building an environment enabling a flexible workstyle

Supportive work environment (workstyle reform)

As part of our group-wide efforts, we are continuously enhancing our working environment. Guided by the Group Corporate Code of Conduct, we place great value on diversity and strive to accommodate the

unique needs of individuals, while prioritizing their health and safety.

To reduce prolonged working hours, we introduced no overtime days and started monitoring attendance records. We also encourage employees to take their eligible leaves by setting the KPIs for the utilization of statutory paid leaves and offering special paid holidays, such as refreshment leaves, congratulatory or bereavement leaves.

We will make necessary improvements to our parenting leave benefits, ensuring accessibility for all employees in need. By promoting a better work-life balance, we aim to support long-term career development and create a conducive work environment for our employees.

Our employees are adept at efficient time management by using web conferencing as needed, both within and outside the company, and some of our business units offer remote work options.

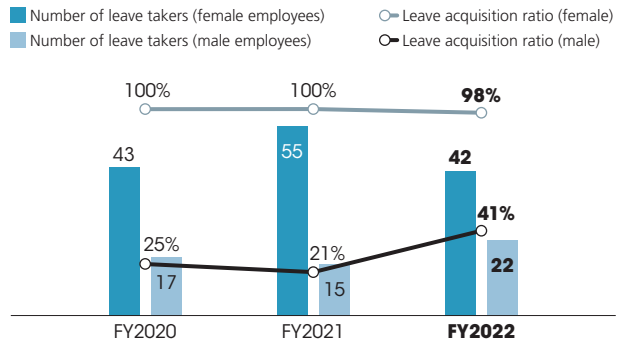
Our company has a corporate culture that emphasizes adherence to statutory working hours and encourages employees to take their eligible annual paid leave. By utilizing IT in our operations, we will improve the efficiency and promote flexible and balanced work styles.

Enhancement of well-being

Employees' well-being (health management and promotion)

The Daiwabo Group prioritizes health management and encourages employees to undergo regular health

Utilization rate of childcare leave and other benefits



Notes:

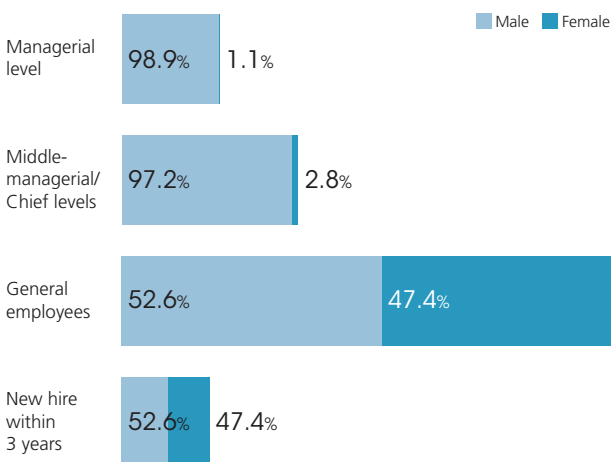
1. Consolidated basis in Japan, including parenting leaves
2. Fiscal years ended March 31

check-ups and stress assessments, and has occupational health physicians on standby as an effort to promote employee's wellness.

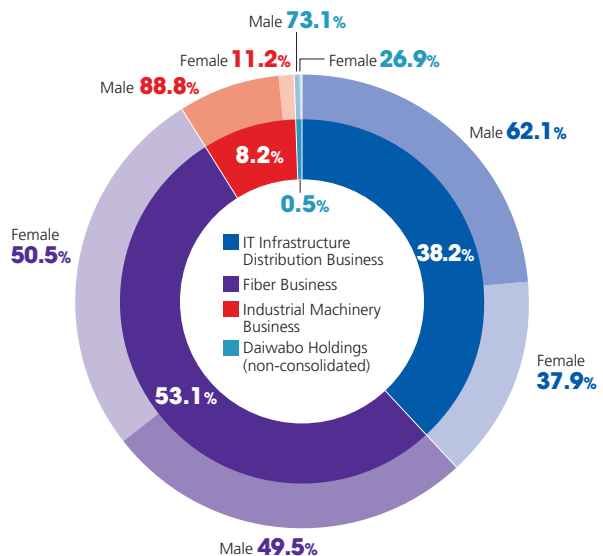
Furthermore, we identified their well-being as one of our materiality issues and established a policy to enrich the happiness and job satisfaction of our employees. This includes health management practices, such as mental health assessments and counseling sessions conducted by our occupational health physicians.

With the goal of attaining a 100% participation rate in health check-ups, we offer comprehensive health examinations as optional benefits across the group companies. These efforts are dedicated to promoting the well-being of our most valuable asset—our personnel.

Gender makeup by position (in Japan, consolidated)



Gender makeup by business unit (the entire group including overseas)



Social capital strategy

Contributing to the development of society through our business

Promotion of ICT utilization in education and learning (environment improvement, STEAM education, training for teachers)

Daiwabo Holdings supports the development and utilization of information and communication technology (ICT) to provide children with a high-quality educational environment that leads them to the future. Although the introduction of one device for each student in elementary, junior high, and high schools nationwide has progressed, there are still issues to be addressed in their utilization, such as the development of an infrastructure (telecommunications) environment, enhancement of educational content, and improving the ICT utilization skills of teachers during learning.

In the IT Infrastructure Distribution Business, Daiwabo Information System (DIS) has had a dedicated department for the education market for about 10 years, and has contributed to the development of the education environment through a community-based structure in cooperation with its sales offices throughout Japan. Currently, it is focusing on the use of installed devices in classes, the promotion of introducing STEAM education environments, and support activities.

STEAM education is an educational concept that combines the initial letters of five words: science, technology, engineering, the arts, and mathematics. It is interdisciplinary education that combines exploration and creativity and utilizes learning in each subject to solve problems in the real world that has become the foundation for cultivating the human resources needed in the Society 5.0 era. DIS, together with Intel, has been engaged in empirical research at 18 elementary, junior high, and high schools and universities to promote the spread of STEAM Labs.

We had also co-sponsored the Nikkei STEAM 2023 Symposium, hosted by the Osaka head office of Nikkei Inc. There we had exhibited a hands-on corner where visitors could directly experience advanced technology by leveraging strengths as distributors, and holding a workshop that had high school and university students pretend to join DIS and propose ICT solutions that would be used in future education.

In addition, DIS provides training for teachers to realize problem-solving-based learning (PBL) and assists them in designing next-generation education tailored

to the educational environment using customized menus regardless of the size of municipalities or schools nationwide. In the future, DIS will also provide educational support in collaboration with university teaching programs to help solve social issues for the development of future human resources.



Advanced technology experience at STEAM Lab

By spreading cloud services throughout Japan, we have strengthened the proposal capabilities of dealers to respond to customer needs such as productivity improvement and BCP measures

In recent years, research companies have announced that the Japanese cloud market has been growing steadily, but dealers around the country are constantly consulting on proposal techniques. Demand for digital transformation (DX) is accelerating, such as improving customer productivity and BCP measures for business continuity. In order to respond to increasingly diverse and sophisticated customer needs, dealers need to flexibly incorporate cloud services into conventional IT infrastructures, and provide proposal capabilities, implementation, and operational support to realize the users' DX.

Accordingly, DIS has formed strong partnerships with manufacturers and IT vendors to quickly catch up on global advanced technologies and information, and provide new businesses and services. We support the promotion of DX throughout Japan by developing managed services to support IT operation, as well as management and educational services to develop DX human resources.

Contributing to industries that support society, starting with renewable energy

Renewable energy sources include mainly solar, hydro, and wind power, but there are growing expectations for wind power due to the balance between the length of operating time and the size of the production volume. Among these, offshore wind power generation is becoming the focus in Japan, which has a small land area, because it is easier to generate high-capacity electricity by continuously capturing stronger wind than on land.

High precision is required for the manufacture of bearings used in the turning of the main body of wind power generation equipment and the rotor blades, step-up gears, and such, and medium- and large-sized vertical lathes are necessary. The medium- and large-sized vertical lathes manufactured by O-M Ltd. have the accuracy and performance to meet the requirements for each part, and demand is growing as the number of wind power generation facilities increases.

For growth in the wind power generation market, we are promoting proposal-based marketing that improves the efficiency of processing and the effectiveness of installation, rather than just selling off-the-shelf products. In addition, we will strengthen our sales promotion in the Chinese market by acquiring opportunities for business negotiations and establishing a system to provide products with short delivery times. In addition to growth as a business, we will also contribute to solving users' ESG issues, such as power saving by shortening processing time, improvement of factory environments and consideration for operators' health through totally enclosed machine covers, and so on.

Contribution to national resilience

In recent years, various natural disasters have occurred in Japan. The Daiwabo Group is also striving to help building a safe and secure society by proposing disaster countermeasure products, including the sale of large weatherproof sandbags that can be applied to temporary materials for recovery from natural disasters.



Large high-performance sandbags by Kanbo Pras Co., Ltd. to prevent riverbank collapse

Promoting the development of sustainable materials based on three keywords: the environment, safety, and health

Market needs are diversifying due to changing lifestyles and growing interest in ESG and the SDGs. In the Daiwabo Fiber Business, we are promoting the development of products that meet new needs with materials and high-function processing technologies, taking advantage of our integrated production system from fiber materials to finished products.

In terms of materials, we use functional materials that are gentle to the skin, such as organic cotton grown without the use of chemical fertilizers, and rayon that is biodegradable in the ocean. Using these materials, we offer clothing and bedding products that have been given functionality through our unique processing technology. In terms of processing technology, we have proprietary functionalization technologies such as deodorant, antibacterial, and antiviral.

In the Daiwabo Fiber Business, we focus on the research and development of technologies that bring out the best in materials in order to achieve the performance demanded by its customers and contribute to the realization of a sustainable society.

Value creation strategy

Promotion of supply chain management

Establishment of CSR Procurement Guidelines

The Daiwabo Group established the Daiwabo Group CSR Procurement Guidelines in June 2023 in order to understand supply chain issues related to our business activities and to ensure a stable supply of sustainable products and raw materials.

In compiling these guidelines, we referred to the ten principles recommended by the United Nations Global Compact (UNGC) in the four areas of human rights, labour, environment, and anti-corruption, and considered the appropriate content for our business.

Among them, supply chain management on “business and human rights” aims to reduce various human rights risks related to the group by preventing complicity or promotion (including indirect involvement) of human rights violations through business relationships.

Number of managed supply chain companies

The Daiwabo Group selected approximately 100 suppliers with top annual purchase amounts or above a certain percentage of purchases, according to the business characteristics of the IT Infrastructure Distribution Business, Fiber Business, and Industrial Machinery Business, as suppliers for initial management and requested the completion of a supply chain survey.

Supply chain survey

The Daiwabo Group conducted its first survey using the CSR Procurement Self-Assessment Questionnaire (SAQ) of Global Compact Network Japan (GCNJ), which is consistent with international standards and uses a uniform format that is highly versatile for industries and businesses, as a means of identifying CSR procurement risks to suppliers.

Respect for human rights in business activities

Basic stance on human rights

The Daiwabo Group respects human rights as a basic principle of our business activities, and strives to be a fair company that is trusted by society, based on our awareness that “all human beings are born free and equal in dignity and rights” and “they are endowed with reason and conscience and should act towards one another in a spirit of brotherhood,” as set forth in Article 1 of the Universal Declaration of Human Rights.

The Daiwabo Group respects the human rights of all stakeholders throughout the entire value chain of our businesses. Furthermore, if there are any violations

of human rights, we will address these issues promptly and appropriately.

The Daiwabo Group also respects the diversity of individuals and respects all basic human rights. Based on the laws and regulations of each country, we will not support any violations of human rights nor engage in any discrimination, based on characteristics such as gender, age, nationality, race, physical characteristics, beliefs, religion, or values.

In addition, the Daiwabo Group provides a workplace environment that respects the human rights of each and every employee and worker in our supply chain. We will provide a healthy and safe working environment free from physical and mental harassment, and respect the protection of the rights of young workers, the securing of minimum wages, the appropriate management of working hours, the right to collective bargaining, and the protection of privacy.

If it becomes clear that the Daiwabo Group has caused, facilitated, or been directly linked to any negative impact on human rights, we will engage in dialogue with the affected parties concerned and work to aid them in order to remedy the situation through appropriate procedures.

Employee training on human rights and protection of human rights

In order to promote business activities that respect human rights, the Daiwabo Group conducts compliance education and confirmation tests for all employees every year, including on human rights issues. The rate of compliance education attendance rate is steady at almost 100%.

In addition, we have established an internal whistleblowing and consultation desk for the purpose of protecting the human rights of employees, and are promoting the ease of whistleblowing by establishing a swift response system for whistleblowing and external touchpoints. We are also implementing training and regular interviews as measures to prevent harassment.

Compliance with laws and regulations on labor practices

The Daiwabo Group develops and operates employment rules based on Labor Standards Act, pays fair wages, and sets appropriate working hours. When paying wages, we show each employee a pay stub, present details of deductions, and present premium wages for overtime and holiday work.

We avoid unintentional involvement in child labor by thoroughly verifying the age of employees at the time of employment in writing, including at our overseas bases. In addition, labor contracts are concluded in the language used locally to properly protect the rights of employees.

In Japan, managers and supervisors in the workplace and the human resources department monitor the status of long working hours and the use of annual paid leave, and promote compliance with working hours stipulated in 36 agreements and the reliable use of statutory paid leave.

Relationship with labor unions (labor-management dialogue, etc.)

The Daiwabo Group builds healthy relationships of trust by engaging in dialogue with labor unions and employee representatives, and considers the rights of all employees.

The Fiber Business and Industrial Machinery Business have labor unions and have adopted a system of labor-management negotiations between the labor unions and the company to explain management and production conditions. We have been conducting labor-management negotiations in a healthy relationship for many years.

