Corporate Governance

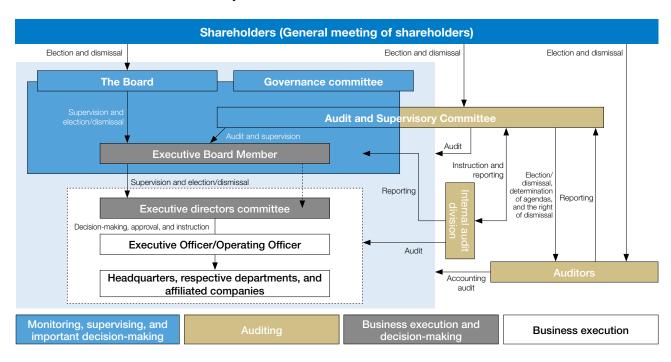
Key Initiatives for the Enhancement of Corporate Governance

2002 2003 2008 2010 2011 2012	Made the shift to the chief executive officer system The Compliance Committee was established. Reorganized to the Risk & Compliance Management Committee for reinforcement. Reduced the number of directors from 11 to 9. Outside directors are selected. The term for directors was reduced from two years to one year. Outside directors increased from 1 to 2	2015 2016 2018 2019 2020	The Nomination and Remuneration Committee and the Corporate Governance Committee were established. The effectiveness evaluation of the Board was started. A female outside Audit & Supervisory Board member was selected. Introduced the transfer restricted stock-based compensation system. Reduced the number of directors from 9 to 7. Outside directors increased from 2 to 3 (3/8)
2015	Outside directors increased from 1 to 2. The Basic Policy on Corporate Governance was established.	2020	

2021

- · Enhanced the Board's supervisory function and made a shift to the Company with Audit and Supervisory Committee for the purpose of acceleration and efficiency of business execution
- · Clarified the Executive Officer system's management responsibilities and roles and introduced the Operating Officer
- · Revised the executive remuneration system and improved the remuneration system for the directors who are the Audit and Supervisory Committee Members
- · Integrated the Nomination and Remuneration Committee and the Corporate Governance Committee and reorganized to the Governance Committee

Corporate Governance Framework



Points of the Structure

- As the advisory organization for the Board, the Governance Committee has been established that deliberates particularly important items, such as the nomination of and remuneration for directors and executive officers, improvement of the effectiveness of the entire Board, and building of the governance structure, etc.
- The Governance Committee has the structure that the committee chairperson and a majority of the members are independent outside directors.
- By setting up the internal audit division as an organization directly controlled by the Audit and Supervisory Committee, the structure enhances the audit function.

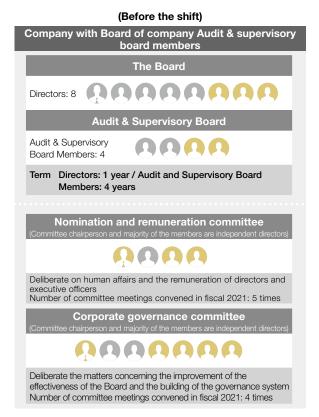
Structural Change toward the Further Improvement of Corporate Governance

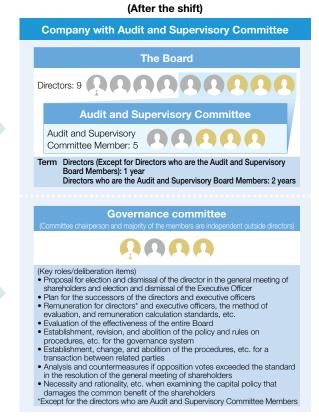
We introduced the Executive Officer system within the framework of the company with the Board and company Audit & Supervisory Board Members in 2002 and have conducted smooth and efficient management by separating decision-making in the Board and business execution by the Executive Officers. While companies are required to implement further sophistication of governance and concurrently required to implement for more speedy execution of management strategies under the rapidly changing business environment, we have made the shift to a Company with an Audit and Supervisory Committee and newly introduced the Operating Officers and the business execution system for the purpose of acceleration and efficiency of business execution based on the enhancement of the Board's supervisory function and decision-making.

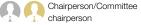
Shift to the Company with Audit and Supervisory Committee

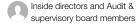
Purpose of the Shift

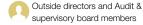
By establishing the Audit and Supervisory Committee, which consists of non-executive Board members who have the voting right in the Board and in which majority of the members are outside directors, we separate business execution and supervision, enhance the Board's supervisory function, and further improve corporate governance.











