

# **Basic Policy on Corporate Governance**

**Amended on June 29, 2022**

**Dai Nippon Toryo Co., Ltd.**

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## **Basic Policy on Corporate Governance**

Dai Nippon Toryo Co., Ltd. (“the Company”) has established its Basic Policy on Corporate Governance for the purpose of achieving its sustainable growth and increasing its corporate value in the medium to long term.

### **1. The Company’s Basic Stance on its Corporate Governance**

#### **(1) Basic Concept**

The Company believes that the enhancement of its corporate governance is the top priority challenge management faces in its quest to gain recognition from shareholders and many other stakeholders as a company with existential value. To address this challenge, the Company will establish, in addition to the Board of Directors, a Nomination Advisory Committee and a Compensation Advisory Committee, which act as advisory bodies to the Board of Directors, and usher in a system comprising executive officers to properly separate management from the day-to-day execution of business, to ensure swift and appropriate decision-making and supervision in response to changes in the business environment, and to heighten the level of efficiency in the execution of business. The Company will also introduce a system made up of outside directors and auditors to strengthen and maintain the monitoring of business administration. In addition, the Company will make efforts to ensure a higher degree of transparency in corporate management, such as the timely and appropriate disclosure of information on financial results and managerial measures.

#### **(2) Management Philosophy**

The Company aims to be a company that contributes to creating a more prosperous society and a higher standard of life by protecting the global environment and resources through the creation of new value.

#### **(3) Rules of Conduct**

The Company will formulate the Code of Corporate Ethics, Charter of Corporate Conduct of Dai Nippon Toryo Co., Ltd., the Guidelines for Corporate Behavior as a Corporate Group, and the Code of Conduct for Officers and Employees of Dai Nippon Toryo Co., Ltd. in order to ensure that its directors, executive officers, and employees (“Officers and Employees”) always behave with a high degree of ethical and social sensibility, to which compliance by the Officers and Employees will be affirmed by the Board of Directors.

#### **(4) Sustainability**

We are aware that social, environmental, and other sustainability issues are an important factor in increasing our corporate value in the medium to long term. We therefore aggressively and proactively address and deal with these issues under the Environmental Policy and the Quality Policy and annually publish an Integrated Report in which our efforts are described.

#### **(5) Ensuring Diversity including Women's Empowerment**

The Company will promote women's empowerment and provide and improve the opportunities and environment that allow its Officers and Employees with various values, irrespective of gender, nationality, work experience, and other attributes, to demonstrate their respective capabilities.

## **2. The Company's Stance on Shareholders, General Meetings of Shareholders, and Capital Policies**

### **(1) Ensuring the Rights and Equality of Shareholders**

The Company will treat all shareholders equally in accordance with their respective equity shares, and endeavor to create an environment that will enable all shareholders to appropriately exercise their voting rights.

### **(2) General Meetings of Shareholders, Voting Rights, etc.**

- (i) In order to hold general meetings of shareholders open to all shareholders where they have sufficient time to deliberate the meeting agenda and exercise their voting rights appropriately, the Company will endeavor to ensure the accuracy of the information contained in notices of general meetings and to dispatch the notices as soon as possible. The Company will also electronically release relevant information on TDnet as well as on its own website before dispatching the notices.
- (ii) The Company will build an electronic system for the exercise of voting rights and prepare English translations of notices of general meetings to improve the environment for exercising voting rights thereby enabling all shareholders to properly exercise their voting rights.
- (iii) The Company regards general meetings of shareholders as the ultimate decision-making body composed of shareholders with voting rights. The Company will analyze the results of voting on the agenda items and who voted for and against them. When it recognizes that a considerable number of votes were cast against any of the items proposed by the Company, it will properly impart the intent of shareholders to the Board of Directors which will then study whether further dialogue or other response with shareholders is needed.
- (iv) When proposing to delegate to the Board of Directors some of the matters which otherwise ought to be dealt with by a resolution of a general meeting of shareholders, the Company will ensure that the judgment passed and decisions made by the Board of Directors are in accordance with laws and regulations, taking into consideration the swiftness of managerial decision making and the technical nature of the matters in question.
- (v) Prior to implementing a capital policy that results in a transfer or major dilution of control, the Board of Directors and auditors will study the necessity and reasonableness, and while ensuring that the appropriate procedures are followed, provide sufficient explanations to shareholders with a view to fulfilling its fiduciary responsibility to shareholders.
- (vi) The Company will analyze the register of shareholders twice a year to ascertain the shareholder structure.
- (vii) If an institutional investor holding shares in the name of a trust bank or the equivalent expresses its wish to exercise its voting or other rights as a shareholder at a general meeting of shareholders, the Company will consult with the relevant trust bank or the equivalent.

