

## Daiwabo Holdings Corporate Governance Guidelines

Established: July 1, 2017

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### Chapter I: Basic views on corporate governance of the Company

#### Basic policy (Principle 3-1)

Article 1 At the Company, we shall regard corporate governance as one of our highest management priorities. Our basic management policy is to strengthen the business management of Group companies and to improve the management efficiency of, and ensure thorough governance of, the entire Group by improving our audit system. We shall also ensure the transparency and soundness of our management through sufficient, appropriate and timely disclosure. In conducting business activities based on these basic policies, efforts shall be made to implement the matters stipulated in these Guidelines.

#### (Management Philosophy) (Basic Principle 2, Principles 2-1, 2-2, Supplementary Principle 2-2 (1))

Article 2 The Company shall establish the Daiwabo Group Management Principles and the Daiwabo Group Charter of Corporate Behavior, which express the Group's basic stance, *raison d'être*, and values.

##### 1. Group Management Philosophy

Through the synergy of creation, innovation, and integration, we create new value in the global market while putting customers first, and realize a future that will benefit human society and the global environment.

##### 2. The Group Charter of Corporate Behavior

Daiwabo Group officers and employees, regardless of being Japan or overseas, shall respect human rights, and comply with all laws and international rules, and act with social decency and a high sense of ethics based on the ten principles stated in the Daiwabo Group Charter of Corporate Behavior.

###### (1) Sustainable economic growth and resolution of social issues

(Contribution to the Resolution of Social Issues)

###### (2) Fair business practices

(Implementation of Legal Compliance Based on Self-Accountability)

###### (3) Fair information disclosure and constructive dialogue with stakeholders

(Timely and Appropriate Disclosure of Information and Constructive Dialogue)

###### (4) Respect for human rights and diversity

(Respect for human rights and diversity of all people)

###### (5) Relationship of trust with customers

(Gaining customer satisfaction and trust)

###### (6) Enhancement of the workplace environment

(Career development and skill development of human resources)

###### (7) Initiatives for environmental issues

(Business activities in consideration of the environment)

###### (8) Contribution to society

(Promotion of social contribution activities)

###### (9) Thorough crisis management

(Thorough organizational crisis management)

###### (10) Role of top management and thorough implementation of the Charter

(Organizational initiatives by top management)

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(Basic Management Policy and Management Plan) (Principle 5-2, Supplementary Principle 4-1 (2), 5-2 (1))

Article 3 In formulating the basic management policy and management plan, based on the Group Management Philosophy, we shall work to improve the efficiency of shareholders' equity by referring to indicators such as return on equity (ROE), return on invested capital (ROIC), and capital adequacy ratio as well as profitability.

(Sustainability) (Principle 2-3, Supplementary Principle 2-3 (1), 3-1 (3), 4-2 (2))

Article 4 We shall strive to contribute to the development of a sustainable economy and society by the creation of added value through fair competition and jobs. At the same time, we shall strive to provide environmentally friendly products and services by addressing environmental issues, conduct business activities, and appropriately disclose the status of our efforts.

(Diversity of Human Resources) (Principle 2-4, Supplementary Principle 2-4 (1), 3-1 (3), 4-2 (2))

Article 5 Recognizing that officers and employees are an important asset supporting corporate growth, we shall operate systems and measures that are not bound by nationality, gender, age, etc., based on "respect for human rights and diversity" and "enhancement of the workplace environment" as set forth in the Group Charter of Corporate Behavior.

## Chapter II: The Company's Approach to Capital Policy, Shareholders and Shareholders' Meetings

(Capital Policy) (Principle 1-3)

Article 6 We shall maintain the necessary level of shareholders' equity and pursue the optimal structure of investment and shareholder returns for the sustainable enhancement of corporate value, prioritizing providing continuous and stable dividends.

(Views on Cross-Shareholdings) (Principle 1-4 Supplementary Principle 1-4 (1), (2))

Article 7 Our cross-shareholdings are subject to our Board of Directors' determination that the shareholding will contribute to the maintenance and improvement of the corporate value of the Company's group over the medium to long term, after the Board's deliberation. This is done by taking comprehensively into consideration: the qualitative side of the purposes of the shareholding, such as securing, enhancing, or expanding a business relationship, or facilitating or stabilizing financing; and the quantitative side of purposes, such as dividends, profits from related transactions, and other related income, a comparison between return on investment and capital cost, investment risk, and the relevant company's growth potential.

