

G Governance

Basic Approach

In pursuit of optimal corporate governance that will result in sustainable improvements in our corporate value

Under the group corporate philosophy, the Daiken Group is committed to sustainable improvements in corporate value for all shareholders and stakeholders. In order to achieve efficient, sound, and transparent management, we enrich a management system, an organizational system, and an internal control system, and take the basic approach that always seeks to optimize corporate governance, and we constantly work to improve it. Based on the basic policy on corporate governance established in 2015, we are making constant improvements to respond to the ever-changing business environment surrounding the group in the ceaseless pursuit of the optimal corporate governance system.

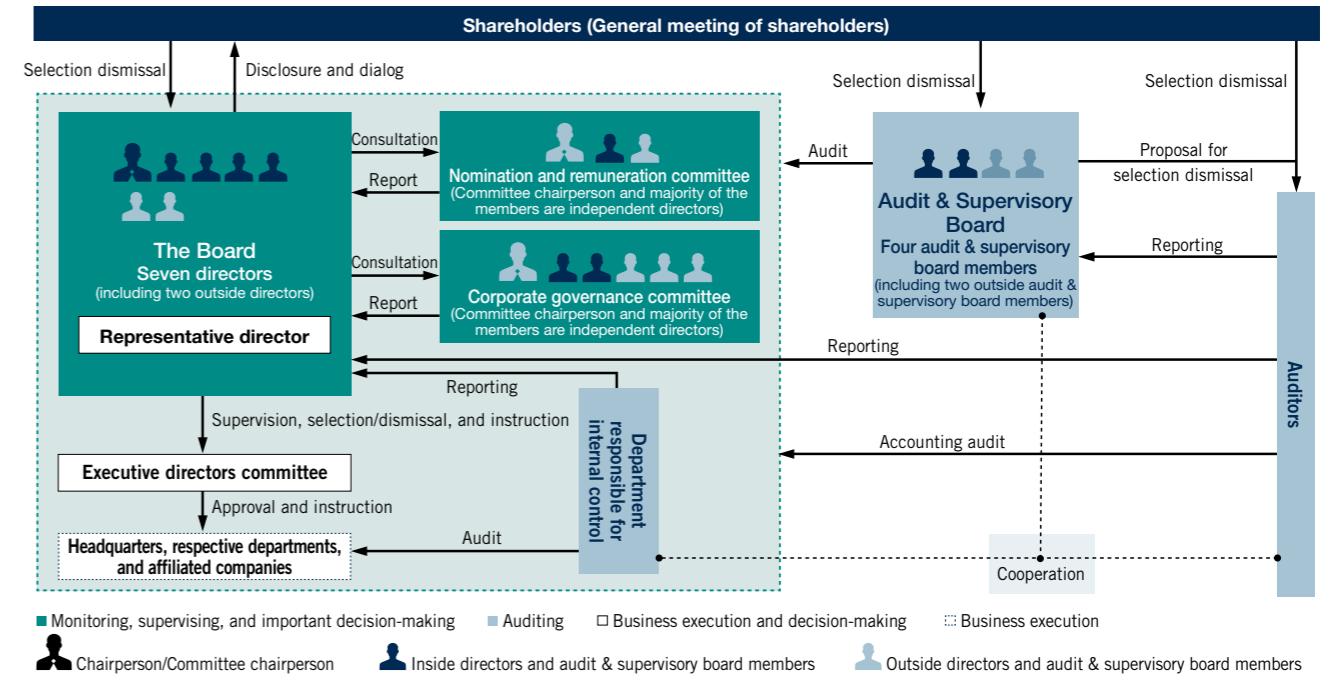
Key Initiatives for the Reinforcement of Corporate Governance

2002	Made the shift to the chief executive officer system.	2015	Outside directors increased from one to two. The Basic Policy on Corporate Governance was established. The Nomination and Remuneration Committee and the Corporate Governance Committee were established.
2003	The Compliance Committee was established.	2016	The effectiveness evaluation of the Board was started.
2008	Reorganized to the Risk & Compliance Management Committee for reinforcement.	2018	A female outside audit & supervisory board member was selected. Introduction of the transfer restricted stock-based compensation system.
2010	Reduced the number of directors from 11 to 9.	2019	Reduced the number of directors from 9 to 7.
2011	Outside directors are selected.		
2012	The term for the directors was reduced from two years to one year.		