### **(3) Management Planning**

The Board of Directors will develop a medium-term management plan to set the overall direction of its business strategy and disclose and explain the outline and progress of the plan in a necessary and reasonable manner.

**(4) Capital Policies**

The Company recognizes its three priority challenges in increasing its share value in the medium to long term: improving financial health; effective utilization of shareholders' equity to boost its earnings power; and amplified returns to shareholders. The Company makes it a basic principle that underlies its capital policies, based on which it takes into overall consideration the optimal balance between these three challenges to attain sustainable growth.

**(5) Returns to Shareholders**

The Company has adopted a basic principle of continuously and steadily paying dividends consistent with its financial results, while strengthening its business structure and maintaining its financial health, as it considers determining the amount of dividends to shareholders to be a key management element.

With regard to the acquisition of treasury shares, the Company will do it at an appropriate time if it is deemed necessary upon considering the market conditions, capital efficiency, and other factors.

**(6) Policy on Cross-Shareholding**

The Company will disclose its Policy on Cross-Shareholding and verify the economic rationality and the future outlook of principal shares under cross-shareholding each year at the Board of Directors. It will offer detailed explanations on the objective and reasonableness of ownership that reflect the results of verification.

[Standards for Exercising Voting Rights]

The Company will hold shares of its business partners to achieve sustainable growth and increase its corporate value if it deems necessary as part of efforts to maintain and strengthen its business strategies and trade relationships.

In addition, the Company's Board of Directors will periodically perform an annual verification of the purpose and economic rationality of each of cross-held shares from a medium- to long-term perspective and will reduce the shares if the significance of holding them has diminished.

The Company will formulate and disclose the standards for ensuring appropriate actions for the exercise of voting rights concerning the cross-held shares.

[Standards for Exercising Voting Rights]

To exercise voting rights of shares owned in cross-shareholding, the Company will first conduct overall reviews of each of agenda items to properly determine whether or not they will contribute to improving its corporate value and shareholder value before exercising the voting rights.