Our Board of Directors shall regularly check our individual cross-shareholdings in terms of their purposes, economic rationality, etc., to review whether or not the shareholdings should be continued and the number of shares held. If it is determined that any shareholding will not lead to an increase in the corporate value of the Company over the medium to long term based on the determination criteria described above, the cross-shareholdings shall be reduced through sufficient dialogue with the other company.

As for our voting rights, we shall exercise them after fully investigating the reasons, purposes, etc. of all proposals that we deem to require careful consideration in order to increase both our corporate value and that of the company we invest in over the medium to long term, and after checking also from the viewpoint of corporate governance and our social responsibility.

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(General Meeting of Shareholders) (Principle 1-2, Supplementary Principle 1-1 (1), (2), 1-2 (1), (2), (3), (4), 3-1 (2))

Article 8 Recognizing that the General Meeting of Shareholders is a forum for constructive dialogue with shareholders, the Company shall develop the following environment to enable shareholders to properly exercise their rights at the General Meeting of Shareholders.

1. A notice of convocation shall be sent at least three weeks prior to the general meeting of shareholders in order to ensure sufficient time to be secured for considering proposals.
2. The contents of the notice of convocation shall be published electronically on the Tokyo Stock Exchange website and the Company's website prior to the date of dispatching the notice.
3. The Company shall establish an appropriate environment for the exercise of voting rights at the General Meeting of Shareholders through the introduction of an English translation of the notice of convocation and electronic exercise of voting rights via the Internet and the use of an electronic voting platform.
4. With respect to the votes against the Company's proposals at the General Meeting of Shareholders, the Company shall analyze the reasons against the proposals and examine whether or not the Company should take subsequent actions.

(Securing Rights of Shareholders) (Basic Principle 1, Principle 1-1, 1-5, 1-6, Supplementary Principle 1-1 (3), 1-5 (1))

Article 9 In the event that all shareholders, including minority shareholders, exercise their rights, the Company shall respond promptly, giving consideration to the equality of shareholders.

In implementing takeover defense measures, the Board of Directors shall make a resolution and submit it to the General Meeting of Shareholders for deliberation after examining the necessity and rationality of such measures from the viewpoint of contributing to the enhancement of the Company's corporate value and the common interests of shareholders.

If the Company's shares are put up for public offering, the Board of Directors shall promptly disclose its views on the matter by offering a time for consideration following legal procedures while respecting the rights of shareholders and not unduly preventing them from exercising their rights.

Regarding capital policies that affect the interests of shareholders, we shall examine the necessity and rationality of such policies so as not to harm the common interests of shareholders unduly, ensure the legality of the procedures and provide sufficient explanations to shareholders at shareholders' meetings. Taking into account the opinions of outside directors and outside *kansayaku* (corresponding to our Audit & Supervisory Board Members), the Board of Directors shall provide sufficient explanations to shareholders through prompt disclosure of information on the process of consideration and the purpose of implementation.

### Chapter III: Governance Structure of the Company

(Institutional Structure) (Basic Principle 4, Principle 4-6)

Article 10 The Company is a company with a Board of Directors and a company with an Audit & Supervisory Board.

Under the pure holding company system of group management, the Board of Directors shall engage exclusively in the "development of Group strategies," "optimal allocation of the Group's management resources," and "supervision of the execution of the Group's operations." Meanwhile, directors of Group companies shall assume the role and responsibility of executing operations based on the Group strategies. Through this system,

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we shall speed up management decision-making and strengthen supervisory functions, thereby working on the development of an efficient and agile management structure.

(Responsibilities of the Board of Directors) (Principle 4-1, 4-2, 4-3, Supplementary Principle 4-1 (1))

Article 11 The Board of Directors shall formulate business policies such as business strategies and business plans, create an environment that supports management in taking appropriate risks, and perform highly effective supervision.

(Composition of Board of Directors) (Principle 4-7, 4-8, Supplementary Principle 4-11 (1))

Article 12 The Board of Directors shall consist of persons who are well versed in the relevant businesses and have knowledge in management. The number of members on the Board shall be no more than 10, with no less than one-third of the members appointed being outside directors.