In the IT Infrastructure Distribution Business and Daiwabo Holdings, although there are no labor unions, important changes in work rules such as working conditions are explained to and implemented with the consent of all employees. In reviewing personnel systems, employee representatives are elected at each office as necessary, and revisions are made through a legal labor-management consultation process. We are also working through labor-management consultations to revise wage levels in light of rising prices.

Promotion of occupational safety and health, and improvement of working environment

In production facilities, we recognize that safety is the most important issue.

In the Fiber and Industrial Machinery Businesses, risk management such as safety inspections, facility improvement, and work environment improvement is routinely conducted, and we discuss and confirm necessary improvements at Factory Safety and Health Committee meetings. We also provide safety education for employees, and as a result, work-related accidents have been on the decline in recent years (for details, please refer to "Improvement of Working Environment" in the ESG Data).

Furthermore, safety and health are important issues not only in production facilities, and we are working on occupational safety at large eastern and western mega-centers in the IT Infrastructure Distribution Business.



Fire-fighting drill at Kanto Central Center, a DIS Group mega-center, as part of occupational safety and disaster prevention activities

Ensuring product safety and quality

Initiatives at each business company

The group recognizes that product safety is the minimum quality requirement for users, and we are committed to ensuring product safety and quality assurance.

In the Fiber Business, we provide safety information to customers through safety data sheets (SDSs) and product labeling. We have established product safety activity rules and thoroughly manage the risk related to product safety from design and development to production and delivery. We regularly hold Quality Management Committee meetings to promote them, and share and improve information on safety and quality issues.

In the Industrial Machinery Business, we conduct design reviews and validity checks for machine safety during the design phase, and confirm compliance with safety and quality standards through shipping inspections. We are also working with customers to customize product specifications using automatic control and safety devices.

Natural capital strategy

Initiatives for achieving a decarbonized society

Recognizing the importance of climate-related financial disclosure, in April 2022, the Daiwabo Holdings Co., Ltd. announced our endorsement of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and are committed to disclosing the risks and opportunities posed by climate change.



Governance

In April 2020, the group established the ESG Promotion Committee, chaired by the Representative Director, as an advisory body to the Board of Directors to deliberate on environmental, social, and governance issues.

The ESG Promotion Meeting has been established as a subordinate organization of the ESG Promotion Committee for practical discussions about and promotion of activities. Items discussed by the ESG Promotion Committee are reported to the Board of Directors.

Strategy

The group recognizes climate change as a medium- to long-term challenge. Therefore, we make analysis using multiple future scenarios based on the 1.5–2°C and 4°C scenarios, to account for risks and opportunities under a variety of circumstances. In a world of +1.5–2°C, regulations to reduce greenhouse gas emissions will be tightened, and the risk of transition will increase due to the progress of low-carbonization and decarbonization.

On the other hand, in a world of +4°C, physical risks, such as abnormal weather, are expected to increase, although the impact of transition risks, such as regulations, are small.

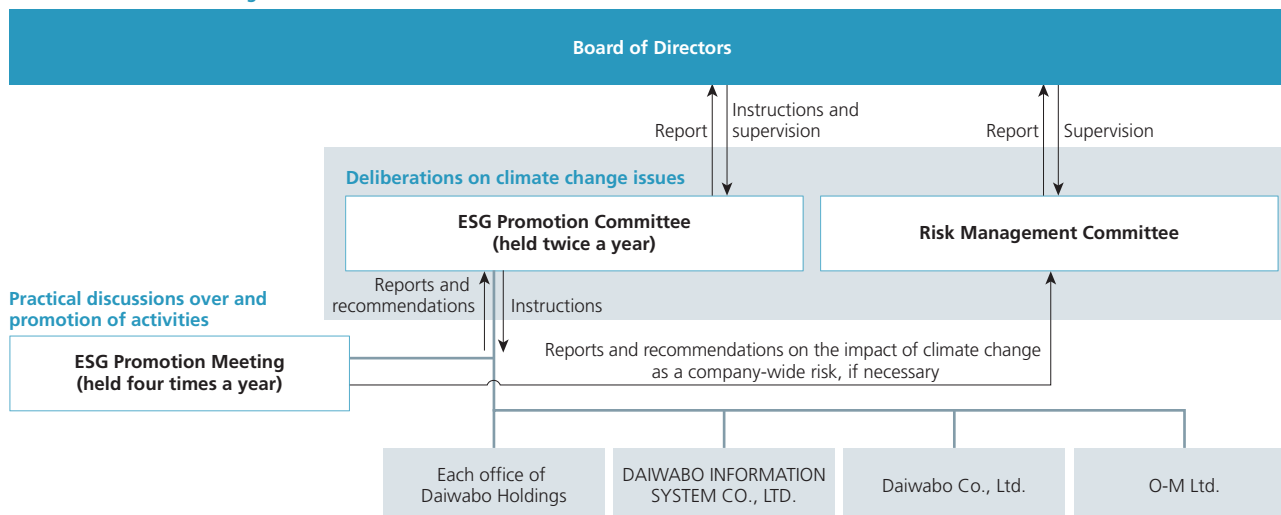
The scenario for FY2030 is based on “RCP-2.6” and “RCP-8.5” from the IPCC, and “NZE2050, SDS” and “STEPS” from World Energy Outlook.

Assumptions for scenario analysis

Scenario	1.5°C–2°C scenario Anticipated scenario: Increase of migration risk <ul style="list-style-type: none"> • Increase of risk due to policy and market changes • A rise of 0.9–2.3°C by 2100 (relative to the time of the Industrial Revolution) if strict measures are taken
	4°C scenario Possible scenarios: Increase of physical risk <ul style="list-style-type: none"> • Extensive damage caused by abnormal weather • 3.2–5.4°C rise by 2100 unless measures beyond current levels are taken (relative to the time of the Industrial Revolution)
Target business	IT Infrastructure Distribution Business, Fiber Business (Japan), Industrial Machinery Business (Japan)
Target year	Impact as of FY2030

Climate change risk management system

Resolution on climate change issues



Transition risk (assumed to be most evident in the 1.5–2°C scenario)

Key risks		Significantly high-impact item			Key expected initiatives
		IT	Fiber	Industrial Machinery	
Risk of policies and laws and regulations	Increased costs of regulatory compliance, such as carbon prices		●		Transition to low-carbon energy
				●	Thorough efficiency improvement and transition to low-carbon energy to achieve FY2030 CO ₂ emission targets
Technical risk	Increased investment and R&D costs for environmentally conscious technologies		●		Collaboration with research institutions, utilization of development tools, and collaboration with external research institutions
				●	Development and early commercialization of energy-saving, hydraulic-free, and automated products
Market risk	Rising commodity prices due to tightening of supply-demand relations for renewable energy	●			Securing inventory by having large warehouses and proposing alternative products utilizing multi-vendor functions
	Rising raw material costs for products with low environmental impact		●	●	Review sales strategies as appropriate, including passing of higher costs on to product prices
Reputational risk	Loss of corporate brand due to delayed response	●	●	●	Timely disclosure of information via websites, etc.

Physical risk (assumed to be most evident in the 4°C scenario)

Key risks		Significantly high-impact item			Key expected initiatives
		IT	Fiber	Industrial Machinery	
Acute risk	Stagnation of operations at business sites due to disasters	●			Continuation of business through teleworking and correspondence to different locations through multi-base network, strengthening of BCP measures
			●	●	Strengthening of BCP measures at production sites against wind, flood, and other disasters
	Stagnation of supply chain operations due to the regions affected by disaster	●			Leveraging the strengths of multi-vendors to secure multiple purchasing routes, and securing inventory thanks to having large warehouses
			●	●	Strengthening of BCP measures between production and distribution bases (in Japan and overseas)
	Spread of infectious disease	●	●	●	Timely use of teleworking
Chronic risk	Deterioration of the working environment due to rising temperatures	●			Development of a comfortable work environment at logistics centers
		●	●	●	Implementation of measures against heatstroke at logistics centers and plants
	Unstable upstream supply chain	●			Leveraging the strengths of multi-vendors to secure multiple purchasing routes, and securing inventory thanks to having large warehouses
	Increased air conditioning costs due to rising temperatures	●			Consideration of investment in automation of logistics centers and utilization of robots under adverse conditions

Opportunity

Opportunity		Significantly high-impact item			Key expected initiatives
		IT	Fiber	Industrial Machinery	
Resource efficiency	Reduction of energy costs by improving production and transportation efficiency	●			More efficiency in transportation and delivery by extending current conditions and utilizing nearest, bulk, and charter shipments
			●		Further promotion of energy conservation and shift to renewable energy
			●		Reducing operation costs by introducing energy-saving equipment
Products and services	Growth of earnings by providing products and services that contribute to climate change mitigation and adaptation	●			Drawing up purchase plans in anticipation of future demand
			●		Expanding sales opportunities of environmentally conscious products, such as biodegradable materials, and of disaster-prevention/reduction products
	Increase in demand for materials, parts, and solutions required for environmentally conscious equipment (renewable energy, batteries, fuel cells, etc.)		●		Development of energy-saving, hydraulic-free, and automated products
				●	Deployment of products that meet the potential for increased demand for products with low environmental impact
Market	Better corporate image by promoting disclosure of climate-related information	●	●	●	Timely information disclosure based on the TCFD recommendations

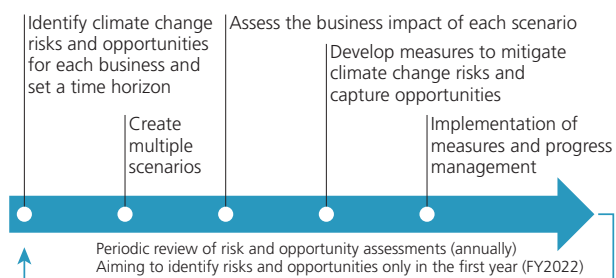
Value creation strategy

Risk management

Mechanism for assessing the risks and opportunities of climate change

The ESG Promotion Meeting which promotes issues related to climate change, assesses risks and opportunities related to the impact of climate change, in cooperation with Daiwabo Holdings and group companies, and monitors the status. Risk assessment is conducted at least once a year and as necessary, and the ESG Promotion Meeting reports and makes recommendations to the ESG Promotion Committee.

The ESG Promotion Committee deliberates on identified risk assessment, relevant proposed countermeasures, and related indicators and targets at least once a year, followed by reports to the Board of Directors. The Board of Directors resolves matters reported by the ESG Promotion Committee, and gives relevant instructions and supervision.



Indicators and targets

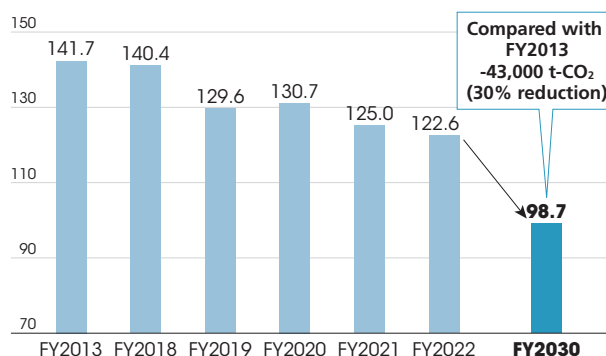
Initiatives for FY2022

The group's main CO₂ emission factors are Scope 1 direct emissions from fuel combustion in factories and other manufacturing processes, and Scope 2 indirect emissions from the use of electricity supplied by other companies. The group CO₂ emissions in FY2022 were 122.6 thousand t-CO₂ in total for Scope 1 and 2. In order to improve the energy composition to reduce CO₂ emissions, we first reviewed our electric power companies with a view to switching to energy with lower emission coefficients and switching to renewable energy in the future, and reduced CO₂ emissions by approximately 2,400 t-CO₂ compared to the previous fiscal year.

Progress toward targets

We have made progress toward our target of reducing total Scope 1 and 2 emissions by 70% (30% reduction) compared to FY2013, reaching 87% (13% reduction).

CO₂ Scope 1 and 2 emissions (1,000 t-CO₂)



Scope: Daiwabo Information System (consolidated), Daiwabo (in Japan, consolidated), O-M (in Japan, consolidated), Daiwabo Holdings (non-consolidated)

Supply chain emissions (1,000 t-CO₂)

Scope and category	Major emission sources	FY2022
Scope 1	Direct emissions from owned or controlled sources (fuel combustion, etc.)	91
Scope 2	Indirect emissions from the use of electricity supplied by other companies	32
Scope 3 Upstream	Category 1 Purchased products and services ¹	249
	Category 2 Capital goods	7
	Category 3 Combustion and energy (other than Scope 1 and 2)	5
	Category 4 Transportation and delivery (upstream)	21
	Category 5 Waste from businesses	5
	Category 6 Business trips	1
	Category 7 Employee commuting	1
	Category 8 Leased assets (upstream)	Not applicable ²
Total		412

Scope: Daiwabo Information System (consolidated), Daiwabo (in Japan, consolidated), O-M (in Japan, consolidated), Daiwabo Holdings (non-consolidated)

¹ Daiwabo and O-M only (Daiwabo Information System is excluded because it is still under calculation)

² Energy consumption from the use of assets rented under lease contracts is included in Scope 1 and Scope 2, and is therefore not applicable

Promotion of global environmental protection

Daiwabo Group Environmental Policy

The Daiwabo Group has established the Daiwabo Group Environmental Policy and is committed to global environmental protection.

The Policy is available on our website.



Please refer to the website for more details.



Contribution to the circular economy

Against the backdrop of global population growth and economic growth, we recognize that increasing waste is a global challenge and that it is necessary to move away from mass waste and towards a circular economy. In the IT Infrastructure Distribution Business, we aim to contribute to the circular economy through the spread of cloud services. In the Fiber Business, we are leveraging our unique processing technology and focusing on developing products using plant-derived rayon fibers, as well as biomass and recycled materials. In the Industrial Machinery Business, we are working on prolonging the lifespan of delivered products through maintenance, recycling scrap materials, utilizing recycled plastics, and reducing waste across all businesses.