**(7) Measures to Guard against Takeover Bids**

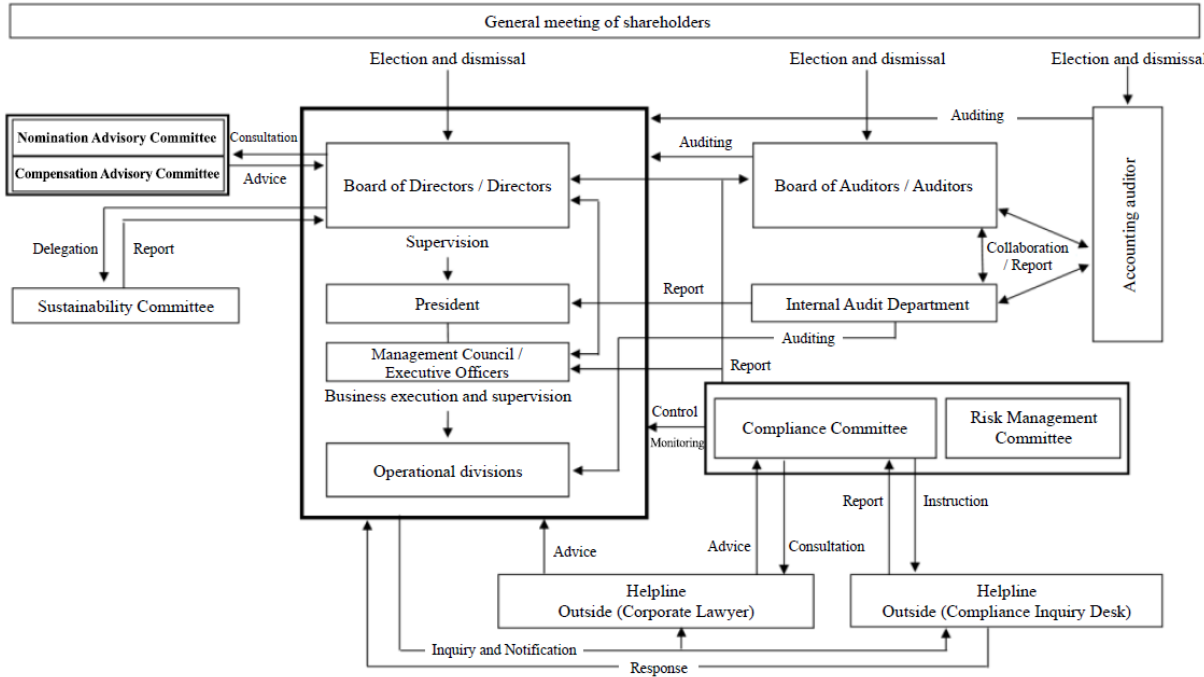
- (i) Prior to introducing and implementing measures to guard against takeover bids, the Company will study the necessity and rationale of these measures to ensure the appropriate procedures, and will give sufficient explanations to shareholders.
- (ii) If the Company's shares are in fact made subject to a takeover bid, the Company will properly disclose to the shareholders the Board of Directors' opinion about the bid. The Company will not unfairly inhibit the shareholders' rights from agreeing to the takeover bid and selling off the Company shares.

**3. The Company’s System of Governance**

**(1) Directors, Executive Officers, and Auditors Structure**

- (i) The Company’s directors, executive officers, and auditors will be aware of their fiduciary responsibility to shareholders and take actions for the benefit of the Company and for the common benefit of shareholders, while at the same time securing the appropriate level of collaboration with stakeholders.
- (ii) The Company will adopt the scheme set forth by the Companies Act for companies with boards of company auditors thereby making good use of the auditing functions of the Board of Auditors; appointing highly independent outside officers with an outside perspective to ensure the supervisory function; and increasing the effectiveness of corporate governance.
- (iii) In order to strengthen the decision-making and management and supervision functions of the Board of Directors, the Company will establish a Nomination Advisory Committee and a Compensation Advisory Committee, which act as advisory bodies to the Board of Directors. The Company will also adopt the system comprising executive officers that assigns the duties of managerial decision-making and management and supervision to the Board of Directors and those of executing business to the executive officers thereby carrying out quick and appropriate decision-making and clarifying its authority and responsibility.

**(2) Governance Structure Diagram**



### **(3) Responsibilities of the Board of Directors**

- (i) The Board of Director is aware of its fiduciary responsibility and accountability to shareholders and will properly fulfill the roles and responsibilities specified below to facilitate the sustainable growth of the Company, increase its corporate value in the medium to long term, and to improve its earning power, capital efficiency, and other capacities:
  - Decision-making on important corporate strategies such as medium-term management plans;
  - Building an environment that supports directors and executive officers to take risks by developing group-wide internal control and risk management systems; and
  - Implementing highly effective supervision of directors and executive officers from an independent and objective standpoint.
- (ii) The Company has established the Regulations on the Board of Directors and the Regulations on the Management Council to specify matters that should be discussed by and reported to the Board of Directors, which include a mandate giving the Management Council the authority to deal with matters concerning the execution of business.
- (iii) The Company will establish a Nomination Advisory Committee and a Compensation Advisory Committee, which act as advisory bodies to the Board of Directors, to ensure the fairness, transparency, and objectivity and increase accountability in the decision-making process of the Board of Directors for nominating directors, etc. and determining directors' remuneration and to improve the Company's corporate governance. Each committee will consist of a majority of independent outside directors and report to the Board of Directors the results of its discussions on the nomination and remuneration of directors, etc.
- (iv) The Board of Directors will supervise the timely and accurate disclosure of information, properly develop group-wide internal control and risk management systems, and oversee whether the systems are effectively implemented.