(Measures to Ensure the Effectiveness of the Board of Directors)

(Principle 4-11, 4-12, 4-13, Supplementary Principle 4-11 (2), (3), 4-12 (1), 4-13 (1), (2))

Article 13 The Company shall enhance the effectiveness of the Board of Directors by actively carrying out deliberations at its meetings through devising procedures such as the distribution of materials before meetings and obtaining useful advice from outside directors and outside *kansayaku*.

The Company shall hold meetings of the Board of Directors once a month, and by the end of the previous fiscal year, establish an annual schedule for the next fiscal year and notify each director and *kansayaku* to ensure that it is easy for them to attend the meetings.

With regard to matters to be presented to the Board of Directors, the information shall be provided prior to the meeting to secure time for prior preparation, such as confirmation of consent, by sending materials in advance, and opportunities shall be provided for outside directors and outside *kansayaku* to receive explanations in advance to the greatest extent possible

The Personnel General Affairs Department and the Audit Department shall cooperate with related departments to support the Board of Directors and *kansayaku*, respectively, so they can obtain the necessary information.

Directors shall receive advice from outside experts such as lawyers when deemed necessary.

Each year, the Board of Directors shall analyze and evaluate the management of the Company based on the self-evaluation of each Director.

If a director concurrently serves as an officer of another listed company, the Board of Directors shall need to approve and disclose the status of such concurrent duties.

(*Kansayaku* and Audit System) (Principle 4-4, Supplementary Principle 4-4 (1), 4-13 (3))

Article 14 The Audit & Supervisory Board, with more than half of its members being outside *kansayaku*, shall fulfill its responsibilities as *kansayaku* from an independent standpoint and strive to strengthen management oversight through close cooperation with outside directors, thereby enhancing corporate governance.

*Kansayaku* shall attend meetings of the Board of Directors and other meetings, receive reports on the status of business execution from officers and employees, and communicate and exchange information by requesting reports from officers and employees as necessary.

The Company shall select full-time *kansayaku* and establish a system that enables the constant exchange of opinions with directors. Full-time *kansayaku* shall attend important meetings such as Board of Directors meetings, express their opinions, and conduct highly effective audits.

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Outside *kansayaku* shall actively express their opinions at the Board of Directors meetings by drawing on their knowledge and experience.

Where necessary, a *kansayaku* shall order employees belonging to the Audit Department to assist the duties of the *kansayaku*.

(Evaluation and Appointment of External Auditors) (Principle 3-2, Supplementary Principle 3-2 (1))

Article 15 The Audit & Supervisory Board shall secure the audit schedule and ensure an audit system in cooperation with relevant departments in order to ensure proper audits performed by external auditors.

The Audit & Supervisory Board shall determine the appropriateness of the appointment of an external auditor after ascertaining the status of the execution of duties by external auditors through the status of the implementation of audits and audit reports, etc. Also, the Audit & Supervisory Board shall evaluate the external auditor based on separately specified standards and confirm the independence and expertise of the external auditor.

(Cooperation with External Auditors) (Supplementary Principle 3-2 (2))

Article 16 The Company shall take the following measures in relation to cooperation with external auditors.

1. The Company shall create an audit schedule after prior consultation with external auditors and secure sufficient time to audit.
2. The Company shall hold regular meetings between external auditors and senior management, including the representative director.
3. The Company shall ensure cooperation between the external auditors and Audit & Supervisory Board Members, the Internal Audit Department and Outside Directors.
4. In order to provide feedback on the information required by external auditors, the Full-time *kansayaku* shall cooperate with the Internal Audit Department to exchange necessary information and confirm the status of business execution as needed.
5. The Board of Directors and the Audit & Supervisory Board shall investigate matters pointed out by the External Auditors in cooperation with the Internal Audit Department and related divisions, mainly by the Director in charge and the Full-time *kansayaku*, and establish a system to implement necessary corrections.

(Appointment and Dismissal of Directors and *Kansayaku*) (Principle 3-1 Supplementary Principle 4-3 (1), 4-10 (1), 4-11 (1))

Article 17 Our policy for directors is to appoint them from candidates who accept management responsibility entrusted by shareholders, have extensive experience and knowledge in management, and are capable of fulfilling the duties and responsibilities of directors. Our policy for appointing *kansayaku* is to appoint them from candidates who have extensive knowledge and advanced expertise and are capable of fulfilling the duties and responsibilities of *kansayaku*.