Main topics in FY2022

For the IT Infrastructure Distribution Business, we are focusing on expanding sales of cloud services that utilize iKAZUCHI, a subscription management portal, and iKAZUCHI transaction volume increased 39.4% from the previous fiscal year. iKAZUCHI contributes to operational efficiency by reducing CO₂ emissions and management man-hours in the supply chain. In addition to existing channels, we are also working with SaaS vendors globally to support the DX of various users in Japan.

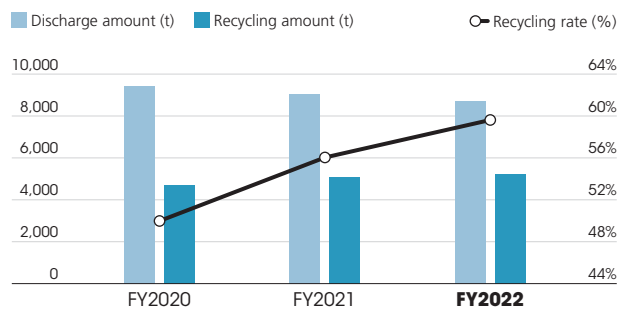
In the Fiber Business, we are developing products that take the circular economy into consideration, such as Recovis®, a cellulose fiber made from recycled clothing, and TWINLET®, a double-layered yarn with a core made of recycled PET and a sheath made of cotton from the US. Furthermore, we are also working on developing products made from biomass and renewable resources and raw materials.

In the Industrial Machinery Business, we are working on developing products that lead to a reduction in power consumption, while also having the scraps (chips) generated during processing picked up by contractors for reuse.

The discharge amount of industrial waste also decreased and the recycling rate increased due to efforts to recycle and reuse scrap materials (for details, please refer to "Industrial Waste" in the ESG Data).



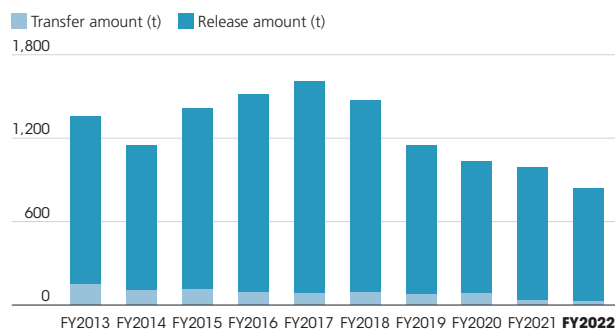
Trend in industrial waste discharge and recycling quantity and rates



Chemical substance management

In accordance with the Pollutant Release and Transfer Register (PRTR), a chemical substance regulation, we manage the release and transfer of chemical substances we manufacture or use and report them to the government. The target chemical substances are mainly used as plasticizers or solvents, and are strictly managed. We are also working on reducing their emission and transfer amounts by switching to non-target substances and promoting recycling.

Release and transfer of substances subject to the PRTR system



Water risk management

We recognize that water resources are not only important resources necessary for the survival of living organisms but also have the potential to affect business activities in various ways, such as water disasters, droughts, water pollution, and restrictions on available water resources. Regarding water risks related to manufacturing, according to the 2019 Aqueduct Global Water Risk Map published by the World Resources Institute (WRI), the manufacturing sites of the Fiber Business are all in low-risk regions. We are continuously implementing water-saving activities such as the circulation and reuse of water used in the production process. In the Industrial Machinery Business, the use of water in production is minimal and mainly relies on water for daily use.

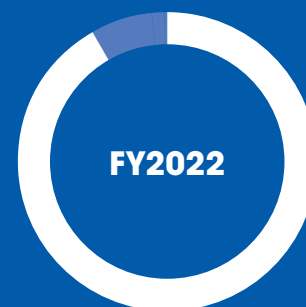
IT Infrastructure Distribution Business

Net sales ratio

91.7%

Business description

As an independent multivendor, we sell various combinations of IT-related products and services purchased from roughly 1,400 manufacturers and vendors in Japan and overseas. We are one of Japan's leading distributors, and provide a wide range of products and services to end users through our approximately 19,000 dealers across the country, including information equipment sales companies, IT trading companies, system integrators, mass retailers, and e-commerce operators. Our strength lies in our community-based sales system, which is possible only because we have a network of sales offices and distribution centers that cover every corner of Japan.



Market environment and social issues

With digital transformation (DX) at the forefront, there is a growing trend to use IT to solve social issues and create new value for society.

There are a wide range of areas in which IT can contribute to solutions, such as addressing the shortage of human resources common to many industries, improving productivity and standardizing business operations in companies, digitalizing education, and addressing environmental issues. We recognize this as a great opportunity for DIS, which has a wide range of products and a broad sales network, and will continue to help the development of an information society all over Japan through our business.

Business strategy

We will achieve long-term growth as a company that continues to support all IT businesses

Existing area expansion

We will continue to expand our product lineup and improve service quality in order to meet the needs of customers nationwide and further enhance our position in the market. Our goal is to acquire the No. 1 share in the domestic Japanese market for each category of IT device distribution.

Market creation

We will implement and strengthen high-level support capabilities and actively incorporate new technologies and solutions. We will contribute to our customers' use of IT and market creation, and expand our own business.

Social contribution

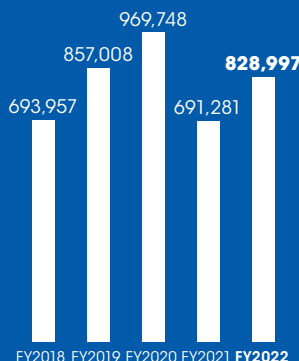
We are committed to sustainable management, and are contributing to the protection of the environment, consideration of local communities, promotion of innovation, and construction of sustainable supply chains.

Work transformation

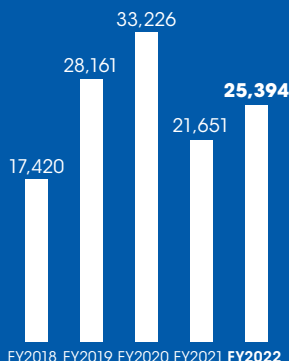
As an IT distributor, we promote the DX of business processes and work style reforms, aiming to improve productivity both within our company and throughout our supply chain.

To implement these strategies, we believe it is necessary to further improve our skills and consulting capabilities in offering high-value-added IT-related products, and to build closer partnerships with our customers. This is because providing cutting-edge technology in a simple form that is easy to use for customers will expand the possibilities of IT utilization and contribute to local communities. We will achieve the long-term growth of the company by making such a socially significant business rewarding for our employees.

Net sales (millions of yen)

828,997

Operating profit (millions of yen)

25,394

Medium-term business strategy and initiatives

Strategy

Initiatives for FY2022

Existing area expansion

Acquisition of share in each category in IT device distribution

- Involvement in the introduction of at least one out of every three PCs in the corporate market
- Coverage of IT adoption in various industries through efficient proposal activities utilizing information infrastructure such as sales force automation (SFA) and customer relationship management (CRM)
- Development of training for teachers such as lesson design utilizing ICT in elementary, junior high, and high schools, and continued work on the GIGA School Program

Market creation

- Implementation and strengthening of high-level support functions
- Branding as a cloud distributor

- Development of DX Academy Service to support corporate DX
Support for the development of IT personnel of dealers as a starter, in order to take leadership of DX
- Provision of a total IT service that covers everything from the introduction of advanced technologies to operation and management, as well as the contribution to the effective utilization of IT human resources by realizing labor saving for dealers and end users
- Strengthened cooperation with each group company in order to respond to the diversification of customer needs
- Development of original services to support next-generation proposals

Social contribution

Initiatives for sustainable management

- Holding the real-life event, DIS World in Echigo Niigata with Digital Days, to introduce IT products and solutions that fit the local community and to contribute to the revitalization of the community through IT technology
- Sponsorship agreement with Maiko Wakabayashi, a professional golfer who is balancing childrearing and her career
- Special co-sponsorship of the Nikkei STEAM 2022 Symposium hosted by the Nikkei Osaka Head Office
- Donations in order to contribute to medical care support
Japan Heart: 150 million yen; Japan Committee for UNICEF: 50 million yen

Work transformation

Productivity improvements in the supply chain as a whole

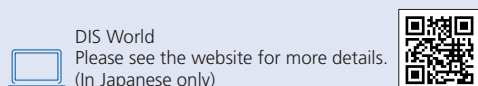
- Promotion of the transformation of sales activities and the improvement of operational efficiency such as order-taking operations using business intelligence (BI) and robotic process automation (RPA)
- Continued investment in information systems using SFA and CRM
- Continued promotion of low-cost operations using e-commerce and other means
- Cost controls by improving logistics efficiency and inventory location optimization

Strategies by business segment

Future initiatives

Contribution to regional economic development through community-based business activities

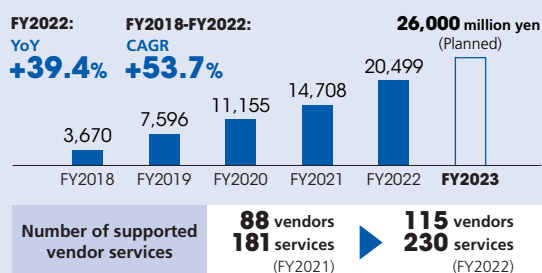
We will continue business activities rooted in local communities throughout Japan. We will also contribute to the development of regional economies by supporting our customers' IT solutions in cooperation with our partners throughout Japan, including DIS World, a comprehensive Information and Communication Technology (ICT) event. In addition, by aggregating information on each region and sublimating it into nationwide know-how based on common needs and issues, we will continue to support further problem-solving in local communities.



Contribution to DX by promoting the spread of cloud services

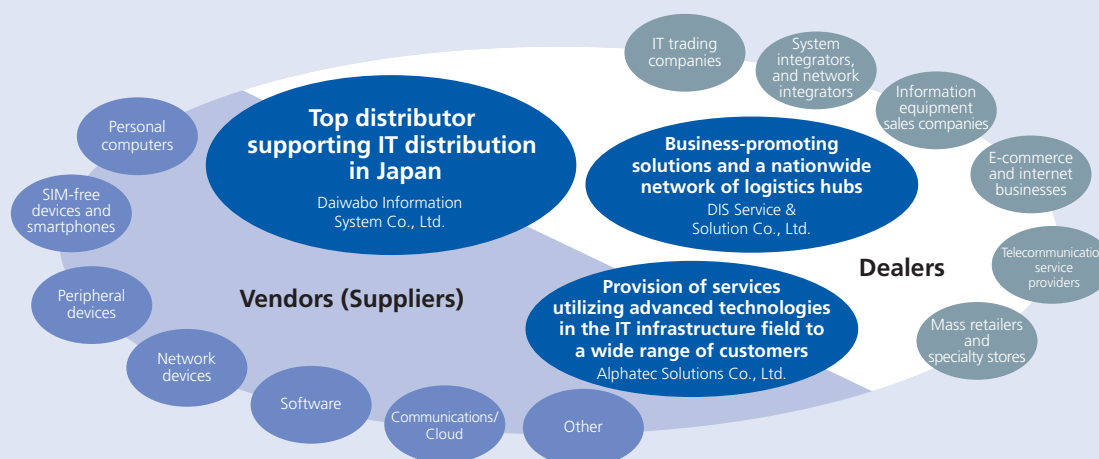
We will promote the spread of cloud services in order to contribute to the establishment of the infrastructure for DX. As part of this effort, we will expand the list of services and functions offered on the iKAZUCHI subscription management portal. By providing a system that enables effective and easy use of cloud services, we can improve the efficiency of the entire supply chain including our customers, and contribute to suppressing costs, resolving the shortage of human resources, and the co-creation of businesses as well. At the same time, we will continue to work with our dealers to promote the domestic Japanese distribution of the world's latest technologies that can meet diverse user needs.

Total sales amount to dealers through iKAZUCHI



Increased added value of the distribution business

We will continue to be the distributor behind every IT business. To do so, we will constantly evolve our business by combining the strengths of our company and a wide variety of dealers. We will also work to build new business models.



Contribution to DX by providing original services

Total IT service

We will expand our offering of original services by collaborating with advanced technology vendors, including emerging companies. By providing an environment in which all customers can easily utilize cutting-edge technologies and by reducing administrative man-hours after installation, it will be possible to eliminate the shortage of IT personnel and secure resources for promoting DX.

DX Academy Service

We provide an educational platform that aims to realize and establish DX. In addition to training regimens for understanding the basic concepts and ideas of DX, we prepare courses that allow employees to systematically develop and practice the knowledge and skills necessary for promoting DX. We will build an effective platform by continuously improving and developing training courses. Through these activities, we will foster a strong will and desire to transform the business of our customers, which are important in DX.

Initiatives for the education market

Creation of environment for the next generation of the GIGA School Program (devices and networks)

We will continue to contribute to ICT education, which is essential for the realization of a sustainable digital society. We will continue to provide a stable supply of IT devices that help improve the learning environment, and propose IT solutions that bring about new learning trends such as STEAM education.

STEAM Lab initiatives

As a result of creating an environment where each student in school computer labs has access to their own device under the GIGA School Program, changes can be seen from the traditional role these labs played. STEAM Lab is a place to learn real things and experience the use of advanced technology, and proposes a new role for computer labs as learning spaces to nurture creativity. In addition, we will work to create more so that they can serve as places for collaboration with the local community not only within the framework of learning activities.

