



Masanori Okuda

Representative Director,
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Discussion

Yuko Asami

Outside Director,
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Governance to Maintain Perpetual Prosperity

With the approval obtained at the general meeting of shareholders on June 25, 2021, DAIKEN CORPORATION became a company with an audit and supervisory committee. Masanori Okuda as the representative director and president, and Yuko Asami, appointed the new outside director and Audit and Supervisory Committee Member, discussed governance so that DAIKEN CORPORATION could maintain perpetual prosperity under the new structure. In the discussion, they exchanged opinions concerning the requirements of Daiken from the viewpoint of an outside director, the significance of the latest reorganization, and key points in the formulation of the next medium-term management plan.

1 from the viewpoint of an outside director:

Okuda Director Asami served as an Outside Audit & Supervisory Board Member for three years from June 2018 and has been appointed a new outside director and Audit and Supervisory Committee Member. What is your honest impression of DAIKEN CORPORATION over the last three years?

Main business directly contributing to ESG and SDGs

Asami I feel that Daiken is an earnest company, both in a positive way and in a negative way. In a positive way, the business since its foundation has environmental considerations. It is extremely appealing that Daiken's main business has a sustainable effect, and not only has an ESG perspective but also directly contributes to the SDGs; therefore, Daiken's business operations consist of numerous environmental considerations. With regard to product development, the company sincerely pursues quality and safety in the invisible details and seeks ways to minimize its environmental impact. It is persuasive that Daiken is known for its high technological strength because the company can achieve such aims in reality.

Okuda Thank you. Our inherited business is based on the effective use of wood and contributes to the global momentum toward carbon neutrality. I believe that our roles are becoming increasingly more important. I have placed extreme importance on sustainability and the ESGs. When I started formulating the long-term vision GP25 immediately after appointment as the president, I stipulated the significance of the existence and ambitions for sustainability. I also formulated the medium-term ESG plan linked to the current medium-term management plan GP25 2nd Stage, and included non-financial items in the management goals, thereby implementing proactive ESG measures as part of the management strategies.

Asami Another positive aspect of Daikden's earnestness can be found in its governance. Daikden's attitude to improve the transparency of management and strengthen corporate governance is worth evaluating as exemplified by the establishment of a nomination and remuneration committee in 2015, where a majority of the members are independent outside directors.

Okuda Thank you. I would like to hear your opinion concerning governance in more detail later.

Need for strengthening ESG dialog with shareholders and investors

Asami On the other hand, there are two major requirements in my opinion. One is that the company has yet to advocate its contribution to the ESGs and SDGs to stakeholders in a clear and understandable manner, which is probably a negative aspect of Daikden's earnestness. Because Daikden is a listed company with global business activities, the company should work to acquire a broader understanding of its own strengths, rather than remaining complacent about being only known to a select few. I am also afraid that there are too few dialogs with investors.

Okuda I recognize that requirement as well. When we propose or market our products, we would like to publish the spirit and concept of the background to development, as well as the new value brought to society by our products in a more understandable way. By doing so, we will have increased opportunities for value co-creation with stakeholders. We have also strengthened dialogs with shareholders through a reorganization in FY 2022 in which the IR Office that had been under the Management Planning Department became independent in order to facilitate cross-organizational activities under the officer in charge. We would like to proactively advocate these concepts and efforts for evaluation by ESG-minded investors.

Accelerated promotion of diversity is a major requirement

Asami The other requirement is the delay in promoting diversity. I think urgent improvement is required for this point.

Although promoting diversity is included in the top policies, I am afraid that it is far from satisfactory. This is quite regrettable because other ESG initiatives are making progress. I think that the president is providing leadership, but how far has the importance of diversity infiltrated throughout the company? The establishment of a structure to accept diverse work styles has also been delayed, which means you will not make it in time by proceeding at the present rate. Stronger acceleration is requested.

Okuda Like you said, our efforts are only halfway completed and need to be accelerated. I believe that diversity signifies the enhancement of the competitiveness of an organization by helping human resources with diverse personalities and values exchange opinions, regardless of age, gender, race, or religion. At Daikden, we first focus on promoting female employees as the most familiar goal. We promoted one female to an operating officer position, which was newly established this fiscal year. However, the low percentage of females in managerial positions remains a major issue. We are implementing steady, solid initiatives, though the effects have yet to be seen in the numbers. Recently, increasing numbers of female employees are entering the company and forming a broader base. I expect that the bottom-up initiatives driven by these younger generations will reform DAIKEN CORPORATION in the next five to ten years.

Establishing mechanisms to support continuous activeness in all life stages

Asami It is worth evaluating that you promoted a female to an operating officer position that was newly established in the latest governance reorganization. However, it is not sufficient to simply focus on promoting females in order to enhance diversity. The life events of child care, long-term care, and the transfer of spouses not only affect females. Systems will be required to help all employees work in diverse work styles, regardless of gender, age, nationality, years of service, and life stage.