Quick Reference of Corporate Governance Organization

Main items	Details
Design of the organization	Company with Board of company audit & supervisory board members
Number of Directors (outside directors)	7 (2)
Number of audit & supervisory board members (outside audit & supervisory board members)	4 (2)
Number of the Board convened (fiscal 2019)	15 times
(Average attendance rate of outside directors)	(100%)
(Average attendance rate of outside audit & supervisory board members)	(97%)
Number of audit & supervisory board convened (fiscal 2019)	14 times
(Average attendance rate of outside audit & supervisory board members)	(100%)
The term for directors	1 year
The executive officer system	Adopted
Voluntary committee of the Board	<ul style="list-style-type: none"> Nomination and remuneration committee: Deliberate on human affairs and the remuneration of directors and executive officers Number of the committee convened in fiscal 2019: 4 times Corporate governance committee: Evaluate the effectiveness of the Board and deliberate the matters related to establishment of the governance system Number of the committee convened in fiscal 2019: 3 times
Auditors	Gyosei & Co.

Corporate Governance Framework



Outside Directors and Audit & Supervisory Board Members

	Name	Reason for selection	Attendance			
			Fiscal 2018		Fiscal 2019	
			The Board	Audit & supervisory board	The Board	Audit & supervisory board
Outside director	Koji Mizuno	He actively provides advice and suggestions supported by the high expertise as a professor and contributes to securing appropriate decisions by the Board. Also, his affluent knowledge about corporate management is considered essential for the improvement of governance of the company.	12/12 (100%)	—	15/15 (100%)	—
	Kiyoshi Furube	He has been involved in the management of TOTO as a director for a long period of time and actively provides advice and suggestions based on his rich experience. Also, his affluent experience and wide range of knowledge about corporate management is considered to contribute to improving our corporate value. He is from TOTO, which is our client company, but the percentages of the transaction amounts with the said company in consolidated sales or purchase amount in the current fiscal year are less than 1% respectively.	8/9 (88%)	—	15/15 (100%)	—
Outside audit & supervisory board member	Masafumi Inoue	He is considered to use his high expertise as a professor, experience and wide range of knowledge as an examiner of the Cabinet Office and a research officer of the Ministry of Education, Culture, Sports, Science and Technology in the audits of our company.	12/12 (100%)	13/13 (100%)	14/15 (93%)	14/14 (100%)
	Yuko Katsuo	In addition to her high expertise as a professor in the Department of Economics, she held several positions as a committee member in the Ministry of Finance, Financial Services Agency, etc. and is considered to reflect her affluent knowledge on finance and accounting cultivated through such experiences into the audits of our company.	—	—	12/12 (100%)	10/10 (100%)

* All outside directors and audit & supervisory board members have no conflicts of interest with our general shareholders with regard to personal relationships, capital relationships, business relationships, and other interests with us, and they meet the Judgment Criteria for Independence as stipulated by Daiken.

The Effectiveness Evaluation of The Board

The past effectiveness evaluations of the Board and improvement responses for the issues

To increase the effectiveness of the Board and to improve corporate value, the Daiken Group has implemented the effectiveness evaluation of the Board once a year since March 2016, and three years have passed. The results of analyzing and evaluating the effectiveness of the Board in each period confirmed that each director and audit & supervisory board member are committed to presenting and deliberating their opinions actively while ensuring the independence with diverse perspectives and four independent outside directors. The Board maintains the effectiveness of important decision-making in management and supervision of business execution properly. On the other hand, regarding the issues that had been confirmed in each period in aiming for more effective Board operation, they have been continuously put effort into the improvement responses.

Fiscal year ended March 2016	Issues	Improvement responses
1	Regarding management strategies and various important policies, conduct more effective engagements in the PDCA process through the annual or interim evaluations and verifications.	To measure the degree of penetration of the group corporate philosophy established in April 2017, a survey on the degree of penetration was implemented in January 2018. After reporting the results to the Board in March 2018, issues for the penetration were confirmed and measures, such as the enhancement of the transmission, were executed.
2	Improve the provision of training opportunities for directors and audit & supervisory board members.	The Director Human Resource Development Program was set in June 2016 and training for new and incumbent directors was implemented. Nomination and remuneration committee is also involved in the selection of executive officers, and the personnel rotation for the development of the next generation has been implemented.
3	In order for the outside directors to be able to deepen their understanding on our businesses and sufficiently examine agendas beforehand, improve information provision.	Matters to deliberate in the management meeting are reported to outside directors in the regular debrief session by the Corporate Planning Department and the said matters are reported to outside audit & supervisory board member in the audit & supervisory board by the said department.
4	Improve feedbacks to the Board regarding information obtained from IR activities, CSR activities, etc.	To feed back the opinions obtained in dialogs with investors, the director responsible for IR has been continuously reporting IR activities in the Board (scheduled for once a quarter).

