



Takako Fujiki
Outside Director

Tetsuro Hori
Outside Director

Kenichi Dohi
Outside Director

Kazuyuki Nakamura
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.



Governance

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.

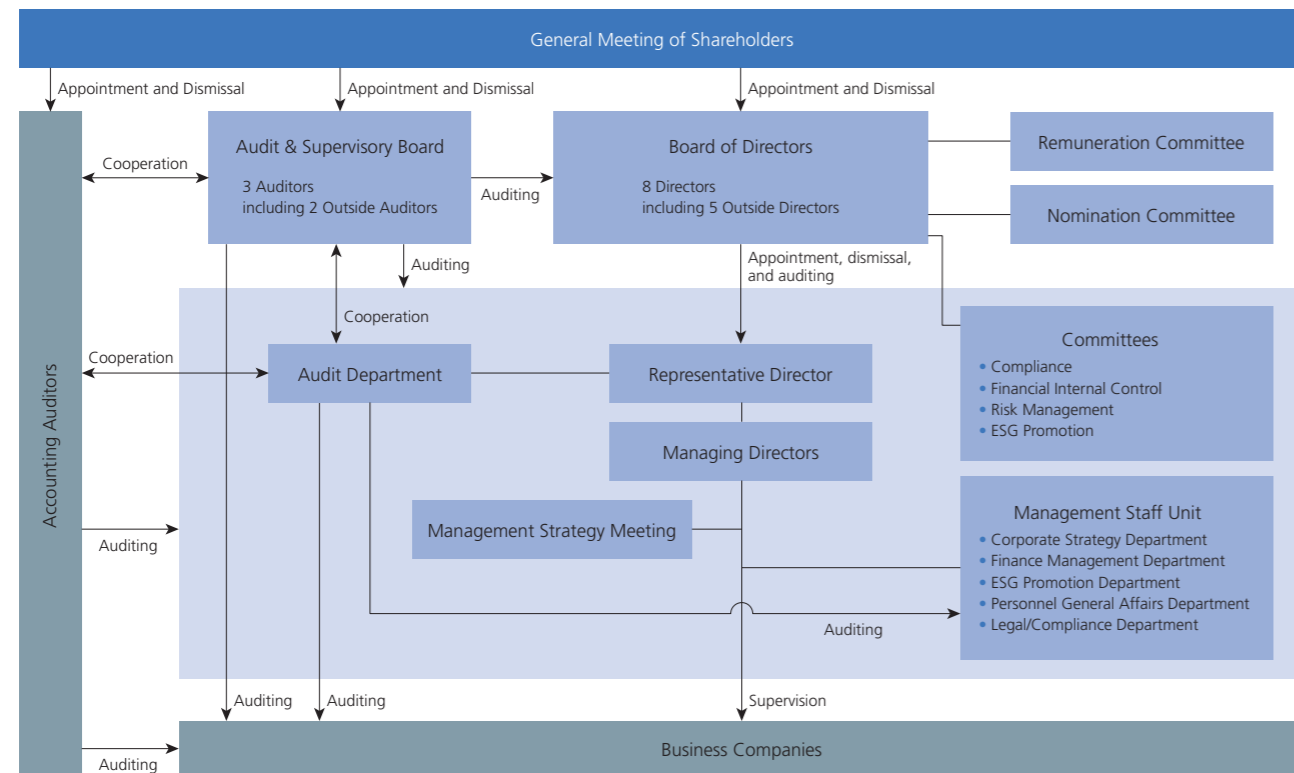
Our Board of Directors establishes business strategies, business plans, and other business policies, creates an environment where appropriate risk-taking by the management is supported, and carries out effective oversight of the management.

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
Yukihiro 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.

Governance

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

- 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.
- 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.
- 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.
- We will cultivate an internal culture and ethos that embodies a high level of awareness of information security.