Okuda It will be essential for Daikden's sustainable growth to establish systems and a corporate culture where employees facing major life events can continue working without interrupting their careers. Based on this recognition, we have established systems to help employees continue working regardless of time and place, considering that conventional fixed ideas have been reset in the COVID-19 situation.

2 Shift to a company with an audit and supervisory committee

Okuda Recently, we shifted to a company with an audit and supervisory committee, combined with changes in the operating structure, aiming to 1) strengthen the supervisory function

of the Board of Directors, 2) accelerate the decision-making process, and 3) develop next-generation leaders. In addition, a major purpose is to upgrade our basic human resource strengths, including diversity as you mentioned, while refreshing awareness across the company. Director Asami, what is your view of the latest reorganization?

Making the reorganization a starting point for further governance reform

Asami In April 2022, the Tokyo Stock Exchange will reorganize its market segments. Will the DAIKEN CORPORATION compete in the prime market or be included in the standard market? You must first recognize that the company's commitment to the business model is being tested, in addition to governance reform. DAIKEN CORPORATION targets the prime market. It is a highly attractive market from an international perspective, where excellent companies representative of Japan are collected for investment. "Governance" here refers to more than corporate governance. It is governance in the true sense of the word, entailing diversity, the development of core human resources, and reform of the business model. It will be important for DAIKEN CORPORATION must initiate proactive reforms to continue operating vigorously and perpetually into the future through the latest governance reform rather than regarding it as an obligation.

Okuda You mean that improvements will be achieved by transforming the reorganization as the starting point, rather than implementing reorganization to pursue improvement. I definitely wanted to avoid making the latest reorganization a mere formality but make it the start of upgrading the culture of DAIKEN CORPORATION through this reorganization.

Enhancing group governance in accordance with M&A strategies

Asami President Okuda's enthusiasm and passion for effective governance reform were seen in the review process for the shift to a company with an audit and supervisory committee through repeated communication sessions with the secretariat. Changing the system does not mean improvement in and of itself. I think it is worth considering that top management has announced a serious commitment to reorganization as the start of governance reform. I served as an Outside Audit and Supervisory Board Member for the past three years and was newly appointed an Audit and Supervisory Committee Member. From my viewpoint, the quality of internal controls and audits will be enhanced through the direct control of the Internal Audit Department by the Audit and Supervisory Committee. Group governance is particularly important in promoting M&A strategies. It is important to strengthen cooperation between the Audit and Supervisory Committee and the Internal Audit Department at the time of recognition, thereby further strengthening your system.

Okuda Net sales in global markets have increased and now represent about one-quarter of overall sales, and I have recognized the need for strengthening group governance. I would like to further enhance the effectiveness of governance.

Linking governance system reform to the development of next-generation human resources

Asami Another point to consider is that the reorganization was implemented in combination with the reform of the operating structure for the development of the next generation of leaders.





Of course, the Board of Directors is important in corporate management, but its primary function is supervision. To reform governance, it is desirable to include the operating positions that undertake actual management into the scope of reform. I expect that management agility will be achieved, and an environment will be established to support appropriate risk taking by the operating officers. It will be necessary to develop the newly appointed operating officers as the next generation of leaders by implementing systematic training.

Okuda You are absolutely right. We will endeavor to maintain optimal membership on the Board of Directors according to the changes in the business environment. In addition, we will also have further discussions concerning the desirable status of executive officers and operating officers by establishing and using the skill matrix listed in the revised Corporate Governance Code 2021, as well as examining the sustainable enhancement of corporate value by the Governance Committee, which undertakes the nomination and remuneration functions. By specifying and visualizing the skills required of these officers and the training menu to fill any gaps, it will be easier for division directors and other managers to develop a clear image of the experience and skills that they need, thereby facilitating their development as future leadership candidates. The succession planning aimed at the development of the next generation of leaders is also an important requirement that I would like to discuss at the Governance Committee by engaging Director Asami and other outside directors.

3 Formulating the Next Medium-Term Management Plan

Okuda During this fiscal year, we will formulate the medium-term management plan GP25 3rd Stage as the final phase

in the achievement of the long-term vision GP25. We have already started drafting the plan. Director Asami, what particular points would you like the Board of Directors to focus on?