Fiscal year ended March 2017	Issues	Improvement responses
1	Evaluate the degree of penetration and progress of important issues in regard to the management strategies and various important policies, etc. in the Board.	Based on the survey on the degree of penetration implemented in January 2018, we started operating group corporate philosophy penetration program in August 2018 to improve the degree of penetration.
2	In deliberating important agendas, improve information provision to the outside directors in order for them to deepen their understanding on the effects, risks, and issues beforehand and further deepen discussions in the Board.	We have been improving the information provision to deepen discussions in regard to high-risk acquisition cases, such as conducting deliberations in the Board held several times, in addition to distribution of materials including deliberation results on the executive officer side and prior explanations.
3	Improve the support system in order for the directors and audit & supervisory board members to be able to actively collect information in and outside the company.	To secure sufficient verification time, we hold an office visit for the outside directors in order for them to deepen their understanding on business descriptions in addition to the distribution of the Board materials at least one week before and continuous implementation of the regular debrief session.

Fiscal year ended March 2018	Issues	Improvement responses
1	Enhance the Board's involvement particularly in the CA process (analyses, issue organization, and execution of countermeasures and improvement measures) in the PDCA process in the management strategies.	In the process to formulate the new medium-term management plan from fiscal 2020, we reported the results and issues of the previous medium-term management plan in the Board and deliberated from the draft stage the business and market strategies as well as the concept of the enhancement of the management foundation.
2	Review decision-making authority, delegate part of the matters to be resolved concerning decision-making to the executive officer side, and improve the Board's supervisory function.	To streamline the Board, the Board's rules have been revised, and the scope to be delegated to the executive officer side has partly been expanded in fiscal 2020.
3	For stakeholders including shareholders, improve the structure to promote a constructive dialog and transmit helpful information.	In creating the integrated report, the Board has been actively involved, such as implementing a questionnaire survey to the directors, individual meeting with outside directors, from the fiscal 2019 edition.

Results of the Board effectiveness evaluation in the fiscal year ended March 2019 and response to the future issues

The Board's effectiveness evaluation implemented in the fiscal year ended March 2019 confirmed that each director and audit & supervisory board member are committed to representing and deliberating their opinions actively while ensuring the fairness and transparency with diverse perspectives and four independent outside directors. The Board maintains the effectiveness of important decision-making in management and supervision of business execution properly. In particular, we improved prior information provision to outside directors, and important agendas were explained several times on the Board; therefore, we evaluated that sufficient discussions were made before making decisions. On the other hand, future issues to further enhance the effectiveness of the Board were confirmed, such as the need for further involvement in internal control and risk management in the entire group, including subsidiaries, and evaluation monitoring for information provision to stakeholders.

Future issues and response

- Enhance involvement, such as conducting specific verifications, by the Board in regard to internal control and risk management in the entire group including subsidiaries.
- To improve information transmission to stakeholders, such as shareholders, the Board will monitor the evaluations by the recipients of the information.
- To be effectively involved in the PDCA process for the management strategies, review report content, such as execution of operation, by the Board.



Message

Message from the outside director

By fulfilling supervisory function, build the effectiveness governance system and contribute to sustainable improvement in its corporate value.

Koji Mizuno

Chair, Corporate governance committee
Chair, Nomination and remuneration committee
Outside Director

1. Characteristics and effects of the effectiveness evaluation of the Board at the company

Over the past few years since 2015, when I took office as outside director, discussions by the Board of the company have become increasingly vigorous each year. I believe that this is primarily due to the effect of the effectiveness evaluation by the Board conducted in a self-evaluation method by the directors and audit & supervisory board members. Many opinions are freely stated in the effectiveness evaluation at the company, and all of the provided opinions are reviewed by the Board. Problems are recognized and improved in this process, and the PDCA cycle for operational improvement has started to proceed.

For example, when an important issue is to be deliberated, preparatory materials are distributed that contain the results of reviews by the executives so that understanding can be deepened in advance concerning the significance, effect, and risk of the managerial strategy. In addition, preliminary briefing sessions may be held in order to provide adequate information to outside directors and outside audit & supervisory board members. In this manner, I think that the company endeavors to promote discussions, rather than explanations, through deliberations at Board meetings. The frequent personal meetings with persons in charge also suggest the attitude of executives for accountability, which seems to be another effect of effectiveness evaluation.