### **(4) Composition and Balance of the Board of Directors**

- (i) The Board of Directors will be composed of the right number of members who have knowledge, experience, and capabilities, according to the appropriate balance between the members, diversity, and roles and irrespective of gender, nationality, work experience, age, and other attributes. Prospective outside directors will be selected by taking into account their attributes, knowledge, and skills, and prospective inside candidates, their performance, activities, and other factors, and in either case, a combination of skills required to serve as members of the Board of Directors will be considered. Directors will be appointed in a general meeting of shareholders with the utmost respect for the advice of the Nomination Advisory Committee.
- (ii) In the event that a director or auditor of the Company also serves as a director or auditor of another listed company, the number of such positions will be limited to a reasonable extent. The status of directors or auditors holding such positions will be disclosed in an annual business report.

### **(5) Independence and Roles and Responsibilities of Outside Officers**

- (i) Outside directors elected in accordance with the Judgment Criteria on Independence, and directors who do not engage in the execution of day-to-day business will still offer opinions and advice from their independent and objective standpoints with regard to important decisions on remuneration, nomination, and other matters in order to ensure a high level of effectiveness in the system of management supervision.

[Criteria for Judgment on Independence]

When selecting outside director and outside auditor candidates, a person who does not meet any of the following criteria, in addition to the independence requirements under the Companies Act and the regulations of the Tokyo Stock Exchange, will be deemed by the Company to be fully independent.

- 1) An entity whose major business partner is the Company and its subsidiaries (“the Group”)\*<sup>1</sup> or a person executing the business of such entity\*<sup>2</sup>;
- 2) The Group's major business partner\*<sup>3</sup> or a person executing the business of such major business partner;
- 3) A consultant, accountant, or legal expert who received from the Group money or other property worth 10 million yen or more per year in the last business year in addition to directors' remuneration (or if an entity that received such property is an organization such as a corporation, association, etc., a person who belongs to such organization);
- 4) An entity that received from the Group a donation of 10 million yen or more per year in the last business year or a person executing the business of such entity;
- 5) The Company's major shareholder (a shareholder who directly or indirectly holds ten percent or more of the total voting rights of the Company) or a person executing the business of such major shareholder;
- 6) An entity or person who fell into any of the categories 1) to 5) above in the last three years; or
- 7) A relative within the second degree of kinship of a person who falls into any of the categories 1) to 5) above (such relative must be a person holding a key position\*<sup>4</sup>)

\*1 An entity whose major business partner is the Group means a group of companies which provides products or services to the Group and which received payments from the Group that accounted for two percent or more of its annual consolidated sales in the last business year.

\*2 A person executing business means an executive as defined in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act and includes executive directors, executive officers, other officers executing the business of a company, members executing the business of a company, and employees.

\*3 The Group's major business partner means a group of companies to which the Group provides its products or services and which made payments to the Group that accounted for two percent or more of the Group's annual consolidated sales in the last business year. (In the case of a financial institution which lends money to the Group, the amount of money borrowed by the Group from that financial institution must account for a significant portion of the Group's consolidated assets.)

\*4 A person holding a key position means, in relation to 1), 2), 4), and 5), a director, an executive, an executive officer, and a person executing the business of a company and holding a position of general manager or higher, and in relation to 3), a certified public accountant belonging to an audit firm and a lawyer belonging to a law firm (including so-called associates).

(ii) Outside directors will be aware that they are expected to fulfill the roles and responsibilities specified below and will appropriately carry out their duties:

- To give appropriate advice in order to help realize the Company's sustainable growth and medium- to long-term corporate value elevation on the basis of their knowledge of management policies and improvements.
- To supervise the management by electing and dismissing directors and executive officers and making other significant decisions of the Board of Directors.
- To supervise conflicts of interest between the Company and directors, executive officers, majority shareholders, or other similar parties.



- To properly incorporate the opinions of minority shareholders and other stakeholders into the Board of Directors from a perspective separate and independent of directors, executive officers, and majority shareholders.

