

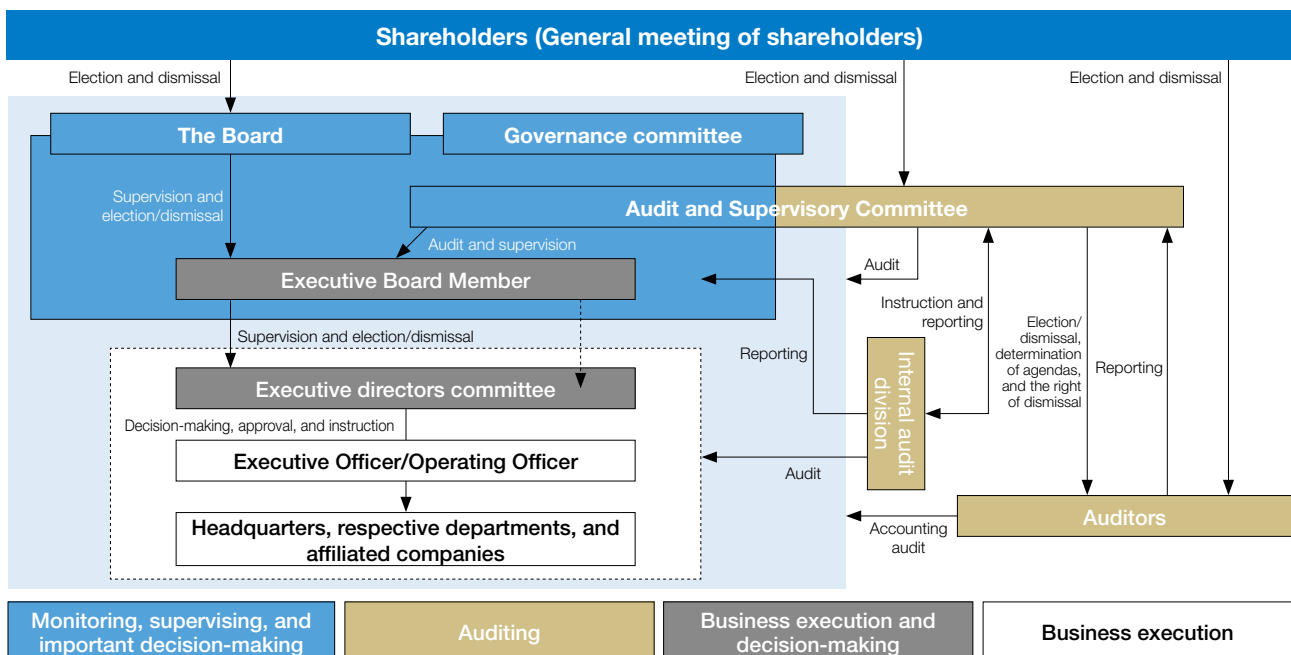
Corporate Governance

Key Initiatives for the Enhancement of Corporate Governance

2002	Made the shift to the chief executive officer system	2015	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.
2010	Reduced the number of directors from 11 to 9.	2019	Introduced the transfer restricted stock-based compensation system.
2011	Outside directors are selected.	2020	Reduced the number of directors from 9 to 7.
2012	The term for directors was reduced from two years to one year.		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.		

2021	<ul style="list-style-type: none"> 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
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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.