Further clarifying key areas in business and market strategies

Asami There are three key points: diversity that I mentioned earlier, the direction of business and market strategies, and research and development. The direction of business and market strategies based on the ongoing long-term vision GP25 seems reasonable. However, we must have a visible landscape through the 1st- and 2nd-stage medium-term management plans. For example, the scope of non-housing public and commercial buildings is broad. Which part of it will you target? Which items will you focus on from the viewpoint of growth potential, exercising of technological power, sales channels, and other strengths and advantages of DAIKEN CORPORATION? Will you centralize or decentralize? It will be necessary to set a clear, advanced policy. For global markets, will you continue to operate in the present key regions of North America, Southeast Asia, China, and Oceania? Would you rather focus on areas where the market has high growth potential and the company can leverage its strengths? For the long-term of the next 10 and 20 years, what position will you aim to acquire in each market? Regarding global strategies, you will also need to establish value chains ranging from R&D to procurement, production, sales, and installation work, and construction, and to further clarify the directions of the allocation of managerial resources, including human resources in the corporate department. These will require discussions.

Okuda Regarding the business and market directions, we will discuss the material issues (materiality) and crystallize what we should cope with, how we should grasp medium-term and long-

term changes in the external environment and social requirements from the viewpoint of sustainability, and discover solutions by upgrading the strengths of DAIKEN CORPORATION. Subsequently, we will identify the areas that we should emphasize among the three existing businesses (industrial materials, building materials, and engineering) and the products that compose the respective businesses, as well as the direction of the business as the fourth pillar. We will prioritize strategies for the domestic market where we have operated relatively smoothly. At the same time, we will further specify product and area strategies for the global market and incorporate those strategies into the next medium-term management plan.

Continuously contributing to the resolution of social issues through our R&D capabilities

Asami Research and development is the source of Daiken's competitiveness and reputation for high technological strength. I think R&D is the most important among a number of Daiken strengths. To ensure that this strength remains effective and strong, it is crucial to establish an environment to develop human resources that will help maintain continuous improvement and maximize this technological strength. To this end, I suggest the immediate reallocation of managerial resources. I would not deny the use of M&As as a means of growth, but present investments are unevenly focused on global operations and construction. I recommend strengthening investments and M&As to enhance R&D and organic growth (growth that utilizes internal managerial resources). For example, the industrial materials business in North America makes a larger contribution to profit, but decreasing profitability is a concern in the shrinking domestic market. This seems extremely wasteful because the company has high potential. For example, more proactive investments and M&As should be made to acquire technology for increasing the added value in the domestic industrial materials business, for achieving substantial cost reductions, and for accelerating the reduction of environmental impacts and the development of more sustainable and demineralized products. On the other hand, the company must examine exit strategies in the early stage of investments that are not likely to achieve organic growth from the viewpoint of medium-term and long-term risks. Over the past several years, you have been strengthening R&D strategies based on social requirements by incorporating the viewpoints of the ESG and SDGs backed by the group corporate philosophy. I hope that this movement will be accelerated.

Okuda Over our history, R&D achievements contributed at each turning point for business expansion. During its foundation, the company established a business base with the technology of blending adhesives to overcome the weakness of wood. A few examples are special plywood as the basis of our present building materials business and insulation board using wood fibers that caters to various applications remaining in our product portfolio for more than 60 years. Dai-Lite is

an industrial material developed for quakeproof housing based on the innovation of using volcanic ash, an unused resource abundantly present in Japan as a country of frequent volcano eruptions and earthquakes. Our intention to contribute to society by grasping the social requirements and proposing solutions through our business has not changed. We will continue to proactively strengthen research and development as the driving force for this purpose.

Asami The revised Corporate Governance Code 2021 requires the Board to effectively supervise the implementation of management strategies to sustainable growth. Research and development are areas that definitely contribute to sustainable growth from the medium-term and long-term perspectives. In addition to maintaining and developing the present R&D Department, we must include human resources familiar with R&D and business among the executive managers. The Governance Committee will proactively participate to ensure these points.

Okuda Thank you. Our research and development activities are becoming more future oriented. We are entering new fields free of traditional ideas, starting from the long-term vision GP25. At the R&D Center established in 2018, open innovations are proactively employed. Through communication with investors, the insufficiencies of R&D expenses have been pointed out. In the formulation of the next medium-term management plan, we will have further discussions on R&D strategies for the next 10 years and further toward our 100th anniversary and promote the reallocation of managerial resources.

Discussion at Board of Directors Meetings is the Essence of Group Corporate Philosophy

Asami We should have more in-depth discussions concerning the acceleration of diversity as I mentioned earlier.

Okuda Yes. We will discuss the medium-term and long-term direction of human resource strategies, including the age, job type and career mix, promotion of female and mid-career employees, and employment of global human resources. Toward the achievement of that directional goal, we will establish practical systems as soon as possible. I also recognize the three key points that Director Asami pointed out as extremely important — R&D, diversity, and business and market directions. Our mission under the group corporate philosophy declares, "We will create a wonderful future with our technology, ideas, and passion." "Technology" here is based on research and development, while "ideas" are supported by diversity (diverse human resources). Business and market directions are where we should drive the joined force and "passion" of our group. The Board will discuss these points as key requirements of management and navigate the group as a company that contributes to a wonderful future. Thank you for today.