Underlying strengths

Friendly and trustworthy distributor

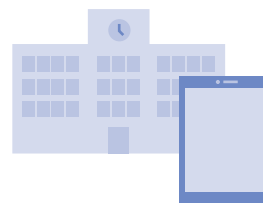


Expansion of
nationwide
sales network to
94 bases



Caters to
all users
regardless of area
or end-user industry

Area coverage in education field



Procurement involvement rate for boards of education

98%

Percentage of boards of education that were involved in FY2018 through FY2022 even at a small amount

Target: 1,788 boards of education (all prefectures and municipalities in Japan)

A specialized team for the education market and sales offices across Japan have established a cooperative system with dealers to achieve high standards

Fiber Business

Net sales ratio

6.9%

Business description

The Daiwabo Group focuses on research and development in the field of fibers and textiles, which holds a variety of possibilities, such as wide-ranging applications as raw materials and in aiding the needs of a recycling-oriented economy. We are creating high value-added products that make use of sustainable materials as well as functional and unique materials. In addition to clothing products, we handle a wide range of other products, from everyday materials, such as materials for diapers, to industrial materials such as waterproof sheets for construction sites. These diverse offerings include raw cotton, nonwoven fabrics and finished products.



Market environment and social issues

Although there are negative factors such as soaring raw material and energy prices and stagnant consumer appetite due to high commodity prices, the market environment is expected to see a recovery in demand for cosmetics and an increase in domestic demand for building materials.

There is also a growing need for sustainable products. We are working to solve a wide range of social issues, such as providing environmentally-friendly products, contributing to the realization of a safe and secure society, and developing products for functional and sustainable materials with an awareness of the SDGs.

Business strategy

We will accelerate the development of environmentally-friendly products and the promotion of in-house ESG activities

Promotion of ESG activities

In terms of the environment (E), we are accelerating the renewal of energy-saving equipment with the aim of achieving net zero GHG emissions by 2050. In terms of social (S), in order to respond to the ever-changing market environment, we are expanding our human capital by focusing on employee education and the

development of a comfortable working environment. From the perspective of governance (G), we are promoting the maintenance and reinforcement of audit and check systems to strengthen internal control systems and ensure thorough compliance management.

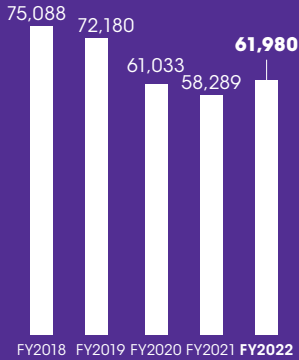
Enhancement of unique material development

Based on the experience and technologies we have cultivated, we have established a cross-group business research system. In addition, we are expanding our business by developing new materials, including functional and sustainable materials, through collaboration with companies in different business categories and joint research with universities and research institutions. For example, we are developing biomass-derived materials such as biodegradable biomass. These materials are expected not only to contribute to the realization of a sustainable society, but also to contribute to our sustainable growth as a company through their high functionality and added value.

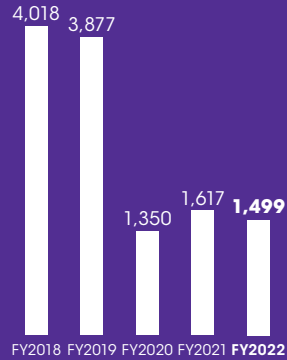
Improvement of capital efficiency

In addition to promoting high added value by utilizing functional and sustainable materials in synthetic fiber and other materials, we are also consolidating factories to further improve the efficiency of invested funds.

Net sales (millions of yen)

61,980

Operating profit (millions of yen)

1,499

Medium-term business strategy and initiatives

Strategy

Initiatives for FY2022

Transform into a company that is satisfying to work for based on ESG

- Company-wide systematization and thorough compliance management emphasizing on-site circumstances
- Increase in work efficiency through improvement of working environment, personnel training, and IT utilization

Enhancement of unique material development

Development of the unique materials based on the deep plowing of fiber strategy

- Establishment of a cross-business research system for the Daiwabo Group
- Development of environmentally-friendly products (biodegradable, biomass, recycled, etc.) based on core technologies

Improvement of capital efficiency

Business activities conscious of invested fund efficiency

- Sales of synthetic fiber, nonwoven fabric, and rayon utilizing research results for functional and sustainable materials
- Establishment of an integrated cartridge filter production system by consolidating industrial material factories

Future initiatives

Initiatives to reduce CO₂ emissions by 2030

In addition to achieving net zero GHG emissions by 2050, we aim to reduce domestic CO₂ emissions by 30% (Scope 1 and 2) compared to FY2013 levels by 2030 as a milestone. We will contribute to the prevention of global warming by promoting energy efficiency through the renewal of energy-saving equipment and the use of renewable energy.



Topics

Initiatives for ongoing organizational reforms

We are undertaking ongoing organizational reforms to strengthen governance and improve capital efficiency. The research and development structure for each field has been integrated into the Harima R&D Center to strengthen R&D capabilities. We are advancing material development based on the three development keywords of environment, safety, and health. In addition, we consolidated production bases, such as building an integrated production system for the filter business.

Industrial Machinery Business

Net sales ratio

1.3%

Business description

We provide vertical lathes that can be used as “mother machines” for all industries, including the aerospace and energy industries. We also manufacture and sell machine tools such as wheel lathes that support railway safety and ride comfort, and automatic packaging machines that are used in the food and pharmaceutical industries. We support safe and comfortable lives behind the scenes.



Market environment and social issues

Japan's industry faces various challenges, such as labor shortages due to the declining birthrate and aging population, and a decrease in skilled workers. In addition, awareness of global environmental issues such as climate change and resource depletion is increasing. In light of this situation, we are working to develop products in the Industrial Machinery Business that contribute to automating production processes, saving labor, and reducing environmental impact.

Business strategy

We will respond swiftly to changes in society with the aim of continuously improving our corporate value

In the Industrial Machinery Business, based on the provision of production facilities and technical services, we aim to swiftly respond to social changes and continuously increase corporate value. To this end, we have adopted a long-term basic strategy of transforming our business portfolio, contributing to solving environmental and social issues, and promoting collaboration with external companies and research institutes. Over the medium term, we will focus on the following three areas.

Expansion of machine tool business

In the area of machine tools, we are accelerating proposals to the energy, construction machinery,

semiconductor, and other industries. In addition, to meet the growing needs for cost reduction, productivity improvement, and energy saving, we are promoting the development of products that reduce CO₂ emissions and improve work efficiency.

Expansion of automatic packaging machine business

In the area of automatic packaging machines, we will accelerate proposals that meet the demands of each industry, while also pursuing the reduction of environmental impact as with machine tools. In particular, we will focus on developing and expanding sales of paper packaging machines as society moves toward the elimination of plastics.

Service enhancement

We are focusing on human resource development in order to strengthen our competitive technological capabilities and services, and aim to ensure that each and every employee has high technical capabilities. In addition, we are working to enhance after-sales services to customers by upgrading and expanding our service system.

We are also engaged in a variety of activities aimed at long-term value creation, such as the use of AI and IoT to improve the quality and function of products and services, and the promotion of education to strengthen the technological capabilities of each employee, which is the source of our competitiveness.

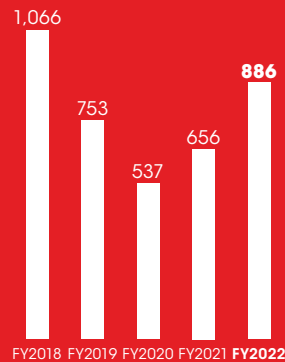
Net sales (millions of yen)

12,170



Operating profit (millions of yen)

886



Medium-term business strategy and initiatives

Strategy

Initiatives for FY2022

Expansion of machine tool business

Strengthening approach to potential markets

- Make offers to a wide range of industries, including energy, construction machinery, and semiconductors (orders received up 26.4% year-on-year)

Expansion of automatic packaging machine business

Capturing demand for automation of packaging machines in various industries

- Strengthen proposals and services to meet industry-specific demands
- Promote the use of paper packaging in response to the social trend toward a plastic-free society

Service enhancement

Improving profitability by upgrading and expanding service system

- Strengthen systems through in-house education

Future initiatives

Expansion of business opportunities in all areas of power generation

Aiming for the growth of the wind power generation market, we are further improving the efficiency of parts processing technology in our machines, and pushing forward with proposal-based sales approaches that promote the benefits of cutting process improvements at customers' sites. Furthermore, we will utilize our parts processing know-how in order to respond to the growing demand for high-efficiency gas turbines amid the need for reductions in CO₂ emissions in all aspects of power generation.



Topics

Chip detection system using AI technology

To solve the problem of chip adhesion in vertical lathes, we developed an automatic chip detection system using image sensors and AI technology. This allows processing to be automatically stopped in the event of an abnormality. For the issue of detection accuracy, we used AI deep learning methods in collaboration with a research laboratory at the Kanazawa Institute of Technology.





Kenichi Dohi
Outside Director

Takako Fujiki
Outside Director

Kazuyuki Nakamura
Outside Director

Tetsuro Hori
Outside Director

Yukiko Yoshimaru
Outside Director

Roundtable discussion of outside directors

The long-term expectations for enhancing corporate value

Daiwabo's ongoing efforts to enhance corporate value include drawing on the extensive experience and broad insight of outside directors for governance, which is the foundation of sustainable growth. In June of 2023, five of the Daiwabo Holdings's outside directors, including Tetsuro Hori who was appointed in June 2023, held a roundtable discussion on evaluating governance effectiveness and the expectations for the future of the company.

Governance Effectiveness

Establishing a standard of seriously considering various opinions and actively working on improvement

Dohi

I have been an outside director of the company for seven years, and I feel that an atmosphere has been developed in which outside directors can speak freely and proactively at meetings, including the Board of Directors meetings.

Hori

I've only just begun my first year, but my initial impression is that there is a good atmosphere. One thing I've noticed is that even if the Board of Directors or other group has already decided to adopt a proposal, they are very willing to engage in active discussion about it if a relevant point is raised.

Nakamura

The atmosphere has improved dramatically since I began serving as an outside director, including how meetings are prepared, such as providing materials in advance. We used to participate only in the Board of Directors meetings, but we've started attending meetings of the risk, ESG, and compliance committees because we believe it is important to be in close communications with people in all areas.

Yoshimaru

Since last year, we have been spending more time discussing the group's overall direction for the medium and long term. Many of the items on the Board of Directors' agenda had been short-term and procedural topics, so I feel that this is a good development.

Nakamura

I agree. One time, the company wanted input from the outside directors on how the Management Strategy



Committee should be operated, and they even had us fill out a questionnaire with our thoughts. I think the company has a very good atmosphere in which the company directors and outside directors can talk candidly about what they think.

Dohi

If I had to find one point that could be improved, I think we could benefit from receiving information earlier about topics on the Board of Directors agenda that are related to the growth strategy. That would let us start discussing the topic earlier.

Yoshimaru

Regarding the makeup of the Board of Directors, I think the company is quite progressive because five of the eight members are outside directors, making them the majority.

Fujiki

I think that the composition of outside directors is based on a skill matrix and brings together people with a variety of backgrounds. I think it is very good that opinions are exchanged from diverse perspectives on business and organizational management based on their respective knowledge and experience, and the management team has also established an attitude of openly accepting and improving diverse opinions. As I am from a global company, I try to state my opinions without reservation, keeping in mind global standards. For example, when I state my opinion on the issue of harassment, there are some differences between the standard thinking in traditional Japanese companies and in the global world. I am conscious of communicating these differences and how to organize them. I hope that this will lead to a change in thinking by providing a new perspective.

Yoshimaru

My perspective is based on group governance, and I particularly focus on how we can execute effective governance as a holding company. The internal and

Governance

outside directors all offer their own opinions, including some that are conservative and some that are aggressive, but all of us on the Board of Directors are trying to decide the best direction for the Daiwabo group as a whole.

Nakamura

One issue that came under group governance was the misconduct incident in 2020. The company has since implemented various measures to improve, including preparing manuals, revising the personnel system, and digitalizing management processes.

Hori

Since I've only just joined, I recognize that I need to continue learning about the group's business content to get up to speed with everyone. I consider maximizing shareholder value to be the Board of Directors' top priority, so I intend to constantly be looking for ways we can do that and proposing ideas to the board.

Nakamura

In terms of raising corporate value, the biggest issue in fiscal 2023 was the business portfolio, and a forum was created for the outside directors to discuss the issue among themselves.

Fujiki

We discussed what we as the holding company should do in order to achieve sustainable growth. We also discussed how we, as outside directors, should advise the management team, and we established guidelines.

Dohi

Management tends to focus on current performance, such as monthly results, and their internal budgets. As an outside director, I want to have discussions about what kind of vision the company should have for the long term and what we should focus on now so we can progress toward that vision.



Yoshimaru

Since society is changing so quickly, it's also important to consider if continuing with only the current businesses is enough. That is another aspect we are considering as we review the business portfolio.

Nakamura

We also must not forget the employees who are working day in and day out in pursuit of immediate profits. I use my status as an independent officer to convey my honest opinion from the point of view of stakeholders.

Sustainability

Actively using non-financial capital to increase corporate value

Dohi

When we contemplate the type of value we can use our business to create, our purpose and materiality are extremely important. It's essential that they are not only clearly defined, but that they also permeate our activities both inside and outside the company. I also think it's critical that all employees are behind what we are aiming for as a company.

Hori

Shareholders, investors, and all stakeholders expect a listed company to continue growing. In my view, management is responsible for guiding that growth, and my duty as an outside director is to help them achieve growth that meets the stakeholders' expectations.

Nakamura

Compliance is fundamental to the company's survival. Next is generating profits and returning profit to the shareholders, employees, and society. I want to make sure the company achieves the Medium-Term Management Plan's targets for ROE and ROIC.

Yoshimaru

Interest is rapidly growing in the non-financial activities of corporations, such as related to ESG. The company is working hard to stay abreast of this trend, but I think we will need to go one step further and actively use the non-financial capital in our business.

Fujiki

Daiwabo Holdings has defined four materiality areas, the textile and industrial machinery businesses have production facilities, so it is important to focus on efforts



to be considerate of the environment. In addition, the IT infrastructure distribution business is expected to grow in a society where digitalization is accelerating, so I would like them to focus on new business models that can be leveraged with advanced technologies and AI.