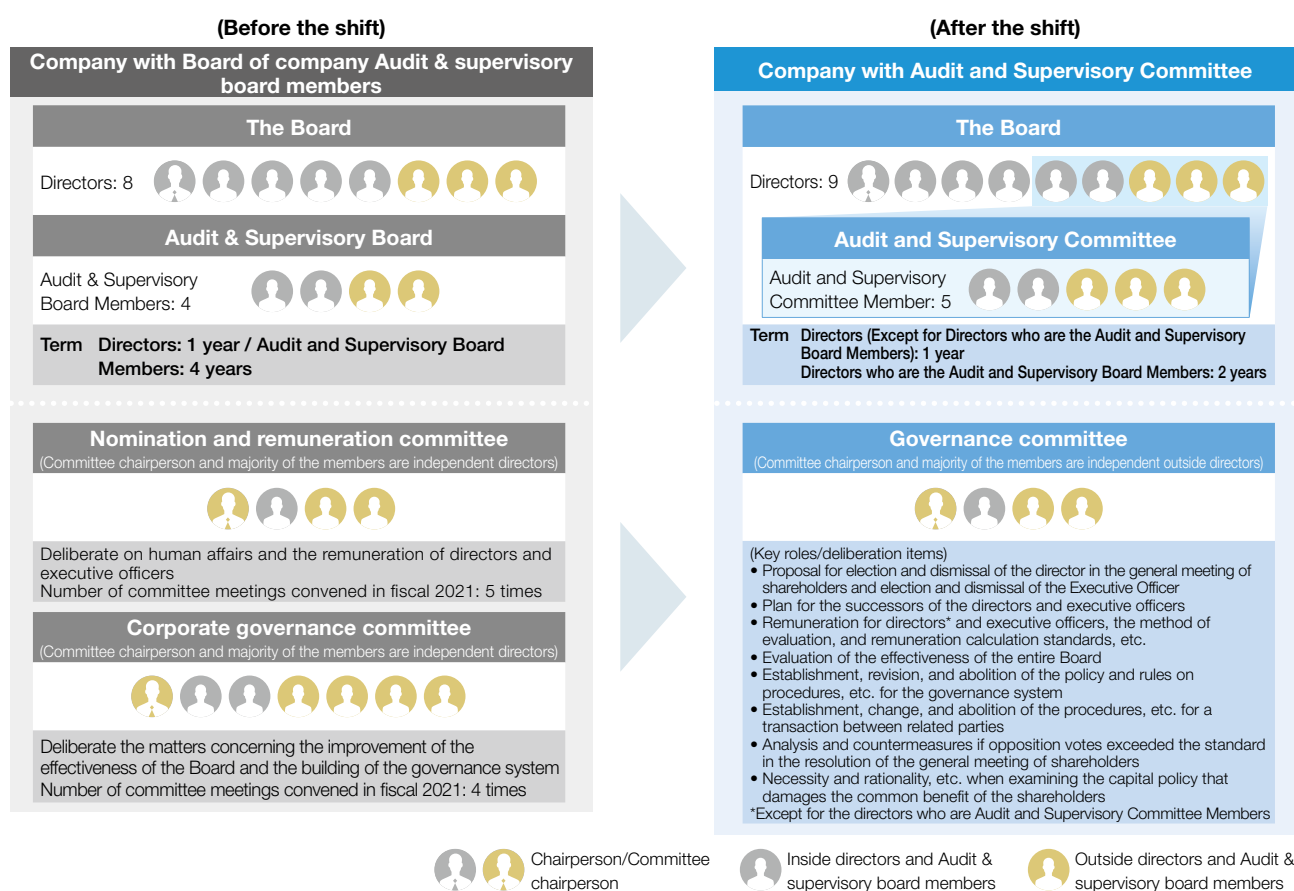
Structural Change toward the Further Improvement of Corporate Governance

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

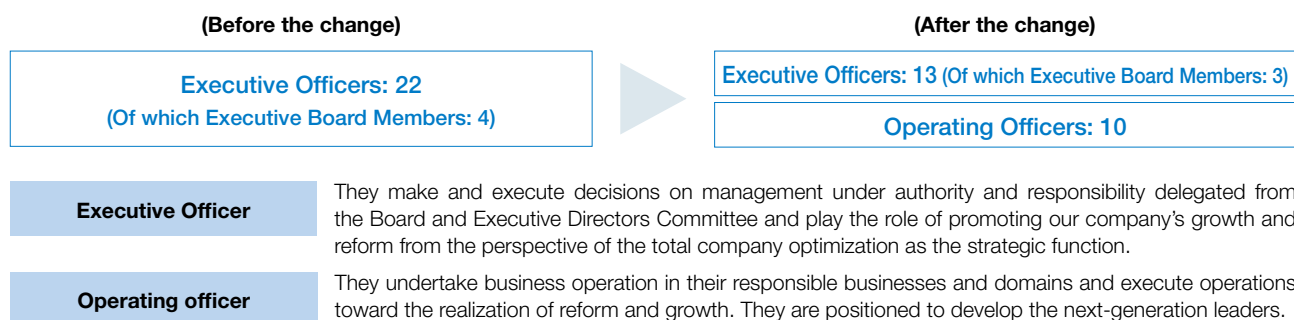
By establishing the Audit and Supervisory Committee, which consists of non-executive Board members who have the voting right in the Board and in which majority of the members are outside directors, we separate business execution and supervision, enhance the Board's supervisory function, and further improve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