In the fiscal year ending in March 2019, there was a large M&A project to purchase the North American wood industrial materials business. The final decision was made through discussions in repeated sessions by the Board, which concerned the positioning of global business in the company's future managerial strategies. In this project, they took time to carefully examine the conditions, including the adequacy of the purchase price, because the contract provided the transfer of stocks with ITOCHU Corporation as the company's largest stockholder.

2. Effectiveness evaluation and future requirements

The primary future requirement is the development of successors. The nomination and remuneration committee was engaged in the process, including the selection of executive officers, and allocated officers in an impartial manner by taking into account the next generation. This is expected to enable the establishment of a successor planning process, through the broadened horizon for successor development not only through training but also in practice.

Global expansion through M&A and other means is essential for growth strategies. Under these circumstances, we recognize that it is also important to bolster local internal control and risk management.

3. Expectations for initiatives in ESG and SDGs

In the new medium-term management plan that started in fiscal 2020, non-financial managerial targets were set for the first time. In particular, comprehensive indexes were specified concerning diversity items, including enhanced opportunities for female employees, as an effort for target management. I believe that this effort is worth evaluating as an attempt to improve corporate value through human resources.

I also expect that competitive product development will be accelerated in the contributions for ESG and SDGs, through R&D activities that are promoted through the opening of an R&D center. The value of ESG-related initiatives may be difficult to visualize but can be organized through reference to SDGs.

In this way, corporate value will be improved with the value created by the company becoming more visible to society and consumers.

I will continue to play my role by fulfilling my supervisory function in a balanced way from a broad perspective and thereby supporting the company's growth strategies and contributing to sustainable improvement in corporate value.

Executive Remuneration

Policy of Executive Remuneration

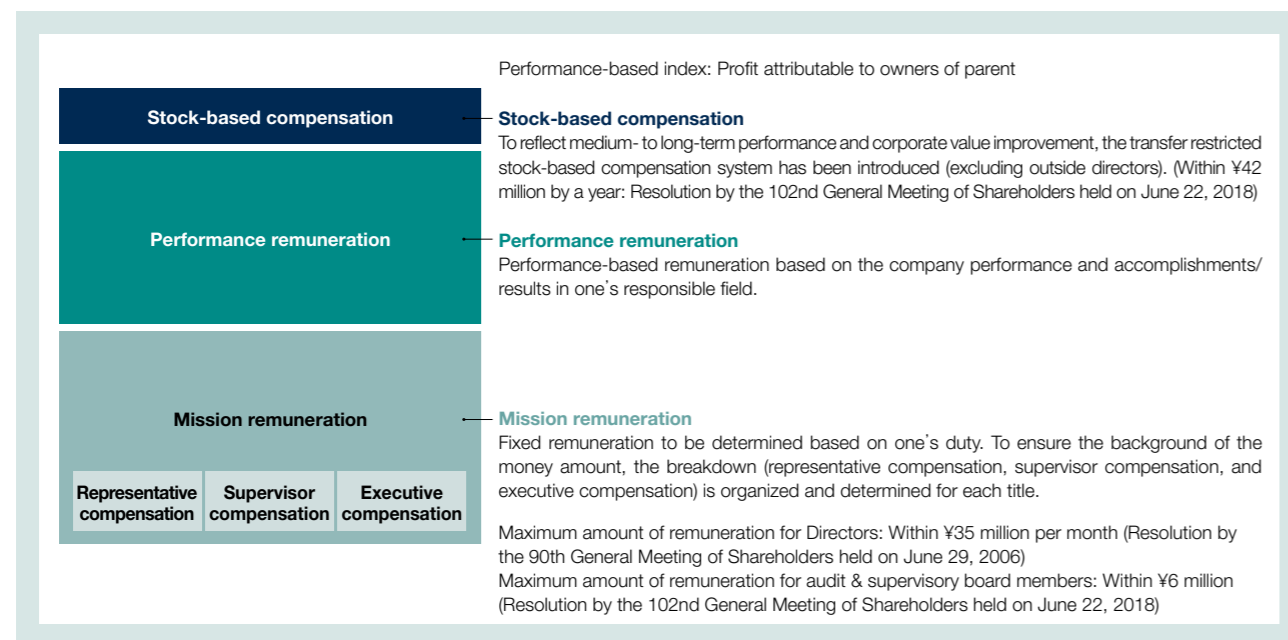
- 1 The remuneration system shall be based on the practice of the group corporate philosophy.
- 2 The remuneration system shall be designed reflecting the long vision GP25 and the medium-term management plan, prevent too great an emphasis on short-term inclinations, and motivate the improvement of medium- to long-term corporate value.
- 3 The standards and system of remuneration shall be effective enough to secure excellent human resources to whom we can entrust our future.
- 4 The procedure for determining remuneration shall be transparent, fair, and objective to achieve the responsibilities of explanations to all stakeholders including shareholders, investors, and employees.