Yoshimaru

The company still has many issues to address concerning human capital, especially regarding women in the workplace.

Dohi

On the Board of Directors, two of the outside directors are women, but the company needs to have more women in its workforce.

Expectations for the Future

Strategic investment for high value-added products and services

Dohi

We first need to decide on a vision for the company in the future. Then we need to use logic to dig down and decide how we need to change the business portfolio and what we need to start doing now to fulfill the vision. Businesses without a clear role or function are ultimately unsustainable. So I would like management to be thinking every day about what the role and the function of our work means.

Nakamura

If any of the strategies in the Medium-Term Management Plan do not produce adequate results, they should be dealt with immediately including even quickly switching to an alternative plan. The IT Infrastructure Distribution Business is focusing on growing its wholesale business, but it might, for example, also need to extend a step upstream and downstream in order to increase profits. In fact, I think

the M&A and other moves are expanding the range of offerings that the company can offer its customers, and I hope the company will continue to use those as a strategy for dynamic growth.

Hori

I think creating a growth story for Japan is a major issue. At present, almost all of the company's sales are in Japan, but the rapidly declining and aging population is producing increasingly harsh business conditions. Our workforce will also be affected. The declining population will mean fewer young people being hired, so some of the younger people in the company could even be in their mid-30s. To attract new employees, I think the company will need to have a structure that makes people think, "If I work at this company, I can advance my career, acquire skills, be enthusiastic about my work, and grow as a person."

Yoshimaru

In 2023, we formulated our Purpose to clearly define the reason the company exists, and it is important to instill the Purpose throughout the group. Knowing the Purpose will enable every employee to clearly understand the company's direction. The Board of Directors' discussions have been mainly focused on the visible aspects of the business, but it needs to pay more attention to human capital, the organizational culture, and employee motivation. I believe that more discussion about matters like these is what will lead to sustainable growth.

Fujiki

I believe that the most important thing for a listed company is to deliver high value to its stakeholders, including employees, shareholders, and customers/users. Digitalization is a major trend in all aspects of society, but DX (digital transformation) is still only one of the means. I hope that our company will develop businesses that contribute to solving social problems and provide better services and value by leveraging our current assets and accelerating digitalization.



Corporate governance

Corporate governance system

Basic concept about corporate governance

We believe that corporate governance is one of the most important aspects of management. As a basic principle of management, we strive to improve the management efficiency of the entire group and conduct thorough governance by enhancing the management of group companies and by strengthening our auditing system. We also disclose adequate information at appropriate times in order to maintain the transparency and soundness of management.

By conducting prompt and appropriate decision making, and through our internal governance function, we are fulfilling our social responsibility as a company, while building strong relationships of mutual trust with our shareholders, investors, customers, employees, the local community, and other stakeholders.

Board of Directors

Our Board of Directors consists of persons who are well versed in the relevant businesses and have knowledge in management. The number of members on the Board must be no more than 10, with no less than one-third of the members appointed having to be outside directors. In nominating directors, etc., the company formulates

a draft after taking into consideration the knowledge, experience, ability, etc. required of directors in light of the management strategy, and the Nomination Committee carries out deliberations, followed by deliberation by the Board of Directors to determine candidates.

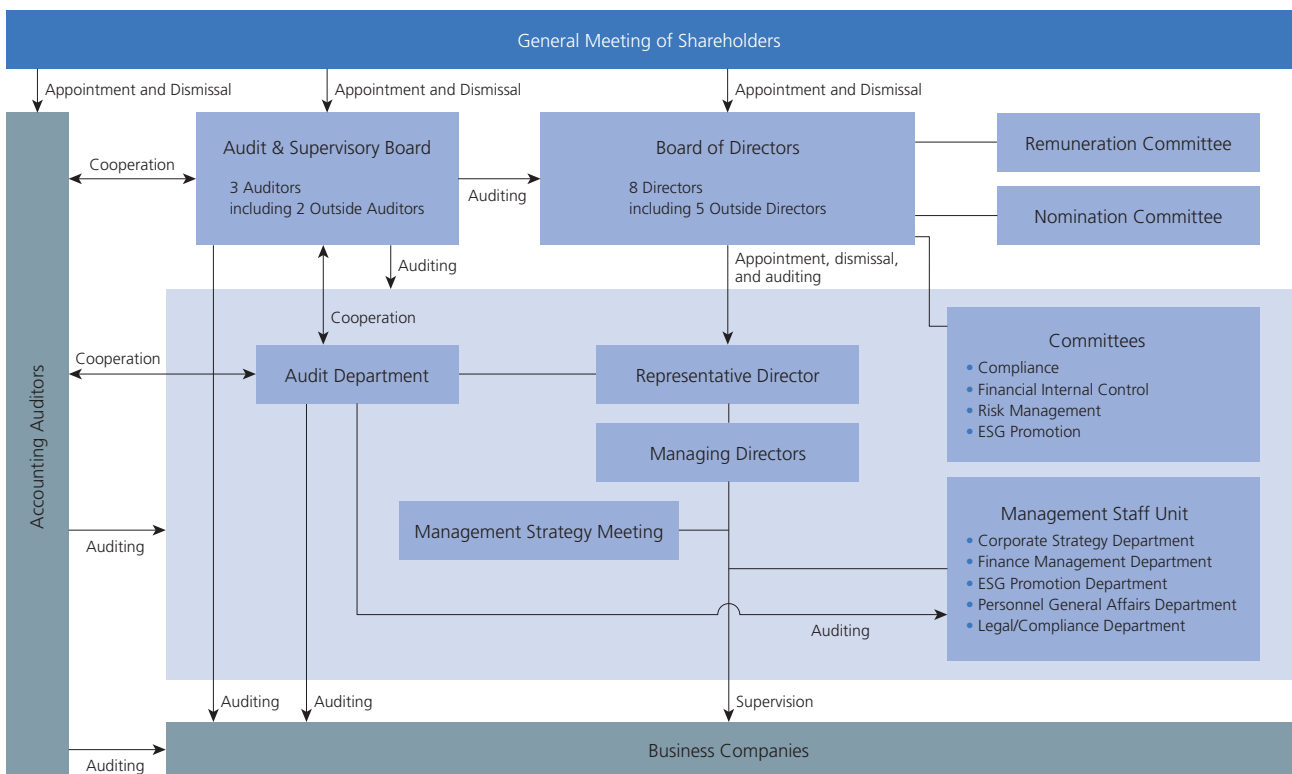
Our Board of Directors establishes business strategies, business plans, and other business policies, creates an environment where appropriate risk-taking by the management is supported, and carries out effective oversight of the management.

The Board of Directors leaves daily management tasks that are not subject to the Board's resolution to the executive directors, and receives reports from them on the status of their respective tasks and on business issues. The directors provide feedback and opinions on these reports, while outside directors provide advice, etc. from their independent stance.

Audit & Supervisory Board

More than half of the members of the Audit & Supervisory Board are outside auditors. Besides fulfilling their responsibilities as auditors from an independent standpoint, they also liaise closely with the company's outside directors, working to strengthen oversight of company management, and focusing on enhancing corporate governance.

Corporate Governance System (as of June 29, 2023)



Nomination Committee

The Nomination Committee is composed of at least three members, including the representative director and outside directors. The committee submits reports and recommendations to the Board of Directors regarding the appointment and removal of directors and auditors. The Board of Directors makes its decisions in line with the content of these reports. The committee is chaired by an independent outside director.

Remuneration Committee

The Remuneration Committee is composed of at least three members, including the representative director and outside directors. The committee submits reports and recommendations to the Board of Directors regarding decisions on the amount of performance-based monetary remuneration and performance-based stock remuneration to be awarded. The Board of

Directors makes its decisions in line with the content of these reports. The committee is chaired by an independent outside director.

Directors' responsibilities (division of duties), and relationship with company officers of subsidiaries

We transitioned to a pure holding company system on January 1, 2006, under which the function of executing operations was transferred to group companies and group management was promoted.

The Board of Directors of the holding company is engaged exclusively in the "development of group strategies," "optimal allocation of the group's management resources," and "supervision of execution of the group's operations." Meanwhile, directors of group companies assume the role and responsibility of executing

Skills Matrix (as of June 29, 2023)

Name	Yukihiro Nishimura	Mitsushige Yasuda	Tsukasa Igari	Kenichi Dohi	Kazuyuki Nakamura	Yukiko Yoshimaru	Takako Fujiki	Tetsuro Hori	Masaya Ono	Masuji Ueda	Saeko Kakuishi
Position held	Representative Director, President	Director	Director	Outside Director	Outside Director	Outside Director	Outside Director	Outside Director	Full-time Audit & Supervisory Board Member	Outside Audit & Supervisory Board Member	Outside Audit & Supervisory Board Member
Overall corporate management	●	●	●	●	●	●	●	●			
Corporate planning and corporate strategy	●	●	●	●	●	●	●	●			
Legal affairs, compliance, and governance	●		●	●	●	●		●	●	●	●
Finance and accounting	●	●						●	●	●	
Personnel, labor affairs, human resources development, and diversity	●	●				●	●				
ICT and DX-related	●	●	●		●		●	●			
ESG and SDGs			●	●	●	●					
Global business				●		●	●	●			

Details and reason for selection of each skill

Skill	Details and reason for selection
Overall corporate management	Experience in corporate management enables candidates to make broader and higher-level decisions in the group's management and across the entire range of medium- and long-term management strategies
Corporate planning and corporate strategy	For the growth of the group as a whole, it is necessary to establish appropriate management strategies, such as selection and concentration of business and business portfolio transformation, as well as knowledge and experience in business restructuring and M&A associated with such strategies
Legal affairs, compliance and governance	It is essential to strengthen the governance system and its implementation for the oversight of the group, and knowledge and experience associated with this is necessary
Finance and accounting	Not only are skills related to finance and accounting necessary in overseeing the group, but knowledge and experience in finance and capital markets and capital allocation are required to implement business restructuring, M&A and other activities
Personnel, labor affairs, human resources development and diversity	In addition to the utilization of human resources, the promotion of diversity is an important matter for the group's growth and the resolution of social issues, and knowledge and experience to achieve these ends is necessary
ICT and DX-related	For the group, in addition to the importance of promoting growth strategies in its IT infrastructure distribution business, the shift to ICT is also necessary for greater management efficiency in all businesses. Therefore, DX promotion is an issue that the company should take the initiative in addressing for the expansion of its business, and knowledge and experience for this purpose is necessary
ESG and SDGs	Knowledge and experience related to these is necessary to take actions to resolve these social issues that the company must proactively tackle
Global business	Due to tie-ups with global companies as the suppliers of the IT infrastructure distribution business, and since it has business sites and sales offices overseas in the fiber and industrial machinery businesses, it is beneficial for the group to utilize global knowledge in building the group's medium-term management strategies

Governance

operations based on the group strategies. Through this system, we intend to speed up management decision-making and to strengthen supervisory functions, thereby working on the development of an efficient and agile management structure.

We also strive to keep track of the status of execution of operations and take prompt and necessary action by holding regular meetings of the Management Strategy Meeting, in addition to monthly meetings of the Board of Directors and regular meetings of the Audit & Supervisory Board. On top of that, in order to enhance the set of internal control functions, we hold meetings of the specialized committees where necessary, as well as promoting fair corporate activities while securing high transparency with respect to issues common to group companies, with support from the Management Staff Unit. Furthermore, we strive to ensure that the management policies for the entire group are known to all members of the group, by holding the annual "Meeting to Present Management Policy" attended by executive members of group companies.

Internal controls

We have formulated the Basic Policy on the Establishment of the Internal Controls System, to ensure that the operations of Daiwabo Holdings and our subsidiaries are conducted appropriately in accordance with the Companies Act.

Evaluating the effectiveness of the Board of Directors

In order to evaluate and analyze the effectiveness of the Board of Directors as a whole for FY2022, we conducted a questionnaire survey on all directors and auditors during the period from mid-April to mid-May 2023, and discussed the summarized results of the survey at the Board of Directors meeting.

The questionnaire contained questions broadly categorized into, among others: the composition of the Board of Directors; the holding of the Board of Directors meetings; matters required to be submitted or reported to the Board of Directors; deliberation at the Board of Directors meetings; support to officers; and the respondent's own efforts. Each of the categories contained individual questions to be answered.

The survey results touched on the adjustment of the items deliberated on by the Board of Directors, with more time being allocated for discussion of matters concerning corporate value enhancement over the medium to long term, such as business portfolio management, and the initiation of measures to improve how Board meetings are held, with the adoption of a dual subcommittee structure for discussion of important issues. The overall evaluation was that, although there is still room for continued discussion and improvement,

steady improvement had been made. However, some respondents noted that there was a need to enhance the quality of discussion regarding management plan progress status and regarding operational performance, and a need to expand discussion of important matters such as M&A projects.

The number of members on the Board of Directors, the composition of the Board, the frequency at which the Board meets, the support system for the Board, etc. were positively evaluated overall. We understand that we have secured the effectiveness of our Board of Directors as a whole. Based on these results, we intend to continue our efforts to activate the Board of Directors and to enhance its supervisory function, among other things.

Attendance rates for Board of Directors meetings (FY2022)

Name	Position held	Attendance / Meetings held Attendance rate
Yukihiko Nishimura	Representative Director, President	18 out of 18 meetings (100%)
Mitsushige Yasuda	Director	17 out of 18 meetings (94%)
Tsukasa Igari	Director	13 out of 13 meetings (100%)
Kenichi Dohi	Outside Director	18 out of 18 meetings (100%)
Kazuyuki Nakamura	Outside Director	17 out of 18 meetings (94%)
Yukiko Yoshimaru	Outside Director	18 out of 18 meetings (100%)
Takako Fujiki	Outside Director	17 out of 18 meetings (94%)
Masaya Ono	Full-time Audit & Supervisory Board Member	18 out of 18 meetings (100%)
Masuji Ueda	Outside Audit & Supervisory Board Member	17 out of 18 meetings (94%)

The Process for deciding on company officers' remuneration

Basic policy

The basic policy for the company's remuneration scheme for its directors is as follows: to increase their incentives to improve the company's performance and increase the company's corporate value over the medium to long term; to maintain a level of remuneration that allows the company to acquire and maintain excellent human resources; and to ensure the transparency and objectivity of remuneration for directors.