Change in the Business Execution System

Purpose of Change

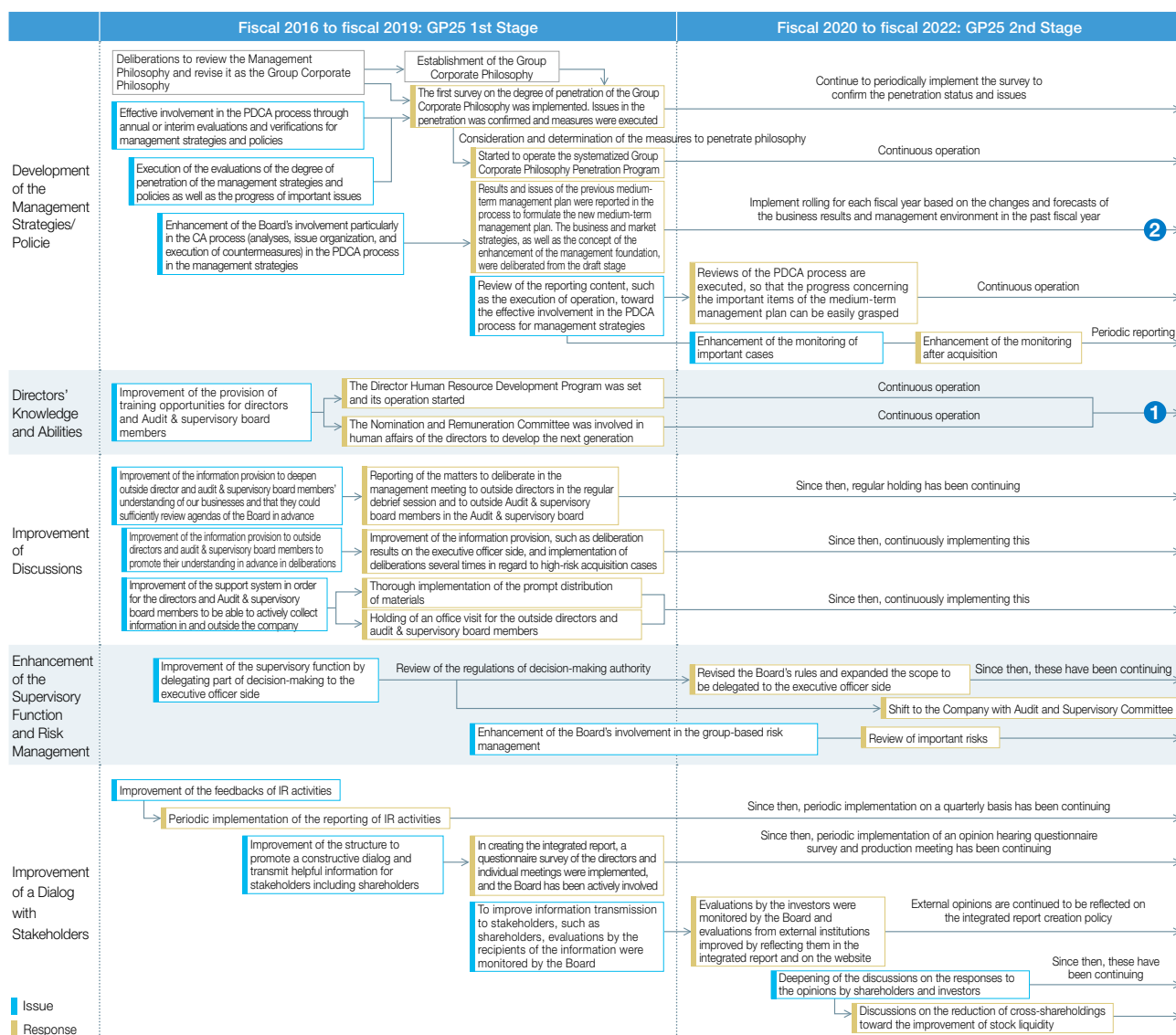
By clarifying management responsibilities and roles of the Executive Officer system and separating Executive Officers and Operating Officers, we accelerate and streamline decision-making on management and business execution. In conjunction with this, we proceed with the maximization of human resource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



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



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)

1. 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)

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.