Outside Director's Message

Maintaining the Board of Directors that is willing to change in order to enhance medium-term and long-term corporate value

In 2019, the Business Roundtable, an economic association of the largest scale in the US, declared its commitment to all stakeholders by reviewing its conventional shareholder-first policy. Through this statement, the association urged that companies should, while pursuing economic benefit, consider employees, shareholders, business partners, creditors, and local communities and contribute to social prosperity and success, as well as the resolution of social and environmental issues. Coping with major social issues in cooperation with the government and society will lead to the restructuring of capitalism. At the same time, global investors are focusing on ESG investments and advancing investment strategies that generate shared value by stating clear purposes, rather than adhering to the maximization of profit and the shareholder-first policy.

At present, there is a general concern that boards of directors in Japan lack influential outside directors and that they are reluctant to take the risk of leading reforms due to the solid positions of internal officers. On the other hand, research results indicate that youths emphasize social contributions by companies as a condition for job hunting. Considering the future, I think that an important task for outside directors is to maintain boards of directors that can discuss strategies for enhancing corporate value from the medium-term and long-term perspectives. As directors, we should bear in mind that the greatest risk is taking no action.



Shingo Ishizaki

Outside Director, Audit and Supervisory Committee Member

Believing that Daiken will upgrade its inherited strengths as a contributor to a recycling-oriented society

I have recently been appointed a new Audit and Supervisory Committee Member. I served as an outside Audit and Supervisory Board Member over the past year and recognized that DAIKEN CORPORATION was sincerely promoting improvements to corporate governance. With this attitude disseminated throughout the company, my impression is that Daiken has an extremely high awareness of corporate governance. Although I was confident that audit & supervisory board members at companies with an audit & supervisory board were adequately checking the companies in Japan, I agreed to the recent decision by DAIKEN CORPORATION to shift to a company with an audit and supervisory committee, considering it a movement to further strengthen governance.

My roles and responsibilities have become heavier in line with this movement, and I would like to continue contributing to the company in an independent position, leveraging my view of companies, evaluations of businesses, practical experience in business finance and M&As, and expertise based on a long-term securities agency, which I acquired from my work at financial institutions.

The revised Corporate Governance Code 2021 featured a response to sustainability requirements as one of the key items. Social requirements for ESG and SDGs will become increasingly greater. DAIKEN CORPORATION's business originated in the effective use of wood, and the company is highly aware of the importance of natural resources and the environment as a corporate culture that has been inherited since its foundation. I believe that now is the time when Daiken should upgrade these inherited strengths by pursuing and achieving the harmonization of business development, in addition to its social contribution, as a conscious and proud contributor to a recycling-oriented society. I am determined to provide the maximum support for upgrading and enhancing Daiken's inherited strengths.



Kiyoshi Mukohara

Outside Director, Audit and Supervisory Committee Member

Reasons for Appointment of Outside Directors as Audit and Supervisory Committee Members

Name	Reasons for appointment and expected roles (overview)
Shingo Ishizaki	Engaged in investment bank operations at securities companies for many years and possesses financial expertise acquired through his experience. Expected to play supervisory and advisory roles in the execution of duties by directors from a specialized perspective based on the stated expertise, especially in finance and accounting.
Yuko Asami (family register name: Yuko Katsuo)	A professor at the Faculty of Economics, Gakushuin University and served as a committee member for the Ministry of Finance and the Financial Services Agency, demonstrating adequate expertise in finance and accounting. Expected to play supervisory and advisory roles in the execution of duties by directors from a specialized perspective based on the stated expertise, especially in corporate accounting. No experience in the engagement in corporate management other than serving as an outside director, but is considered capable of properly executing the duties of an outside director (Audit and Supervisory Committee Member) for the reasons stated above.
Kiyoshi Mukohara	Engaged in the management of financial institutions for many years and possesses abundant financial and managerial expertise acquired through experience. Expected to play supervisory and advisory roles in the execution of duties by directors from a specialized perspective based on the stated expertise, especially in corporate management. History of working at Sumitomo Mitsui Trust Bank, Limited, a major lender of DAIKEN CORPORATION, but resigned as a director of the lender for six years.

*1: The three directors above satisfy the criteria for independence assessment specified by the company and have been registered in compliance with the regulations of the Tokyo Stock Exchange.

*2: The three directors above are members of the Governance Committee and are engaged, from an objective and neutral standpoint, in the selection of directors for the company and the determination of executive remuneration and governance structure.