Specifically, remuneration for executive directors comprises base (fixed) remuneration, performance-based monetary remuneration, and performance-based stock remuneration. Performance-based monetary remuneration varies according to the extent to which single-year targets set by the company have been met.

Remuneration for outside directors consists only of base (fixed) remuneration. The combined total of the amounts paid to each director is kept within the

overall limit for directors' remuneration decided on at the Shareholders meeting. The amount of performance-based monetary remuneration and performance-based stock remuneration is decided on by the Board of Directors after deliberation and reporting by the Remuneration Committee, which was established as an advisory body for the Board of Directors, with a membership comprising the representative director and outside directors.

Remuneration for auditors consists only of base (fixed) remuneration. The combined total of the amounts paid to each auditor is kept within the overall limit for auditor remuneration decided on by the Audit & Supervisory Board through discussion by the auditors.

Policy on determining the amount of basic remuneration for each individual

The amount of basic remuneration (fixed remuneration) will be set according to the position and responsibilities of each Director, and will be paid monthly as a fixed monetary remuneration.

The remuneration level shall be set with reference to objective remuneration survey data from external specialized institutions, etc., taking into account the economic and social situation and the Company's business environment and business performance. Every year, the Board of Directors shall determine whether the level of remuneration for each position complies with the above basic policy.

Policy on determining how to calculate the details and amount or number of performance-linked monetary remuneration and performance-linked share-based remuneration

Performance-linked monetary remuneration is paid at a fixed time every year.

The degree of achievement of target values such as consolidated sales, consolidated operating profit, etc. are set as indicators, and the amount of such remuneration is calculated within a range of plus or minus 30% of the base amount based on the previous fiscal year's performance.

Performance-linked share-based remuneration is paid at the time of retirement as a reward linked to the achievement of performance targets and the improvement of corporate value over the medium to long term. It consists of a non-performance-linked portion and a performance-linked portion. The non-performance-linked portion will be set to approximately 30% of the total share-based remuneration.

The maximum amount of the performance-linked portion will be set to approximately 70% of the total share based remuneration. The degree of achievement of target values such as consolidated sales, consolidated operating profit, etc. are set as indicators, and the

amount of such remuneration is calculated within a range of 0% to 100% of the base amount based on the previous fiscal year's performance.

To determine the performance-linked monetary remuneration and the amount of performance-linked share based remuneration, etc., the Remuneration Committee, after a review, will submit its report and recommendations to the Board of Directors, who will make the determination in accordance with the contents of the report.

Policy on determining the ratio of the amounts of basic remuneration, performance-linked monetary remuneration, performance-linked share-based remuneration, etc. for individual Directors

The respective remuneration ratios for (i) basic remuneration (fixed remuneration), (ii) performance-linked monetary remuneration, and (iii) performance-linked share-based remuneration for each type of Executive Director shall be set to roughly 6 to 3 to 1, assuming maximum performance-linked monetary remuneration and performance-linked share-based remuneration, with the final determination made by the Board of Directors with reference to the objective remuneration survey data of external specialized institutions, etc.

Matters concerning the determination of the details of the remuneration, etc. of individual Directors

Based on the resolution of the Board of Directors, the Representative Director, President is entrusted with the authority to decide the specific details regarding the amount of remuneration for each individual. This authority consists of the authority to (i) determine the amount of basic remuneration (fixed remuneration) of each Director, and (ii) to formulate a draft plan for the evaluation of Executive Directors in terms of performance-linked monetary remuneration and performance-linked share-based remuneration.

In order to properly exercise this authority, the Representative Director and President who have been delegated above formulate a draft plan for the evaluation of Executive Directors in terms of performance-linked monetary remuneration and performance-linked share-based remuneration, the Board of Directors shall consult with the Remuneration Committee to obtain its report and recommendations and then determine the amount of performance-linked monetary remuneration and performance-linked share-based remuneration, etc. in accordance with the contents of the report and recommendations.

Compliance

Corporate ethics and compliance policy

Basic policy

The Daiwabo Group's basic policy is for the entire organization, including every individual manager and every individual employee, to comply with all legal requirements and internal rules, and fulfill the company's social responsibility by respecting corporate ethics and social norms.

Daiwabo Group Charter of Corporate Behavior

The Daiwabo Group Charter of Corporate Behavior embodies the Daiwabo Group's commitment to respecting human rights and complying with all laws and international rules, both within and outside Japan, and its commitment to fulfilling its social responsibility with social decency and high ethical standards, to contribute toward the sustainable development of society. All employees and all company officers are required to abide by the charter.

So that we can thoroughly disseminate the respect for the law and corporate ethics stipulated by the charter among all group employees and company officers, Daiwabo works to ensure familiarity with relevant laws, compiles internal rules and manuals, and strives to implement effective employee education.

Compliance promotion system and compliance education

Compliance promotion system

Daiwabo has established a Compliance Committee, chaired by the representative director, which promotes and oversees measures relating to compliance with legal requirements and to corporate ethics horizontally across the entire Daiwabo Group. Meetings of the Compliance Committee are held on a quarterly basis, and the committee works to stimulate and spread compliance awareness by maintaining and managing the group's compliance system, and overseeing the provision of compliance education for all employees.

Compliance education

We plan to have all employees of the Daiwabo Group in Japan participate in compliance education once a year, in which the compliance issues in the industry and those that have emerged within the group are shared with all employees as case studies. By gradually making

improvements, we are aiming to expand the content of our compliance education.

Internal whistleblowing and consultation system

Internal whistleblowing response system

To prevent in advance, discover at an early stage, and respond effectively to compliance violations in our business activities, we have established an internal whistleblowing system within the Daiwabo Group. If a violation of laws or ethics, or actions which it is feared may involve a violation of laws or ethics, are discovered, then the reporting party can submit a report or a request for consultation, either anonymously or giving their real name, whichever they prefer. Besides the internal contact point for receiving reports and requests for consultation, there is also an external contact point, and reports and requests for consultation can be submitted by e-mail, telephone, or letter, making the system as user-friendly as possible. When a report or request for consultation is received, the secretariat of the Compliance Committee plays a central role in liaising with other relevant departments, and works speedily to investigate and confirm, as far as possible, the facts of the case and the relevant laws and rules. Based on this, a determination is made as to whether a compliance violation has occurred, and where necessary measures are taken in response to remedy the situation and/or prevent recurrence. In such cases, besides safeguarding the anonymity and privacy of the reporting party, any retaliatory action is strictly prohibited, and measures are taken to ensure that the reporting party does not suffer any adverse treatment due to submitting the report. The reporting party receives feedback as appropriate regarding the subsequent confirmation and investigation of the case, and the final outcome.

Risk management

Basic approach

Basic policy for risk management

The Daiwabo Group has a low level of dependency on specific business partners, products, technologies, and regulations, and enjoys relatively stable operational performance. However, the industry that we belong to has been experiencing significant change in terms of technology, and thus there is a possibility that the emergence of new products or services may lead to structure change in the industry, which could cause change in demand for existing products and services and might also affect the group's sales and profitability. To be ready to adapt to such change, we are constantly listening to customer feedback and monitoring new trends in technology development, putting in place the framework needed for the group as a whole to respond promptly to customers' needs. We have also established a system whereby we implement risk identification, assessment, and management. If a particularly major risk emerges, or if there are indications that such a risk may emerge, we set up a response headquarters, activate our crisis management system, implement preventive measures or crisis response measures as appropriate, and monitor how the situation develops.

Risk management system

We aim to implement appropriate risk management by adopting a wide-ranging perspective that covers the whole Daiwabo Group, putting enterprise-wide risk management in place, and verifying and evaluating implementation status. We utilize high-precision methods to verify and assess risk management across

the whole group, and make proposals for improvement where necessary.

We have developed the Risk Management Rules and classify risks into three categories—management risk, operational risk, and environmental, safety & quality risk. In this way, we intend to enhance the management functions through the sharing of, understanding of, and methods for management of, common risks between units. In addition, by developing these rules in order to be ready if a risk becomes actualized, we will strive to minimize the impact of, and prevent the recurrence of, any significant loss.

To control and promote across the group these efforts for risk management within the group, we will establish a Risk Management Committee chaired by the representative director. By having the committee promptly determine policies for dealing with various risks that have newly arisen, we will implement risk reduction activities to ensure the effectiveness of our risk management systems.

Major risks

Each department identifies anticipated potential risks, and implements risk evaluation. The organization as a whole is categorized by system, and we work to strengthen management functions.

We recognize the following categories of risk as being particularly important: the risk that the reputation of the group may be negatively impacted by failure to disclose management-related information in a timely and appropriate manner; the risk that misconduct may occur due to inadequate internal controls; and the risk that the reputation of the group may be negatively impacted by delay in responding to climate change.

Risk management system



Governance

List of risks relating to business operations

Major risks	Summary
(1) Risks relating to products	
IT Infrastructure Distribution Business	<ul style="list-style-type: none"> • Slackened growth for PCs, which are the main products in the business, due to increasingly high adoption rates • Negative impact on performance due to price competition and competitors in the market • Inventory disposal incurring loss, due to procured products remaining unsold • Impact on sales due to global shortage of parts, supply shortfalls, or significant problems affecting major manufacturers
Fiber Business	<ul style="list-style-type: none"> • Inventory risk due to delivery delays or changes resulting from seasonal factors • Intensifying price competition, rising costs, etc. causing a decline in the profitability of individual companies in the Fiber Business, possibly leading to an impairment loss and affecting performance
Industrial Machinery Business	<ul style="list-style-type: none"> • Weak demand due to reduced capital expenditure and personal consumption during an economic downturn leading to a reduction in order volume, causing the business's performance to worsen (as this business is particularly vulnerable to the impact of changes in the business climate)
(2) Risks relating to production activities and R&D	<ul style="list-style-type: none"> • Unexpected incidents relating to capital investment, production engineering or R&D which may have a negative impact on business performance ⇒ Countermeasures: <ul style="list-style-type: none"> • Following the risk management manual, and striving to prevent, in advance, any injury to consumer lives, health or property caused by product defects • Setting up a response headquarters and activate our crisis management system in the event of a serious negative impact resulting from an unexpected incident
(3) Risks relating to the external environment	<ul style="list-style-type: none"> • Various impacts from the external environment, such as rising raw material or fuel prices, interest rate fluctuations, changes in the legal or economic environment, or natural disasters, that may lead to increased costs, loss of sales opportunities, production delays, or extraordinary loss ⇒ Countermeasures: <ul style="list-style-type: none"> • Implementation of risk identification, assessment, and management • Putting in place of an emergency response system in case a particularly major risk emerges, or in case there are indications that such a risk may emerge
(4) Risks relating to intellectual property rights	<ul style="list-style-type: none"> • Negative impact on profitability or business feasibility due to violation of rights, including patent rights or other intellectual property rights, by another company or by our own company ⇒ Countermeasures: <ul style="list-style-type: none"> • Management by the intellectual property department of matters relating to litigation risk, and risk of having to pay damages, in relation to intellectual property rights

Major risks	Summary
(5) Risks relating to IT system problems and information security	<ul style="list-style-type: none"> • Threat to business continuity due to major impacts on the operating activities of individual businesses caused by a natural disaster, accident, unforeseen unauthorized access, or infection with a computer virus, that could lead to a communications network outage or the leaking of confidential information or personal information • Possibility of the group's finances or its operational performance, being negatively impacted, depending on the scale of the damage ⇒ Countermeasures: <ul style="list-style-type: none"> • Setting up a response headquarters as specified by the risk management manual, activating the crisis management system, and putting in place a system for implementing countermeasures in advance and for monitoring how the situation develops • Implementing periodic education for employees • Strengthening information security to combat cyberattacks and unauthorized access
(6) Risks relating to direct delivery	<ul style="list-style-type: none"> • Lack of clarity in transactions due to the difficulty in tracking goods caused by implementing direct delivery from the supplier in the IT Infrastructure Distribution Business in order to reduce the environmental footprint of delivery, shorten lead times and cut costs ⇒ Countermeasures: <ul style="list-style-type: none"> • Clarifying the role played by our company and its business partners in the business flow, and determining the economic appropriateness of transactions individually to ensure that only appropriate transactions are carried out

Information security

Daiwabo Holdings is deeply aware of the importance of information security. In order to implement necessary measures to safeguard information on an ongoing basis, and to prevent any unforeseen circumstances from developing in relation to information assets, we have formulated the information-security basic policy.

Defending against cyberattacks

The Information Security Promotion Organization plays a central role in cyber-security measures, working to collect and analyze data relating to potential vulnerabilities.

Combining entrance controls that prevent unauthorized intrusions with exit controls to prevent data leaks, we are constantly working to strengthen our security measures and systems. More specifically, we have formulated an information security policy, and we are implementing various system-related measures, including firewalls.