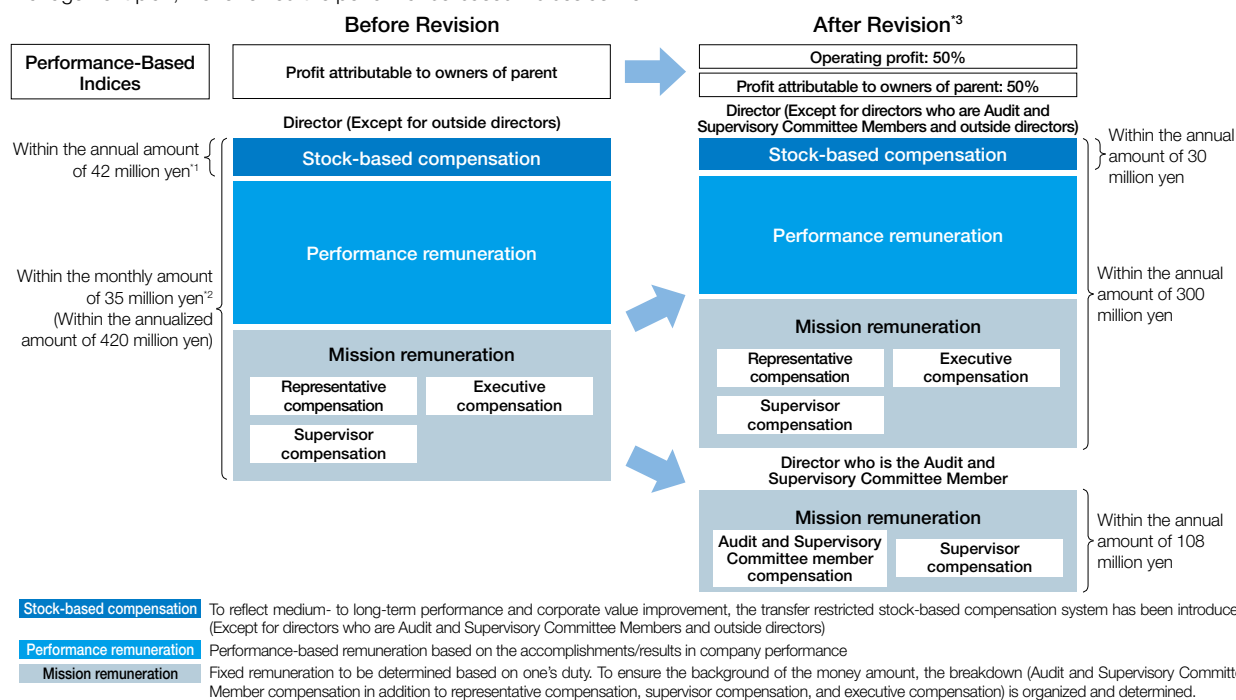
Procedure

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 directors (except 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.



*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 Executives
		Mission remuneration	Performance remuneration	Stock-based compensation	Retirement Benefits	
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

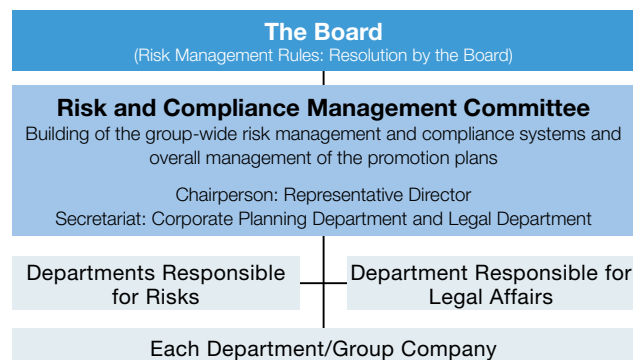
*1: Except for outside directors *2: Except for outside Audit & supervisory board members
*3: The total amount of remunerations, etc. above is based on the standards before revision by the resolution by the 105th General Meeting of Shareholders held on June 25, 2021.