(iii) In the event that an outside director communicates or coordinates with a director or an executive officer, or collaborates with an auditor or the Board of Auditors, the General Affairs Department will act as a point of contact for communication and coordination.

**(6) Effectiveness of the Board of Directors (including Self-Assessment and Revitalization)**

- (i) The Board of Directors will annually analyze and evaluate its overall effectiveness by referring to self-assessment of individual directors, and disclose the outline of the results.
- (ii) The Board of Directors will strive to engender a culture respectful of free, lively, and constructive discussions and exchanges of views. It will describe in the Regulations on the Board of Directors how it operates the Board of Directors, and more particularly, provide sufficient information, so as to enhance the effectiveness of outside directors and auditors by giving prior explanations on the materials for the Board of Directors meetings.
- (iii) The Company will build a system for providing directors with personnel and other support to help obtain information.
- (iv) Directors, including outside directors, will make active efforts to collect information and seek additional information from the Company as needed in order to effectively fulfill their roles and responsibilities. Depending on the circumstances, they will consider seeking advice from outside experts at the cost of the Company.

**(7) Roles and Responsibilities of Auditors and the Board of Auditors**

The auditors and the Board of Auditors will act in accordance with the Audit Standards for Auditors. The auditors and the Board of Auditors are well aware of their fiduciary responsibility to shareholders and will not only conduct performance audits and accounting audits but also work together with outside directors to make proactive comments to directors and executive officers from an independent and objective standpoint.

**(8) Effectiveness of Audits and Collaboration with Outside Directors, the Internal Audit Department, and Accounting Auditor**

- (i) In order to ensure the effectiveness of audits, the auditors and the Board of Auditors will make active efforts to collect information and seek additional information from the Company as needed. Depending on the circumstances, they will consider seeking advice from outside experts at the expense of the Company. The Company will build a system for providing support for these actions in accordance with its basic policy on the group-wide internal control system.
- (ii) The Board of Auditors will hold regular meetings with the accounting auditor and the Internal Audit Department, and exchange information and share views with outside directors from time to time.
- (iii) The Accounting Auditor and the Company will take appropriate measures aimed at ensuring fair and sound audits.
- (iv) The Board of Directors and the Board of Auditors will take appropriate measures, including providing a sufficient amount of time for the accounting auditor to properly carry out audits and providing access to the management executives such as the president, the senior managing director, and managing executive officers. The Company will also establish a framework that enables the Company to respond to any fraud, deficiency, or other issues identified by the accounting auditor.

- (v) In order for the Board of Directors and the Board of Auditors to perform their functions, the Company will ensure that the Internal Audit Department works together with the directors, auditors, and accounting auditor by developing a system that enables the Internal Audit Department to properly and directly report to the Board of Directors and the Board of Auditors.

**(9) Evaluation, Appointment, etc. of the Accounting Auditor**

The Board of Auditors will properly assess the accounting auditor in accordance with the Regulations on the Board of Auditors and the Assessment Criteria Concerning Appointment and Other Matters of the Accounting Auditor, and make decisions on whether or not to appoint, dismiss, or reappoint the accounting auditor.

**(10) Policy and Procedures for Appointing and Removing Directors, Management Executives, and Auditors**

- (i) The Board of Directors will give overall consideration to the appointment and dismissal of management executives and the nomination of prospective directors by taking into account appropriate and swift decision-making, proper risk management, the monitoring of the execution of business, and the balance between the Company's functions and operating segments and with the utmost respect for the advice of the Nomination Advisory Committee. Further, the Company's financial results and other factors will be reflected in the appointment and dismissal of management executives.
- (ii) Each of prospective auditors must have financial, accounting, and legal knowledge and at least one of whom must have a sufficient financial and accounting knowledge. The Board of Directors will nominate candidates with the utmost respect for the advice of the Nomination Advisory Committee and appoint them at a general meeting of shareholders. With a view to appointing the right person at the right position, the Board of Directors will comprehensively consider the nomination of prospective auditors while ensuring the balance between knowledge of the Company's business sector and a diverse range of views on corporate management. The prospective auditors' candidacy will require the approval of the Board of Auditors.
- (iii) Information about the selection and nomination of each prospective director and auditor and their professional backgrounds will be provided in the reference document for a general meeting of shareholders and they will be elected by a resolution of the general meeting. The prospective auditors will further be subject to the approval of the Board of Auditors.

