

# Governance

## Basic Approach

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

Under the group corporate philosophy, we are committed to sustainable improvements in corporate value for all shareholders and stakeholders.

In order to achieve efficient, sound, and transparent management, we take the basic approach that always seeks to

optimize corporate governance and constantly works to improve it. Based on the basic policy on corporate governance established in 2015, we are making constant improvement to respond to ever changing business environment surrounding the group in ceaseless pursuit of optimal corporate governance system.

## Key initiatives for the reinforcement of corporate governance.

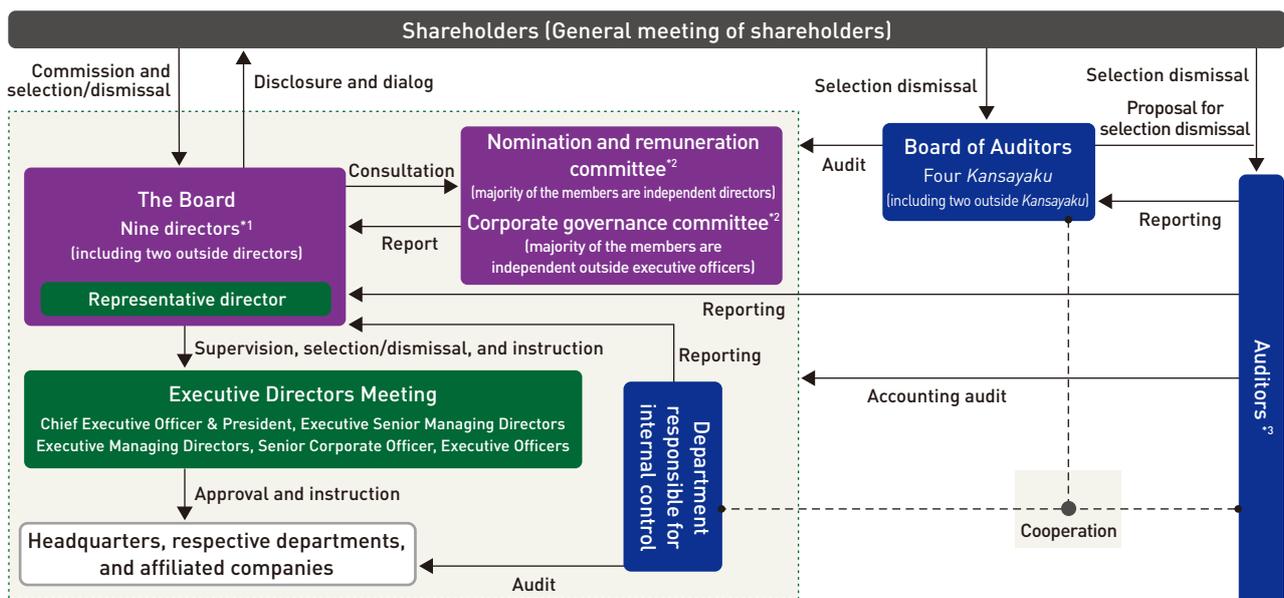
- 2002: Made the shift to the chief executive officer system.
- 2003: The Compliance Committee was established.
- 2008: Reorganized to the Risk & Compliance Management Committee for reinforcement.
- 2010: Reduced the number of directors from 11 to 9.
- 2011: Outside directors are selected.
- 2012: The term for the Board is reduced from two years to one year.

- 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.
- 2016: The effectiveness evaluation of the Board was implemented.

## Governance System

Governance System aims for sustainable improvements in our corporate value.

### The Daiken Group's Corporate governance framework



■ Monitoring, supervising, and important decision-making ■ Auditing ■ Business execution and decision-making □ Business execution

\*1 The term for directors is one year.

\*2 The nomination and remuneration committee and the Corporate Governance Committee are set up as an arbitrary advisory committee for the Board. The nomination and remuneration committee nominates directors, executive officers, and *Kansayaku* candidates and discusses remuneration for directors and chief executive officer. The corporate governance committee implements effectiveness evaluation of the governance system and the Board and discusses related items.

\*3 Auditors are Gyosei & Co.

## Selection of independent directors

Based on the independence standards Daiken Corporation has established for judging whether an outside director or *Kansayaku* is independent or not, we report our independent directors to the Tokyo Stock Exchange to ensure transparent and fair company management. We have selected two independent directors (out of a total of nine directors) and two independent outside *Kansayaku* (out of a total of four *Kansayaku*.)