Pursuant to these policies, when we nominate director candidates or appoint or dismiss our president, who serves as the chief executive officer, and other members of the management team, we shall prepare an original proposal by taking into consideration the knowledge, experience, and abilities required of Directors. We shall do this in light of the management strategy based on a continuous evaluation of the candidates' past performance records, knowledge, qualifications, etc. Also, the Nomination Committee, which consists of the Representative Director and outside directors and the Board of Directors established as its advisory body, shall carry out deliberation, followed by submission to and a decision by the Board of Directors. When we nominate candidates for *kansayaku* or dismiss

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*kansayaku*, we shall not only conduct examinations as with director candidates but also take fully into consideration opinions expressed during discussions with the Audit & Supervisory Board and, upon the consent of the Audit & Supervisory Board, the Nomination Committee shall carry out deliberation, followed by submission to and a decision by the Board of Directors.

In addition, if a director or *kansayaku* violates any law or regulation or our Articles of Incorporation or if any other event arises where it is considered difficult for a director or *kansayaku* to perform their duties appropriately, we shall decide on their dismissal from their post or on any other action or on the submission of a proposal for their dismissal to the General Meeting of Shareholders after the Nomination Committee carries out deliberation, followed by submission to and a decision by the Board of Directors.

Reasons for the nomination of all candidates for Directors and *kansayaku* shall be disclosed in the Reference Materials for the Notice of the General Meeting of Shareholders.

(Independence Standards for Independent Officers) (Principle 4-9)

Article 18 The Company's basic requirements for appointing independent officers are: they have an excellent personality and knowledge; they are expected to fulfill such functions and roles as conducting objective and appropriate supervision and audit from a professional perspective; and they are unlikely to cause conflicts of interest with general shareholders.

The independence criteria established by the Company shall be as follows, based on the "Criteria for judging the existence of a risk of conflict of interest with general shareholders" established by the Tokyo Stock Exchange.

Independence Criteria

1. A person who has not served as a director (excluding an outside director), *kansayaku* (excluding an outside *kansayaku*), executive officer, or any other important employee of the Company and its subsidiary or affiliates (hereinafter referred to as the "Company Group") in the past or at present.
2. A person who is not a major shareholder of the Company (a person who directly or indirectly holds 10% or more of the total voting rights) or an executive thereof.
3. A person who is not an executive of an entity that the Company Group is a major shareholder of.
4. The person who is not a person whose amount of transactions with the Company Group exceeds 2% of the Company's consolidated net sales or an executive thereof.
5. A person who is not a consultant or an accounting and legal specialist who receives remuneration of 10 million yen or more from the Company Group other than executive remuneration.
6. A person who is not a recipient of donations from the Company Group in excess of 2% of the Company's consolidated net sales or an executive thereof.

(Supervision of Representative Director's Successor) (Supplementary Principle 4-1 (3), 4-3 (2), 4-3 (3))

Article 19 With regard to the development of successors for the post of the representative director or any other CEO, to increase these successors' knowledge and experience and improve their abilities by having them involved in the Company Group's business decisions in their capacity as executive directors, non-executive directors, directors with special titles or directors of Group companies, the Board of Directors shall supervise whether the process of their development is managed appropriately, reasonably and fairly.

(Method of Determining Remuneration for Directors and *Kansayaku*) (Principle 3-1, Supplementary Principle 4-2 (1), 4-10 (1))

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Article 20 Remuneration for Directors shall consist of base (fixed) remuneration, performance-based monetary remuneration, and performance-based stock remuneration. The performance-based monetary remuneration shall vary within the range of plus or minus 30% of the base amount in accordance with the degree of achievement, etc. of the single-year target set by the Company.

Performance-based stock remuneration shall be paid in the form of stocks upon retirement as compensation linked to the achievement of performance targets and the enhancement of corporate value over the medium to long term. The compensation shall consist of the non-performance-based portion and the performance-based portion, and the non-performance-based portion shall be set at approximately 30% of the total amount of stock-based remuneration. For the performance-based portion, the maximum amount shall be set at approximately 70% of the total amount of stock-based remuneration. Indices shall be set for the amount of remuneration, including the level of achievement against target values for consolidated sales, consolidated operating profit, etc. The amount of remuneration shall be varied depending on the performance of the previous fiscal year and shall range between 0% and 100%.