Procedure

The Board has the authority to make decisions on the policy concerning the amounts and the method to calculate executive remunerations, and the authority is delegated to the representative director meeting by a Board resolution. In determining remuneration, to secure transparency, fairness, and objectivity, remuneration is determined by the representative director meeting after deliberations and recommendations by the nomination and remuneration committee in which the independent outside director is a chairperson and independent outside directors account for more than half of the members.

Composition

Executive remuneration is composed of executive remuneration as fixed remuneration, performance remuneration as the performance-based remuneration, and stock-based compensation. The proportion of the performance-based remuneration in the remuneration is around 40% and is designed to fluctuate according to performance.



Executive remuneration for the fiscal year ended March 2019

The total amount of remuneration according to each executive classification, the total amount of remuneration by type, and number of target executives are as follows.

Executive classification	Total amount of remunerations, etc. (¥million)	Total amount of remunerations, etc. by type (¥million)				Number of target executives
		Mission remuneration	Performance remuneration	Stock-based compensation	Retirement benefits	
Directors ¹	265	144	111	8	–	8
Audit & supervisory board members ²	40	40	–	–	–	2
Outside directors	22	22	–	–	–	5

¹: Except for outside directors ²: Except for outside audit & supervisory board members

Message

Message from new Outside Audit & Supervisory Board Member



Shingo Ishizaki Outside Audit & Supervisory Board Member

Profile
 April 1979 Joined Yamaichi Securities Co., Ltd.
 April 1998 Joined Merrill Lynch Japan Securities Company
 July 2001 Joined UFJ Capital Markets Securities (present Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)
 October 2004 Joined Mizuho Securities Co., Ltd. as the general manager of the investment bank group
 April 2009 Managing executive officer of the company above and director of the Kansai investment bank group
 April 2010 Managing executive officer of the company above and director of the Kansai and West Japan investment bank group
 June 2015 Special advisor in Sekisui House, Ltd.
 June 2015 Special advisor in Sekisui Plastics Co., Ltd.
 April 2018 CEO and president of SI. Management Co., Ltd. (present)
 June 2019 Outside Audit & Supervisory Board Member of Daiken (present)

Corporate governance for coming years

Corporate governance refers to corporate management systems aimed at preventing dishonest acts within and by the company and improving competitiveness and profitability toward increases in long-term corporate value.

Among the relevant methods, governance through management organization is well known. For example, if a management executive acts in any way that conflicts with the interest of stockholders, the stockholders can dismiss the management executive in a general stockholders' meeting. Such a system has the effect of controlling the behavior of management executives. At the same time, governance through the stock market must not be forgotten. If a company performs poorly and is not profitable, more stockholders sell its stocks in the market. This results in declined stock prices and decreased market capitalization. This causes cuts in the rating and compromised trust from financial institutions, which will make funding the company difficult. In this way, governance in this aspect also controls management execu-

tives. Therefore, it is important to monitor trends in the market from the perspective of corporate governance.

In Japan, the national government and Keidanren (Japan Business Federation) proactively promote sustainable development goals (SDGs). In the meantime, activities are taking impetus toward environment, society and governance (ESG) investments, led by the Government Pension Investment Fund (GPIF). Because DAIKEN CORPORATION envisions proactive global expansion, it is extremely important to focus on these aspects.

I will leverage my experience in investment bank operations to monitor trends in the market, recognize what investors should learn and understand about a company, and make efforts to establish corporate governance in DAIKEN CORPORATION that will enable its sustainable development and response to social trust.

Reasons for selection

He has been engaged in investment bank operations at securities companies over many years. We believe that his abundant knowledge concerning finance and accounting, accumulated through his experience, will contribute to further strengthening governance at our company. He satisfies the Independence Assessment Standards established by our company, because there is no potential conflict of interest between him and other general stockholders of our company, in terms of his human relationship, capital relationship, trade relationship, and other relationships of interest with our company.