Change in the Business Execution System

Purpose of Change

By clarifying management responsibilities and roles of the Executive Officer system and separating Executive Officers and Operating Officers, we accelerate and streamline decision-making on management and business execution. In conjunction with this, we proceed with the maximization of human resource value by flexibly allocating human resources in the Operating Officer layer and developing the next-generation leaders.

(Before the change)

Executive Officers: 22 (Of which Executive Board Members: 4)



Executive Officers: 13 (Of which Executive Board Members: 3)

Operating Officers: 10

(After the change)

Executive Officer

They make and execute decisions on management under authority and responsibility delegated from the Board and Executive Directors Committee and play the role of promoting our company's growth and reform from the perspective of the total company optimization as the strategic function.

Operating officer

They undertake business operation in their responsible businesses and domains and execute operations toward the realization of reform and growth. They are positioned to develop the next-generation leaders.

The effectiveness evaluation of the Board

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 the end of fiscal 2016. Based on the self-assessment by all directors and Audit & Supervisory Board members and deliberations at the Corporate Governance Committee in which the chairperson and majority of the members are independent outside directors, the effectiveness of important decision-making in management and proper business execution has been confirmed to be sufficiently secured. The issues to work on for more effective Board operations have been extracted, and they have been continuously putting effort into the improvement of responses.

Key Issues and Responses Fiscal 2016 to fiscal 2019: GP25 1st Stage Fiscal 2020 to fiscal 2022: GP25 2nd Stage Deliberations to review the Managemen Establishment of the Group Corporate Philosophy Philosophy and revise it as the Group Corporate Philosophy Continue to periodically implement the survey to confirm the penetration status and issues The first survey on the degree of penetration of the Group Corporate Philosophy was implemented, issues in the penetration was confirmed and measures were executed Effective involvement in the PDCA process through annual or interim evaluations and verifications fo Consideration and determination of the me es to penetrate philosophy anagement strategies and policies Started to operate the systematized Group Execution of the evaluations of the degree of Development penetration of the management strateg of the Results and issues of the previous medium policies as well as the progress of important issues Hesuits and issues or the previous meaum-term management plan were reported in the process to formulate the new medium-term management plan. The business and market strategies, as well as the concept of the enhancement of the management foundation, were deliberated from the draft stage Implement rolling for each fiscal year based on the changes and forecasts of Management the business results and management environment in the past fiscal year Strategies/ Enhancement of the Board's involvement particularly in the CA process (analyses, issue organization, and execution of countermeasures) in the PDCA process in the management strategies Policie Reviews of the PDCA process are Review of the reporting content, such as the execution of operation, toward the effective involvement in the PDCA executed, so that the progress conce the important items of the medium-te Continuous operation management plan can be easily grasped process for management strateg Periodic reporting Enhancement of the monitoring of Enhancement of the monitoring after acquisition The Director Human Resource Development Program was set Continuous operation Improvement of the provision of training opportunities for directors and Audit & supervisory board Directors' O Knowledge Continuous operation and Abilities mprovement of the information provision to deepen Reporting of the matters to deliberate in the Since then, regular holding has been continuing outside director and audit & supervisory board members' understanding of our businesses and that they could sufficiently review agendas of the Board in advance management meeting to outside directors in the regular debrief session and to outside Audit & supervisory board members in the Audit & supervisory board Improvement Improvement of the information provision to outside Improvement of the information provision, such as del Since then, continuously implementing this directors and audit & supervisory board members to promote their understanding in advance in deliberations sults on the executive officer side, and implementation of deliberations several times in regard to high-risk acquisition cases Improvement of the support system in order Thorough implementation of the prompt distribution for the directors and Audit & supervisory Since then, continuously implementing this poard members to be able to actively collect Holding of an office visit for the outside directors and audit & supervisory board members information in and outside the company Enhancement mprovement of the supervisory function by Review of the regulations of decision-making authority Revised the Board's rules and expanded the scope to be delegated to the executive officer side Since then, these have been continuing of the delegating part of decision-making to the executive officer side Supervisory Shift to the Company with Audit and Supervisory Committee Function and Risk Enhancement of the Board's involvement in the group-based ris Management Improvement of the feedbacks of IR activities Since then, periodic implementation on a quarterly basis has been continuing Periodic implementation of the reporting of IR activities Since then, periodic implementation of an opinion hearing questionnaire survey and production meeting has been continuing Improvement of the structure to In creating the integrated report, a promote a constructive dialog and transmit helpful information for questionnaire survey of the directors and Improvement individual meetings were implemented, stakeholders including shareholders and the Board has been actively involved of a Dialog Evaluations by the investors were monitored by the Board and evaluations from external institutions To improve information transmission with the integrated report creation policy Stakeholders improved by reflecting them in the integrated report and on the website onitored by the Board Since then, these have Deepening of the discussions on the responses to the opinions by shareholders and investors Discussions on the reduction of cross-shareholdings toward the improvement of stock liquidity Response