Information-security basic policy

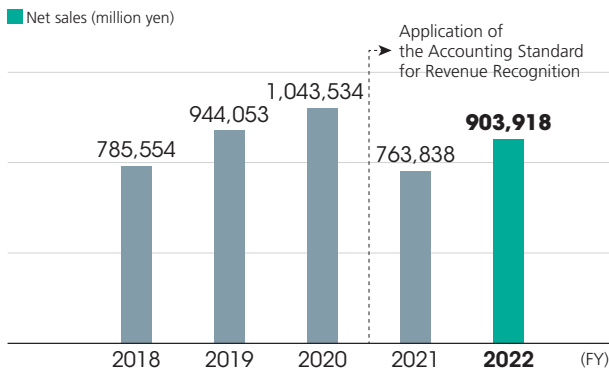
- (1) Recognizing our responsibility to society as a business enterprise, we will work to prevent data leaks, and we will strive to maintain the confidentiality of data assets, protecting them from being altered by unauthorized persons, so that not only our own companies but also other enterprises will not be affected.
- (2) We will strive to maintain the integrity of data assets, ensuring that only authorized persons can use them, so that the disappearance or falsification of data does not lead to mistaken decisions being made in enterprise management.
- (3) We will implement strategies to prevent system outages, whether caused by willful misconduct, gross negligence, or natural disaster, etc., and we will work to ensure the maximum possible availability of system assets when required for the operation of the company.
- (4) We will cultivate an internal culture and ethos that embodies a high level of awareness of information security.

Data summary

Financial and non-financial highlights

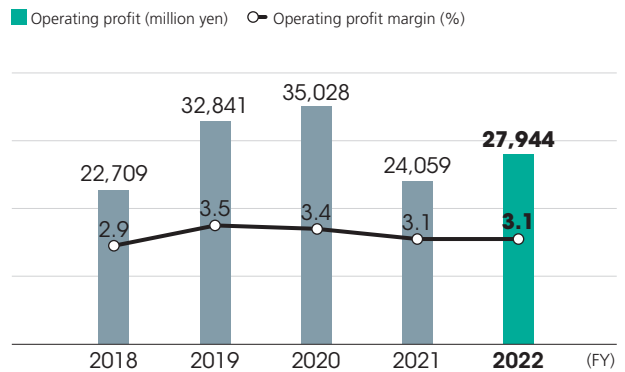
Fiscal years ended March 31

Net sales

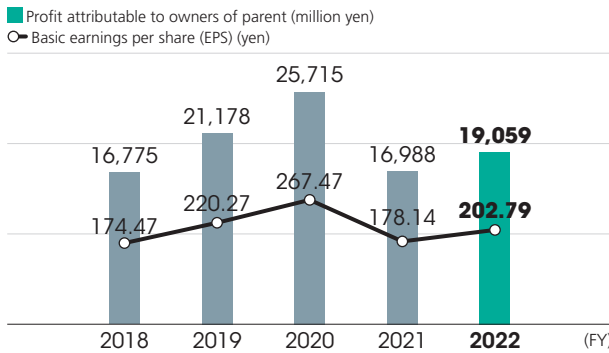


The Accounting Standard for Revenue Recognition has been applied since FY2021.

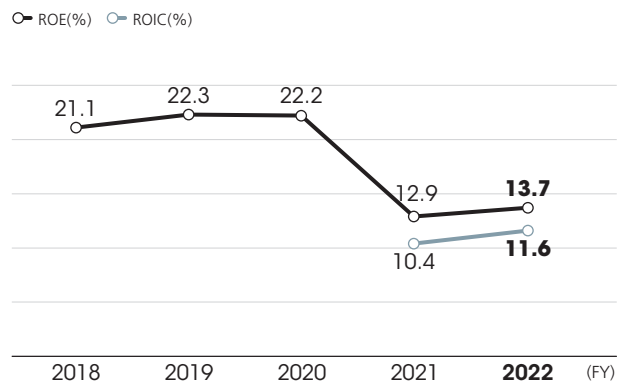
Operating profit / Operating profit margin



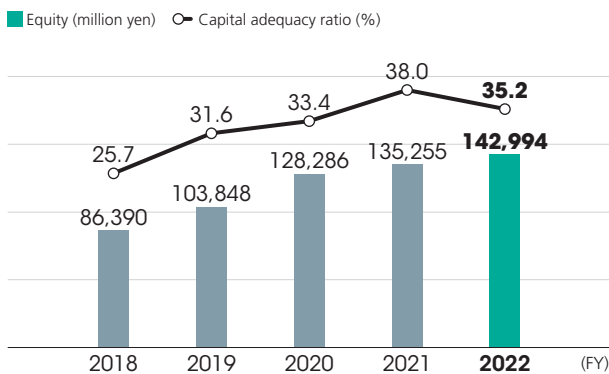
Profit attributable to owners of parent / Basic earnings per share (EPS)



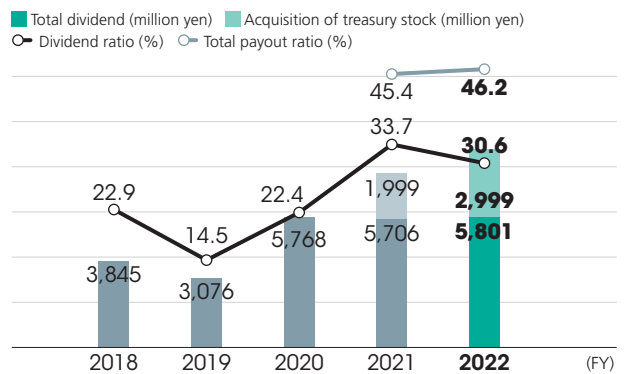
ROE / ROIC



Equity / Capital adequacy ratio

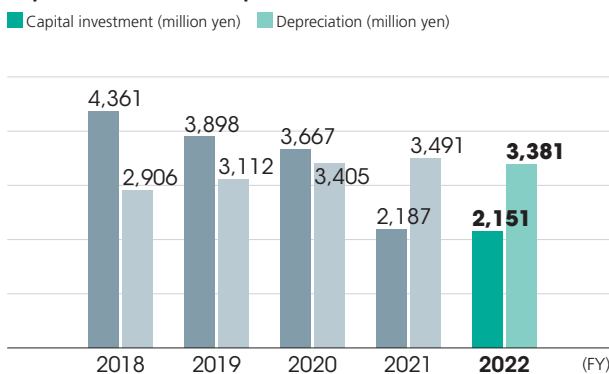


Total dividend / Acquisition of treasury stock / Dividend ratio / Total payout ratio

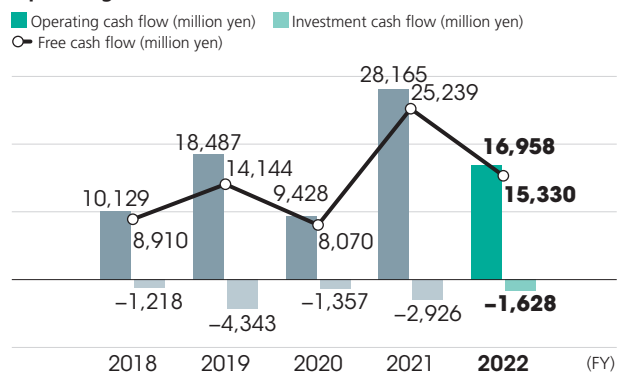


Dividend per share retroactively shows the stock split (April 1, 2021) for the past fiscal year.

Capital investment / Depreciation

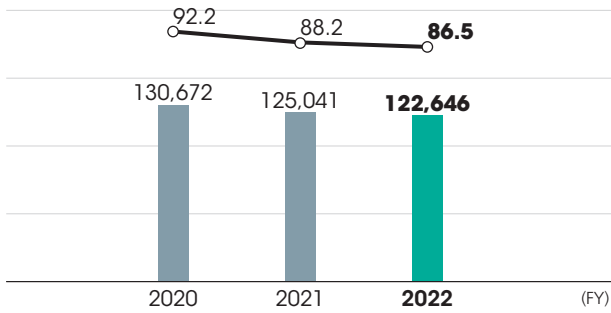


Operating cash flow / Investment cash flow / Free cash flow



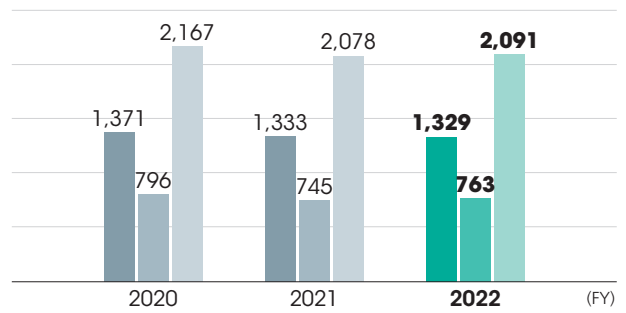
GHG (CO₂) emissions (domestic consolidated)

■ Total CO₂ Scope 1 and 2 Emissions (t-CO₂) ○ Compared to FY2013 (%)



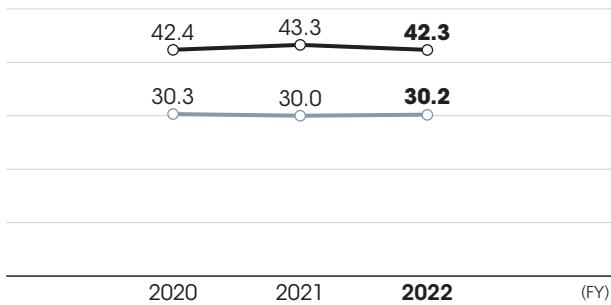
Energy consumption (domestic consolidated)

■ CO₂ Scope 1 (TJ) ■ CO₂ Scope 2 (TJ) ■ Total of CO₂ Scope 1 and 2 (TJ)



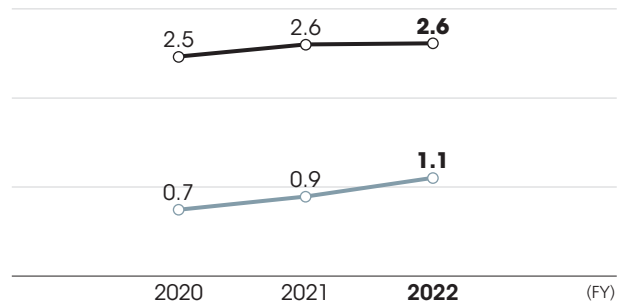
Percentage of female employees

○ Percentage of female employees (group consolidated)
○ Percentage of female employees (domestic consolidated)



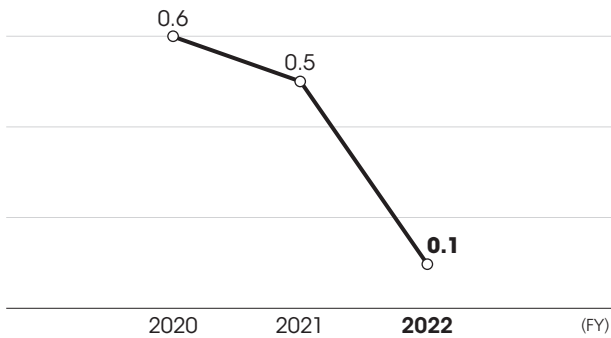
Percentage of women in managerial positions

○ Percentage of female managers (group consolidated)
○ Percentage of female managers (domestic consolidated)



Frequency rate of accidents resulting in lost work time (group consolidated)

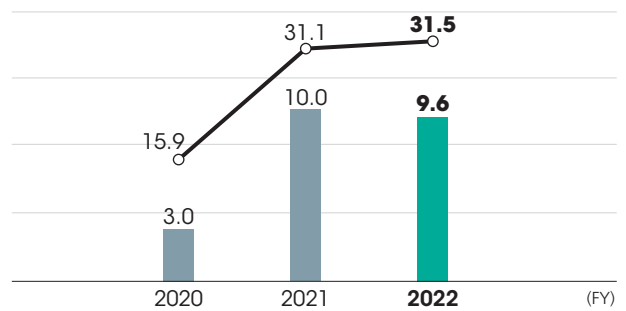
○ Frequency rate of accidents resulting in lost work time*



* Calculated as the number of casualties resulting from accidents resulting in lost work time per 1 million total hours worked

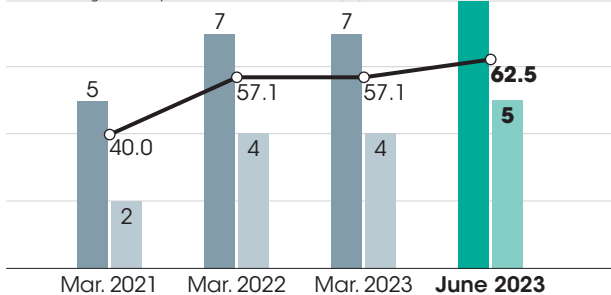
Annual training time and expenses per employee (domestic consolidated)

■ Annual training time per employee (hours)
○ Annual training expenses per employee (thousand yen)



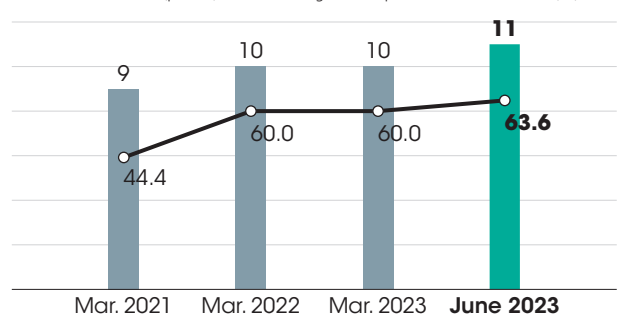
Number of directors / Proportion of independent outside directors (Daiwabo Holdings)

■ Number of directors (person) ■ Number of independent outside directors (person)
○ Percentage of independent outside directors (%)



Number of officers / Percentage of independent outside officers (Daiwabo Holdings)

■ Number of officers (person) ○ Percentage of independent outside officers (%)



Board of Directors

Directors



Yukihiro Nishimura
Representative Director,
President and
Chief Executive Officer

- Apr. 1985 Joined DAIWABO INFORMATION SYSTEM CO., LTD.
- June 2006 Director of DAIWABO INFORMATION SYSTEM CO., LTD.
- Apr. 2012 Managing Director of DAIWABO INFORMATION SYSTEM CO., LTD.
- June 2012 Executive Managing Officer of the Company
- June 2017 Director Executive Managing Officer and Representative of Group headquarters of the Company
- Director, DAIWABO INFORMATION SYSTEM CO., LTD.
- June 2018 Director Senior Executive Managing Officer of the Company
- Apr. 2020 Representative Director, President of the Company (present position)