In addition, remuneration for Outside Directors shall be limited to base (fixed) remuneration. The amount to be paid to each Director shall be within the limit of the total amount determined at the General Meeting of Shareholders. Performance-based monetary remuneration and performance-based stock remuneration shall be determined by the Board of Directors after deliberation and submission of reports by the Remuneration Committee, which is composed of the Representative Directors and the outside directors and is established by the Board of Directors as its advisory body.

Remuneration for *kansayaku* shall consist only of base (fixed) remuneration, and the amount to be paid to each *kansayaku* shall be determined by the Audit & Supervisory Board through consultation among *kansayaku* within the limit of the total amount determined at the General Meeting of Shareholders.

(Training for Directors and *Kansayaku*) (Principle 4-14, Supplementary Principle 4-14 (1), (2))

Article 21 When new directors and *kansayaku* assume their positions, we shall provide them with opportunities to participate in internal and external training programs intended for them to acquire the knowledge necessary to appropriately fulfill their roles and responsibilities.

To our outside directors and outside *kansayaku*, we shall continuously provide company information such as the details of the Company Group's businesses and our Group's business issues, etc.

Similarly, after our directors and *kansayaku* have assumed their positions, we shall continuously provide them with, among other things, information to help them to appropriately fulfill the respective roles and responsibilities expected of them. We also shall provide them with opportunities to attend meetings, inspect business offices, and do other activities that allow them to acquire the necessary knowledge or to otherwise receive training.

(Utilization of Outside Officers) (Principle 4-8, 4-10, Supplementary Principle 4-8 (1), (2))

Article 22 As an opportunity to provide corporate information relating to the management issues of the Company Group, exchange opinions, and obtain appropriate advice, the Company shall quarterly hold approximately one regular meeting between outside directors and outside *kansayaku* and senior management, including representative directors.

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#### Chapter IV: Compliance

(Internal Control) (Principle 2-5, Supplementary Principle 2-5 (1), 4-3 (4))

Article 23 Pursuant to the Companies Act, the Company shall formulate and implement the "Basic Policy for Establishing an Internal Control System" as a system to ensure appropriate operations of the Company and the company group consisting of the Company and its subsidiaries ("Internal Control")

The Company Group shall establish a whistle-blowing system to enable officers and employees to report information and serious suspicions about illegal or inappropriate acts and information disclosure without worrying about the risk of putting themselves in a disadvantageous position. The Company Group shall also put in place a mechanism to more effectively implement the system and appropriately utilize the reported information and suspicions.

(Related Party Transactions) (Principle 1-7)

Article 24 When the Company engages in related party transactions, such as with its directors or with corporations substantially controlled by its directors, the Board of Directors shall secure the soundness and appropriateness of the transactions by informing the Company's directors of the fact that the transactions are related party transactions and conducting careful deliberation and by seeking advice from outside directors and the Audit & Supervisory Board. This is done to ensure that such transactions do not harm our interests or the common interests of our shareholders.

#### Chapter V: Disclosure and Engagement with Shareholders

(Information Disclosure Policy) (Basic Principle 3, Principle 3-1, Supplementary Principle 3-1 (1), (2), (3))

Article 25 In order to build long-term relationships of trust with stakeholders (consumers, customers, employees, shareholders, business partners, communities, government agencies, etc.), the Company shall disclose information deemed useful, as well as information disclosed in accordance with laws and regulations, to stakeholders in a timely and appropriate manner.

(Approach to Engagement) (Basic Principle 5, Principle 5-1, Supplementary Principle 5-1 (1), (2), (3))

Article 26 The Company shall engage in IR activities with the aim of building a relationship of trust by enhancing constructive dialogue with shareholders and contributing to the sustainable growth of the Company and the enhancement of corporate value.

#### Chapter VI: Other

(Establishment, Revision or Abolition of the Guidelines)

Article 27 The establishment, revision and abolition of these Guidelines shall be made by resolution of the Board of Directors.