Independence Standards	*The eligible term of office: The term of office for the below No. 1 is current or in the past without term of office, and the term of office the below No. 2 to 6 is current or the past five years.
<b>1. Relevant persons of the Daiken Group</b>	
The persons shall not be a director (excluding its outside director), <i>Kansayaku</i> (excluding its outside <i>Kansayaku</i> ), accounting advisor, executive officer, corporate officer, or employee (hereinafter collectively referred to as "directors, etc.") of the Daiken Group, its subsidiaries and affiliates (hereinafter referred to as "the Group, etc.")	
<b>2. Relevant persons with voting power</b>	
I. The persons shall not be a shareholder or director, etc., with 10% or higher voting power for the Group.	
II. The persons shall not be a director, etc., of a company in which the Group possesses 10% or higher voting power.	
<b>3. Relevant persons of business partners</b>	
I. The persons shall not be a director, etc., of a business partner, which the Group does business with for the equivalent amount of 2% or higher consolidated net sales or purchase for either of the companies.	
II. The persons shall not be a director, etc., of a primary financial institution, which the Group borrows the equivalent amount of 2% or higher of the Group's consolidated assets.	
III. The persons shall not be a director, etc., of the Group's lead brokerage.	
<b>4. Experts (lawyer, certified public accountant, consultant, etc.)</b>	
I. The persons shall not be a certified public accountant who is the Group's auditor, an employee, partner, or personnel of an auditing company.	
II. The persons shall not be a person who receives remuneration of more than ¥10 million annually as a certified public accountant, licensed tax accountant, lawyer, or other consultants besides the remuneration as a director or <i>Kansayaku</i> from the Group.	
<b>5. Charitable donation</b>	
The persons shall not be a person who receives a donation exceeding ¥10 million annually from the Group or an executing person.	
<b>6. Other</b>	
I. The persons shall not be a family member within the second degree of those listed the above No. 1 to 5 (excluding those who do not hold a key position).	
II. The persons shall not be a director, etc., of the company where the Group's officers are mutually in place.	

## Convention of the Board and the attendance rate of independent directors

	Fiscal 2016	Fiscal 2017
Number of the board convened	13 times	12 times
Attendance rate of independent outside directors	96%	100%
Takashi Aihara	100%	100%
Koji Mizuno	90%	100%
Attendance rate of independent outside <i>Kansayaku</i>	100%	100%
Akio Hasunuma	100%	100%
Masafumi Inoue	100%	100%

## Convention of *Kansayaku* and the attendance rate of independent outside *Kansayaku*

	Fiscal 2016	Fiscal 2017
Number of Board of Auditors convened	14 times	14 times
Attendance rate of independent outside <i>Kansayaku</i>	100%	100%
Akio Hasunuma	100%	100%
Masafumi Inoue	100%	100%

## Executive remuneration

	Number of persons	Amount of payment
Directors	10	¥227 million
Of them, independent outside directors	2	¥13 million
<i>Kansayaku</i>	4	¥47 million
Of them, independent outside <i>Kansayaku</i>	2	¥9 million
Total	14	¥274 million
Of them, independent outside directors and independent outside <i>Kansayaku</i>	4	¥22 million

The board has formulated detailed rules for determining the remuneration of executive officers. The Representative Director submits a plan to the Nomination and Remuneration Committee, which examines the plan and makes recommendations, based on which results the remuneration is determined. There are two types of standard remuneration for directors: remuneration reflecting their role as directors based on their individual duties (fixed part), and remuneration for their performance based on the Company's performance and each director's achievements in the field for which they are responsible (variable part). The maximum limit for executive remuneration is decided within the range set at the general meeting of shareholders (up to ¥35 million per month for directors, and up to ¥4 million per month for *Kansayaku*). The total remuneration for executive officers is disclosed to the public.

# Governance

## Assessment results for the effectiveness of the Board

To increase the effectiveness of the Board and to improve corporate value, the Daiken Group implemented the analysis and assessment of the effectiveness of the Board in March 2017.

Assessment procedure	Questionnaires were distributed to nine directors and four <i>Kansayaku</i> to survey the effectiveness of the Board, and the answers were collected. The board and the corporate governance committee, in which outside directors and outside <i>Kansayaku</i> make up a majority, conducts analysis and assessment.
Large categories of the questionnaire	a. Roles and responsibilities of the Board b. The composition of the Board c. Deliberation of the Board d. System for promoting dialog with shareholders e. Overall governance system
A summary of the analysis and assessment results	The results confirmed that each director and <i>Kansayaku</i> of the Board are committed to presenting 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 addition, the assessment revealed that the Board is involved effectively in determining important policies by reviewing the corporate philosophy and conduct guidelines. On the other hand, it also confirmed points to be improved, such as the penetration of management strategy and other key policies within the company, monitoring and supervision of the progress level of key challenges, deepening of discussions about key projects and active information collection of each director and <i>Kansayaku</i> .

**Message from the outside director**

The Daiken Group is committed to transparent management and the maintenance of soundness.