Mitsushige Yasuda
Director

- Apr. 1988 Joined DAIWABO INFORMATION SYSTEM CO., LTD.
- June 2020 Director, General Manager of Administration Division of DAIWABO INFORMATION SYSTEM CO., LTD.
- Apr. 2021 Director, Representative of Administration Division of DAIWABO INFORMATION SYSTEM CO., LTD.
- June 2021 Director, Representative, Business Administration and General Manager, Human Resources and General Affairs Department (present position)



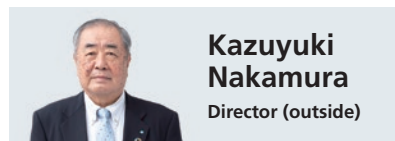
Tsukasa Igari
Director

- Nov. 1994 Joined DAIWABO INFORMATION SYSTEM CO., LTD.
- Apr. 2020 Chief Member, Financial Management Department of the Company
- Oct. 2020 General Manager, IR/PR Department of the Company
- June 2021 Deputy Representative, Corporate Strategy and General Manager, IR/PR Department of the Company
- Apr. 2022 Deputy Representative, Corporate Strategy and General Manager, Corporate Strategy Department of the Company
- June 2022 Director, Representative, Corporate Strategy and General Manager, Corporate Strategy of the Company (present position)



Kenichi Dohi
Director (outside)

- Apr. 1973 Joined Sumitomo Corporation
- Apr. 2004 Representative Director, President of Sumisho Textile Co., Ltd. (currently STX Co., Ltd.)
- Aug. 2007 Representative Director, President of SUMISHO MONTBLANC Co., Ltd.
- June 2016 Outside Director of the Company (present position)



Kazuyuki Nakamura
Director (outside)

- Apr. 1971 Joined Mitsubishi Electric Corporation
- Apr. 2006 Executive Officer of Mitsubishi Electric Corporation
- Apr. 2009 Representative Executive Officer, Senior Vice President of Mitsubishi Electric Corporation
- Apr. 2010 Representative Executive Officer, Executive Vice President of Mitsubishi Electric Corporation
- June 2018 Outside Director of the Company (present position)



Yukiko Yoshimaru
Director (outside)

- Apr. 1982 Joined Oki Electric Industry Co., Ltd.
- Apr. 1998 Director of Oki America Inc. and Head of the New York office of Oki Electric Industry Co., Ltd.
- Oct. 2004 General Manager, Diversity Development Office of Nissan Motor Co., Ltd.
- Apr. 2008 Joined Nifco Inc.
- June 2011 Managing Director of Nifco Inc.
- Apr. 2018 Outside Director of Sekisui House, Ltd. (present position)
- June 2019 Outside Director of Mitsui Chemicals, Inc. (present position)
- June 2021 Outside Director of the Company (present position)

Significant concurrent positions outside the Company
Outside Director of Sekisui House, Ltd.
Outside Director of Mitsui Chemicals, Inc.



Takako Fujiki
Director (outside)

- Nov. 1993 Joined Intel Japan K.K.
- Oct. 2005 General Manager, Business Planning and Business Operations Group of Intel Japan K.K.
- Jan. 2013 Executive Officer, General Manager, Global Sales Division of Intel Japan K.K.
- May 2019 Executive Officer, General Manager, Sales Division of Google Japan G.K. (present position)
- June 2021 Outside Director of the Company (present position)

Significant concurrent positions outside the Company
Executive Officer, Google Japan G.K.

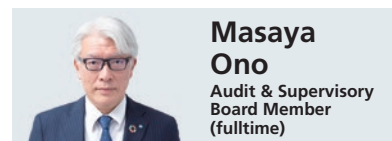


Tetsuro Hori
Director (outside)

- Apr. 1985 Joined Tokyo Electron Ltd.
- Apr. 2001 General Manager, Corporate Strategy Office of Tokyo Electron Ltd.
- June 2003 General Manager, Legal/Intellectual Property Department and General Manager, Corporate Strategy Office of Tokyo Electron Ltd.
- June 2013 Director, Vice President, General Manager, Legal/Intellectual Property of Tokyo Electron Ltd.
- June 2015 Director, Senior Vice President, General Manager, Corporate Administration Division of Tokyo Electron Ltd.
- June 2016 Representative Director, Executive Vice President, General Manager, Corporate Administration Division of Tokyo Electron Ltd.
- June 2017 Representative Director, CFO, Executive Vice President of Tokyo Electron Ltd.
- Apr. 2018 Director, Executive Vice President, Special Mission of Tokyo Electron Ltd.
- June 2019 Senior Vice President, General Manager, Business Innovation Project of Tokyo Electron Ltd.
- July 2022 Senior Advisor of Tokyo Electron Ltd. (present position)
- Dec. 2022 Head of Operations, Legal/IP Advisor, Value Quest Partners Co., Ltd. (present position)
- June 2023 Outside Director of the Company (present position)

Significant concurrent positions outside the Company
Senior Advisor of Tokyo Electron Ltd.
Head of Operations, Legal/IP Advisor, Value Quest Partners Co., Ltd.

Audit & Supervisory Board Members



Masaya Ono
Audit & Supervisory Board Member (fulltime)

- May 1990 Joined DAIWABO INFORMATION SYSTEM CO., LTD.
- Dec. 2015 General Manager, Internal Auditing Department of DAIWABO INFORMATION SYSTEM CO., LTD.
- Apr. 2019 General Manager, Audit Room of the Company
- June 2020 Fulltime Audit & Supervisory Board Member of the Company (present position)



Masuji Ueda
Audit & Supervisory Board Member (outside)

- Aug. 1985 Registered as Certified Public Accountant
- June 1999 Representative Partner of Mizuho Audit Corporation
- Dec. 2002 Established Ueda CPA Firm (current Meister CPA, A Professional Corp.)
- Nov. 2003 Registered as Certified Public Tax Accountant
- Feb. 2006 Representative Partner of ChuoAoyama Audit Corporation
- Aug. 2007 Representative Partner of Kasumigaseki Audit Corporation
- Oct. 2013 Partner of Grant Thornton Taiyo ASG LLC (current Grant Thornton Taiyo LLC)
- June 2015 Outside Audit & Supervisory Board Member of the Company (present position)
- Aug. 2015 Advisor of Grant Thornton Taiyo LLC
- Sep. 2016 Advisor of SCS Global Co., Ltd (present position)
Co-partner of Meister CPA, A Professional Corp. (present position)

Significant concurrent positions outside the Company
Certified public accountant and certified public tax accountant



Saeko Kakuishi
Audit & Supervisory Board Member (outside)

- Oct. 2011 Registered as an Attorney
- Nov. 2012 Joined Fujiki Shinsei Law Office (present position)
- Apr. 2019 Member, Sakai City Child Abuse Assistance Team (present position)
- Mar. 2021 Member, Otsu City Fairness Commission (present position)
- July 2021 Member, Sakai City Child Rearing Council (present position)
- June 2023 Outside Audit & Supervisory Board Member of the Company (present position)

Significant concurrent positions outside the Company
Attorney

Corporate profile

Corporate outline

(as of March 31, 2023)

Corporate name	Daiwabo Holdings Co., Ltd.
Head office	Nakanoshima Festival Tower West, 3-2-4, Nakanoshima, Kita-ku, Osaka, 530-0005, Japan
Date of establishment	April 1, 1941
Capital	JPY 21,696,744,900
Stocks	Tokyo Stock Exchange, Prime Market; Stock code 3107
Line of business	IT Infrastructure Distribution Business, Fiber Business, Industrial Machinery Business, other related business
Number of employees (consolidated)	5,432

Major consolidated subsidiaries

DAIWABO INFORMATION SYSTEM CO., LTD.
Daiwabo Co., Ltd.
O-M Ltd.

Stock information

(as of March 31, 2023)

Number of Shares Authorized	200,000,000 Shares
Total Number of Shares Issued	96,356,460 Shares
Number of Shareholders	9,927 Shareholders

The Company holds 2,776,170 shares of treasury stock.

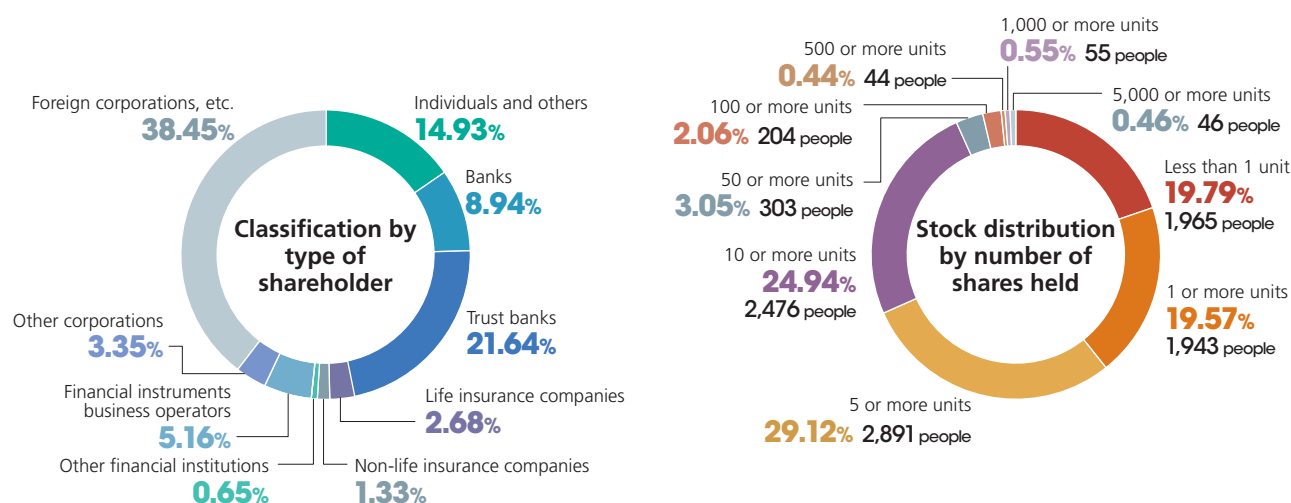
Major shareholders

(as of March 31, 2023)

Shareholder name	Number of shares held (Thousands)
The Master Trust Bank of Japan, Ltd. (trust account)	12,827
Custody Bank of Japan, Ltd. (trust account)	5,301
JP MORGAN CHASE BANK 385632	3,581
Daiwabo Employee Stock Ownership Plan	3,411
MUFG Bank, Ltd.	3,080
JP MORGAN CHASE BANK 380055	2,785
SSBTC CLIENT OMNIBUS ACCOUNT	2,267
3D OPPORTUNITY MASTER FUND	1,951
The Dai-ichi Life Insurance Company, Limited	1,700
The San-in Godo Bank, Ltd.	1,568

Stock distribution

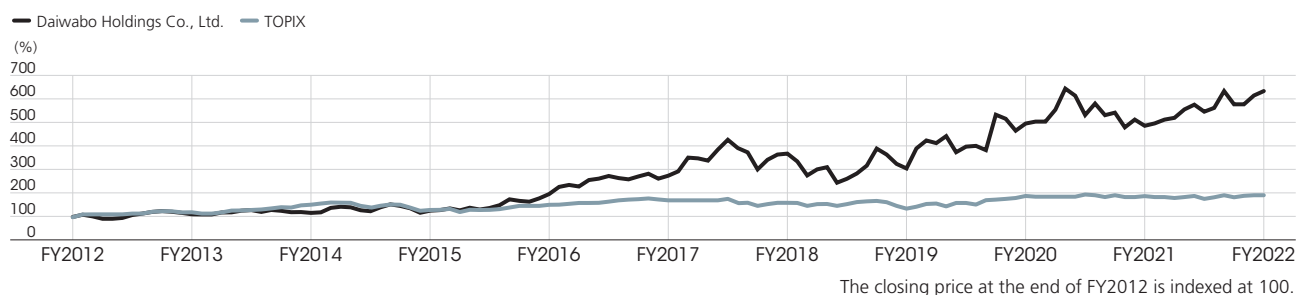
(as of March 31, 2023)



Stock index

Fiscal years ended March 31

(as of March 31, 2023)

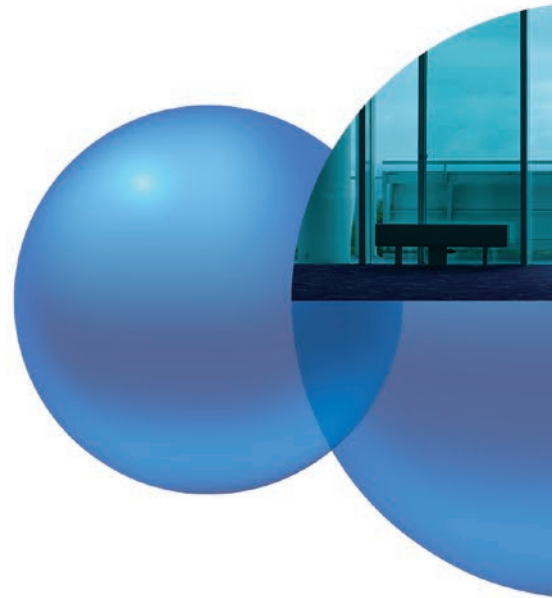


Change in dividend per share (annual)

(as of March 31, 2023)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Dividend (yen)	8	8	10	12	14	20	26	40	32	60	60	62

Stock consolidation (October 1, 2017) and stock split (April 1, 2021) are retroactively shown.



Daiwabo Holdings Co., Ltd.

Nakanoshima Festival Tower West, 3-2-4 Nakanoshima, Kita-ku, Osaka, 530-0005, Japan
<https://www.daiwabo-holdings.com/en/index.html>