Results of the Evaluation in Fiscal 2021 and Response to Future Issues

The Board's effectiveness evaluation implemented in fiscal 2021 reported that opinions are being represented and deliberated actively by each director and Audit & Supervisory Board Member while ensuring the fairness and transparency with diverse perspectives and five independent outside directors (director and Audit & Supervisory Board Member). The Board sufficiently maintains the effectiveness of important decision-making in management and supervision of proper business execution. In particular, we have been improving support for outside directors, such as provision of information on the management meeting, opportunities to have an interview with management executives and department heads, which are evaluated to contribute to active discussions toward the medium- to long-term growth. In considering the shift to the company with an Audit and Supervisory Committee and reviewing the executive remuneration system associated with the introduction of Operating Officers, the Advisory Committee in which the majority of the members are outside directors are evaluated to contribute to the fairness and transparency of the Board and contributed to the improvement of discussions toward the improvement of our corporate governance by their recommendations from diverse perspectives. To further improve the effectiveness of the Board, we will proceed with the responses to the following issues.

1 Improvement of Discussions on the Succession Plan

Checking the Board's strengths and weaknesses using the skills matrix and further improvement of discussions on the succession plan based on the checking results

2 Focused Discussions on Management Strategies (1-3 below)

- Reconfirmation of risks and opportunities, as well as important management issues (materiality) based on the rapid environmental change, such as the COVID-19 crisis, etc.
- 2. Updating of the long-term vision (from fiscal 2017 to fiscal 2026)
- 3. Formulation of the medium-term management plan for the next term (from fiscal 2023 to fiscal 2026)

G Governance

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-term 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 of calculating executive remuneration, and the authority is delegated to the Board of Representative Directors by a Board resolution. The reason for delegation was because we judged that the Board of Representative Directors would be suited to evaluate each director's responsible division while taking into consideration the entire company's business performance, etc. In determining remuneration, to secure transparency, fairness, and objectivity, remuneration is determined by the Board of Representative Directors after deliberations and recommendations by the Nomination and Remuneration Committee (Governance Committee after the General Meeting of Shareholders on June 25, 2021) in which the chairperson and majority of the members are independent outside directors.

Composition

Executive remuneration is composed of mission 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 for the director who is an Audit and Supervisory Committee Member and outside director) is around 40% and is designed to fluctuate according to performance.

In shifting to the company with Audit and Supervisory Committee, we have revised the executive remuneration system as well. We organized the maximum amount of executive remuneration and set Audit and Supervisory Committee member compensation in order to clarify the role compensation for the Audit and Supervisory Committee Members. To increase the linkage with management indices in the medium-term management plan, we reviewed the performance-based indices as well. Before Revision After Revision*3 Operating profit: 50% Performance-Based Profit attributable to owners of parent Indices Profit attributable to owners of parent: 50% Director (Except for directors who are Audit and Supervisory Committee Members and outside director Director (Except for outside directors) Within the annual amount Within the annual Stock-based compensation Stock-based compensation amount of 30 of 42 million yen*1 million yen Performance remuneration Performance remuneration Within the annual Within the monthly amount amount of 300 of 35 million yen*2 (Within the annualized Mission remuneration amount of 420 million yen) Mission remuneration Representative compensation Executive compensation Executive Representative compensation compensation Supervisor compensation Supervisor compensation Director who is the Audit and Supervisory Committee Member Mission remuneration Within the annual amount of 108 Audit and Supervisor Supervisor Committee member million ven compensation compensation To reflect medium- to long-term performance and corporate value improvement, the transfer restricted stock-based compensation system has been introduced. (Except for directors who are Audit and Supervisory Committee Members and outside directors) Performance-based remuneration based on the accomplishments/results in company performance Fixed remuneration to be determined based on one's duty. To ensure the background of the money amount, the breakdown (Audit and Supervisory Committee Member compensation in addition to representative compensation, supervisor compensation, and executive compensation) is organized and determined.