Koji Mizuno  
Outside Director



**Message from the outside *Kansayaku***

My goal is to reinforce the governance structure to increase corporate value.

Masafumi Inoue  
Outside *Kansayaku*



The Daiken Group contributes to creating safe, sound, and comfortable spaces as a corporation that directly connects to people's daily lives. Since its founding, Daiken has worked to develop products in harmony with the environment as a corporation handling wood materials. I am attracted to Daiken's business that contributes to the environmental conservation. My wish is that Daiken will make a leap forward as an all-embracing company for building materials that makes a social contribution.

In order to make the long-term vision GP25 a reality, it is crucial to execute customer-orientated management without being sidetracked. In addition, while it is necessary to further strengthen corporate governance to ensure transparency and making rapid decisions, I believe the governance system of the Daiken Group is becoming stronger year after year.

As an outside director, I am committed to understanding the environment of the Daiken Group more than ever to actively and freely offer comments to contribute to the sustainable improvement of its corporate value.

The Daiken Group has established the group corporate philosophy consisting of Our Mission, Our Vision, and Our Values. All Group employees share the philosophy based on conduct guidelines. The Group is working as one under the Medium-Term Management Plan to achieve the mission to make the long-term vision GP25 a reality.

The Medium-Term Management Plan sets the Group's goals to exploit the public and commercial buildings market and the global markets, as well as to expand the new business domain through investments. Because the new agenda requires the formulation of a better governance system, the Daiken Group aims to further increase corporate value to meet social expectations by monitoring a system where stakeholders can mutually check the key audit items.

In addition, the Daiken Group will focus on the promotion of workstyle changes for employees, which is necessary to achieve these goals.

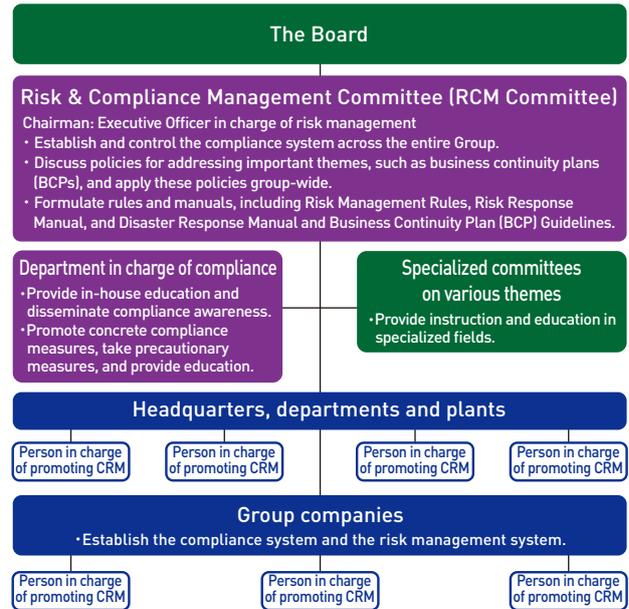
## Compliance/Risk management

### Promotion of Compliance/Risk management.

The Daiken Group has established a Risk & Compliance Management Committee (RCM Committee). With the executive officer in charge of risk management serving as its chairperson, membership includes executive officers in charge of the business administration, sales, and operational and legal compliance fields. The RCM Committee formulates various rules and manuals that enable the management system to function effectively to identify, evaluate and respond to potential risks. It also promotes compliance and risk management throughout the Daiken Group, deliberates on problems, and determines the measures to be implemented to resolve them.

Meanwhile, each subsidiary has assigned a person to promote RCM as part of our compliance and risk management system. The departments in charge of compliance manage compliance measures across the entire Daiken Group, including subsidiaries.

### Compliance/Risk management Promotion System



## Establishing various routes as the whistleblowing contact points

### Enhanced whistleblowing contact points for various harassments.

To prevent the violation of laws and company rules in advance and ensure early detection, the Daiken Group has whistleblowing contact points as a direct reporting route in cases where it is difficult to report through regular office organization. In addition, the Group implements measures to ensure that the whistle-blowers will not receive detrimental treatment after reporting.

The following contact points have been added:

- Ⓐ. Department in charge of compliance
- Ⓑ. Executive Officer in charge of risk management
- Ⓒ. *Kansayaku*, who can respond to items at the director level.
- Ⓓ. Corporate advisor who serves as an outside contact point.
- Ⓔ. Department in charge of human resources designed to make reporting easier in cases of harassment starting fiscal 2017.
- Ⓕ. The president starting from May 2017, allowing employees to anonymously blow a whistle.

The direct phone numbers and email addresses are listed under the hotline menu on the top page of the internal website to further make the initiative widely known.

### Compliance hotline flow