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

- 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 in-house 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

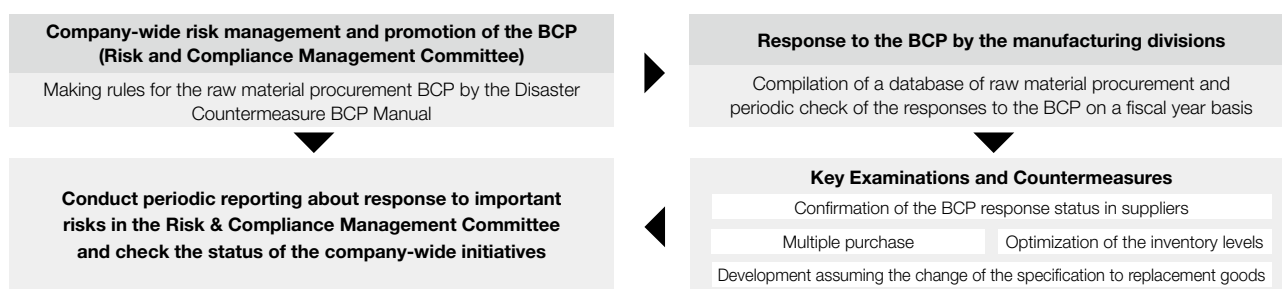
1. Community Involvement	(1) Compliance with Laws and Corporate Ethics (2) Ensuring Transparency of Donations	(3) Response to Anti-social Forces and Groups (4) Protection of the Environment
2. Customer Trust	(1) Response to Safety (2) Improving Customer Satisfaction and Trust (3) Sincere Sales Activities	(4) Appropriate Displays in Advertisements (5) Management and Protection of Customer Information
3. Relationship of Trust with Business Partners	(1) Promotion of Free Competition (2) Appropriate Transactions with Suppliers (3) Prohibition of Infringement of Rights	(4) Gifts and Entertainment (5) CSR Procurement (6) Compliance in Overseas Business
4. Gaining the Understand and Support of Shareholders and Investors	(1) Disclosure of Management Information	(2) Prohibition of Insider Trading
5. Work Attitude	(1) Respect for Human Rights and Prevention of Discrimination (2) Prevention of Harassment (3) 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	(1) Fair and Transparent Business Operations (2) Confidential Information Management	(3) 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

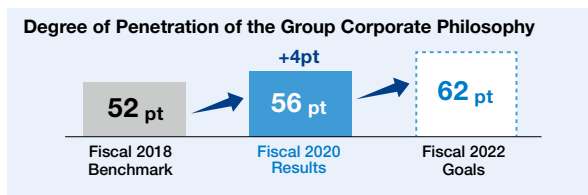


Initiatives toward the Penetration of the Group Corporate Philosophy

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 company-wide 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.



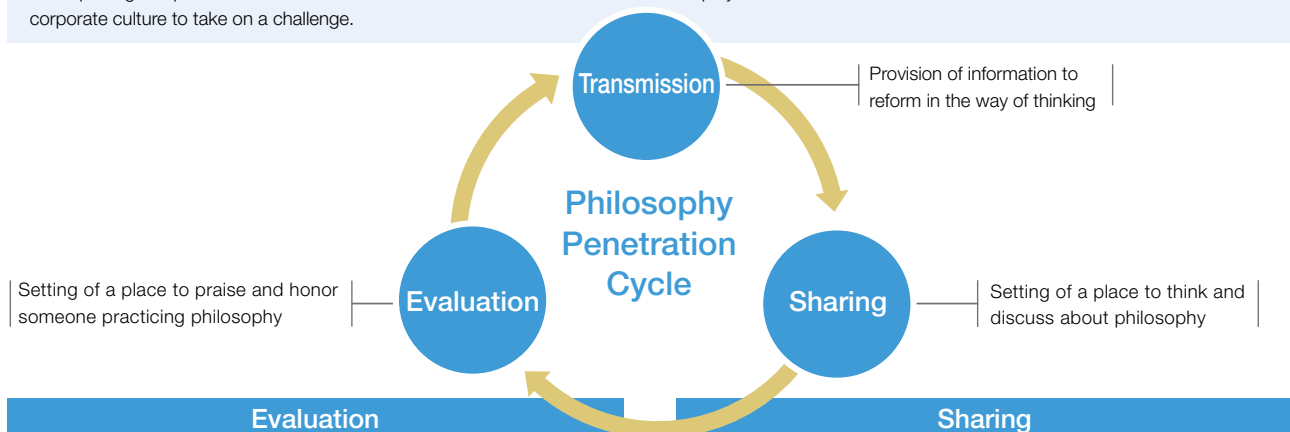
Transmission by the top management

(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



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 Daikden 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.