- *1: Resolution by the 102nd General Meeting of Shareholders held on June 22, 2018 *2: Resolution by the 90th General Meeting of Shareholders held on June 29, 2006
- *3: Resolution by the 105th General Meeting of Shareholders held on June 25, 2021

Executive Remuneration for the Fiscal Year Ended March 2021

The total amount of remuneration 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. (1 million yen)	Total Amount of Remunerations, etc. by Type (1 million yen)				Number of Target
Executive Glassification		Mission remuneration	Performance remuneration	Stock-based compensation	Retirement Benefits	Executives
Director*1	232	115	108	9	_	5
Audit & supervisory board members 2	40	40	_	-	-	2
Outside Directors and Audit & supervisory board members	30	30	-	-	-	6

^{*1:} Except for outside directors *2: Except for outside Audit & supervisory board members

^{*3:} The total amount of remunerations, etc. above is based on the standards before revision by the resolution by the 105th General Meeting of Shareholders held on June 25, 2021.

Risk Management/Compliance

At the Daiken Group, the Risk Management Rules have been stipulated by the Board to appropriately manage risks and ensure continuous and stable development of businesses. In addition, as an organization that discusses and approves the issues and countermeasures associated with the promotion of risk management of the entire company, the Risk and Compliance Management Committee with the Representative Director as the chairperson has been established.

As for risk management, we establish responsible departments according to risk types to extract, analyze, and evaluate risks at the departments. In addition, we strive to increase effectiveness in preventing risks by continuously following the PDCA, including reviewing the implementation of countermeasures and the risk evaluations in each fiscal year. Regarding compliance, the department responsible for legal affairs regularly plans and executes education and training, as well as enlightenment activities, and establishes a culture to comply with law and regulations.

System to Promote Risk Management and Compliance



Number of Risk & Compliance Management Committee convened in fiscal 2021: 4

Key Deliberation Items -

Risk Management

- Consideration of the important risk measures and analysis/evaluation of the influence degree
- Revision of the Infectious Disease Countermeasure Manual
- Response to the BCP for raw material procurement.
- Disclosure of the risks associated with businesses
- Risk hedge status of nonlife insurance

Compliance

(1) Compliance with Laws and Corporate (3) Response to Anti-social Forces and Groups

- Establishment of the Compliance Code of Conduct
- Personal information management status
- Guidelines for operating Social media

Strict Compliance

Establishment and Thorough Dissemination of the Compliance Code of Conduct

For the purpose of fulfilling social responsibility as a company and earning the trust of stakeholders by improving all group employees' awareness and understanding of compliance, we have established the Compliance Code of Conduct in October 2020. This Code of Conduct specifically stipulates how every employee in the group should act in their respective daily operations and activities. Through inhouse education, etc. based on this Code of Conduct, we will fulfill social responsibility as a company that is trusted by the stakeholders.

Items Stipulated in the Compliance Code of Conduct

1. Community Involvement	Ethics (2) Ensuring Transparency of Donations	(4) Protection of the Environment		
2. Customer Trust	(1) Response to Safety (2) Improving Customer Satisfaction and Trust (3) Sincere Sales Activities	(4) Appropriate Displays in Advertisements (5) Management and Protection of Customer Information		
3. Relationship of Trust with Business Partners	Promotion of Free Competition Appropriate Transactions with Suppliers Prohibition of Infringement of Rights	(4) Gifts and Entertainment (5) CSR Procurement (6) Compliance in Overseas Business		
Gaining the Understand and Support of Shareholders and Investors	(1) Disclosure of Management Information	2) Prohibition of Insider Trading		
5. Work Attitude	Respect for Human Rights and Prevention of Discrimination Prevention of Harassment Utilization of Internal Reporting	(4) Respect for Privacy, Protection of Personal Information (5) Ensuring Workplace Safety and Hygiene (6) Ensuring a Comfortable Working Environment		
6. Protection of Corporate Assets and Information	Fair and Transparent Business Operations Confidential Information Management	Management and Proper Use of Corporate Property (4) Intellectual Property		

Promotion of Risk management

Initiatives toward the Enhancement of the Raw Material Procurement BCP

Based on the experience in the Great East Japan Earthquake and in addition to the BCP responses in our group's production and business bases, we have continuously worked to make improvements for the procurement of raw materials, which are essential for the stable supply of products, such as multiple purchases and product development assuming the change of the specification to replacement goods, while eliciting cooperation from suppliers. In fiscal 2021, while applying a lesson learned from the procurement problems that occurred in fiscal 2019, we implemented re-examinations of the BCP concerning procurement items, such as raw materials, and put effort into the enhancement of our responses in all divisions.

Raw Material Procurement BCP Enhancement Process

Company-wide risk management and promotion of the BCP (Risk and Compliance Management Committee)

Making rules for the raw material procurement BCP by the Disaster Countermeasure BCP Manual

Conduct periodic reporting about response to important risks in the Risk & Compliance Management Committee and check the status of the company-wide initiatives



Response to the BCP by the manufacturing divisions

Compilation of a database of raw material procurement and periodic check of the responses to the BCP on a fiscal year basis



Key Examinations and Countermeasures

Confirmation of the BCP response status in suppliers

Multiple purchase Optimization of the inventory levels

Development assuming the change of the specification to replacement goods

G Governance

Initiatives toward the Penetration of the Group Corporate Philosophy

While globalization and diversification of human resources progress, in order to realize the further growth as a company, it is important that all employees share the common mission, company vision, and values that we consider important and align the direction to go. So, our group aimed for the enhancement of management based on the sustainable improvement of corporate value and philosophy, evolved the past management philosophy in April 2017, and established the Group Corporate Philosophy. To realize the growth strategies particularly drawn in the long-term vision and medium-term management plan, it is imperative that all group employees practice the vision upheld in the group corporate philosophy, such as technology, ideas, and passion, challenges of new ideas, and prompt responses to changes and opportunities, and move into action. Under these viewpoints, we set the degree of penetration of the group corporate philosophy as a non-financial management goal in the medium-term management plan GP25 2nd Stage that started in fiscal 2020 and have been proceeding with the initiatives to improve the degrees of penetration and practice.

Deployment of the Measures to Penetrate the Group Corporate Philosophy

Based on the results of the Survey on the Penetration of the Group Corporate Philosophy that is implemented to the group's employees, we deploy the penetration measures from the three perspectives of transmission, sharing, and evaluation. By following the Penetration Cycle of Transmission, Sharing, and Evaluation, we promote the penetration of philosophy in daily operations and conduct a review to make the measures more effective by monitoring the degree of penetration on a regular basis.



We implement the Survey on the Penetration of the Group Corporate Philosophy on a biennial basis. We uphold the goal of achieving +10 pt from the benchmark in fiscal 2018 in fiscal 2022, which is the final fiscal year of the medium-term management plan GP25 2nd Stage and have been deploying measures.

Initiatives in Fiscal 2021

Transmission

(1) Continuous Transmission by the Top Management

In the distribution of videos of the companywide department manager meeting and on the anniversary of foundation, the President himself transmits his thoughts on the corporate philosophy as a message. The top management always has technology, ideas, and passion upheld in philosophy and is committed to take the initiative in putting into practice toward the creation of corporate culture to take on a challenge.



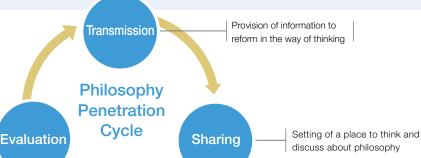
Transmission by the top management

(2) A special feature of philosophy in the company magazine

Unique initiatives by the departments executing operations while viewing the group corporate philosophy as familiar philosophy were published as special features in our company magazine on a biannual basis. By publishing such special features in the company magazine, we transmit good cases of practicing philosophy to all group employees.



Special feature page in the company magazine



Setting of a place to praise and honor someone practicing philosophy

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Evaluation

For the purposes of thinking what the actions to practice group corporate philosophy would be, creating an opportunity to have discussions, promoting the understanding of the group corporate philosophy, and cultivating culture where the practice of philosophy is praised, we have hold the Daiken Award that collects and honors cases of practicing the philosophy in daily operations since 2020. In fiscal 2021, which was the

second time, 399 employees on 53 teams that exceeded the previous fiscal year participated. By expanding the opportunities to discuss philosophy through the Award, honoring good cases born in the Award, and sharing them within the company, we will accelerate a virtuous cycle of the penetration of the group corporate philosophy.



The scene of the award presentation ceremony

Sharing

With a view to being aware of the group corporate philosophy and creating an opportunity to review one's own behavior, we have held Philosophy Sharing workshops in the training for each rank for young/middle level employees and new managers from fiscal 2019. In the workshop, they check the group corporate philosophy and group conduct guidelines with their behavior in daily operations and discuss/share their behavior and situations where they practice the philosophy. In fiscal 2021, we continuously held the workshop by shifting to an online format, and 85 employees attended the workshop. We will deploy outputs from the workshop to the measures to further transmit the philosophy.