**(11) Future Management Executives**

In order to secure human resources who will contribute to the Company's sustainable growth and development, the Company will provide personnel who exhibit the potential to become management executives in the future with level-specific systematic training according to their job ranks. They will be systematically trained to be future management executives by being transferred to work in different departments and by attending Management Council meetings and other important management meetings to gain experience of managing the Company. The Board of Directors will monitor the progress of training.

**(12) Policy and Procedures for Determining Remuneration of Directors, etc.**

Remuneration of directors and other officers of the Company is composed of basic remuneration (fixed remuneration) which is determined within the limits specified in the position-specific remuneration table and paid in cash, a bonus linked with short-term performance, and stock-based remuneration in treasury shares aimed at medium- and long-term improvement in financial results. The Company will specify the ratio of remuneration linked with medium- and long-term financial results and the ratio of remuneration in cash to that in treasury shares at proper levels in order to provide sound incentives that help to further sustainable growth.

[Policy and Procedures for Determining Remuneration of Directors, etc.]

(i) Policy on Determining Remuneration of Directors, etc.

The Company will define the following as a basic policy on determining remuneration of directors and other personnel.

- A structure of remuneration suited to the roles, responsibilities, and results of individual directors and other personnel.
- A structure of remuneration that reflects the Company's financial conditions and medium- and long-term financial results.
- A structure of remuneration that gives incentives to improve the Company's financial results and its corporate value and raises morale.
- A structure of remuneration that enables directors and other personnel to share the same value standard with shareholders and other stakeholders.

(ii) Details of Remuneration and Procedures for Determining Remuneration

- Remuneration of directors is composed of basic remuneration, a bonus, and stock-based remuneration in treasury shares. The amount of remuneration of each director will be determined by the president, who is delegated to do so by the Board of Directors, within the limits approved at a general meeting of shareholders and with the utmost respect for the advice of the Nomination Advisory Committee. Remuneration of outside directors consists of basic remuneration only.
- Because of the nature of auditing functions, remuneration of auditors will not be linked to performance and will only consist of basic remuneration. The amount of remuneration of each auditor will be determined through discussion among the auditors, within the limits approved at a general meeting of shareholders.
- Remuneration of executive officers will consist of basic remuneration, a bonus, and stock-based remuneration in treasury shares, subject to a decision by the Board of Directors.

**(13) Training for Directors, Executive Officers, and Auditors**

The directors and auditors are part of the important governance body of the Company. As such, they will deepen their understanding of their roles and responsibilities and properly fulfill them. They will also endeavor to acquire and update the necessary knowledge that they are required to possess under the Policy on the Training for Directors and Auditors described below.

This training policy will also apply to executive officers.

[Policy on the Training for Directors, Executive Officers, and Auditors]

- The Company will from time to time provide directors and auditors, including outside directors and outside auditors, and executive officers with such appropriate training and information as may be necessary for them to properly fulfill their respective roles and responsibilities.
- When new directors, auditors, and executive officers are appointed, the Company will provide

them with opportunities to receive training on the Companies Act and other applicable laws and regulations, and will continue to provide training on legal reforms, management issues, and other matters after their appointment.

- When new outside directors and outside auditors are appointed, the Company will explain the details of its business and organize an inspection tour of its principal facilities. The Company will also offer necessary information on business issues and other matters after their appointment.
- The Board of Directors will check whether the aforementioned measures are properly implemented.

#### **4. Compliance**

##### **(1) Internal Control (Whistleblowing)**

The Company will put in place a group-wide whistleblowing program that enables all employees of the Company and its subsidiaries to directly report on any illegal or inappropriate conduct by an organization or an individual without being treated unfairly and develop a rule that ensures whistleblowers' anonymity and prohibits their unfair treatment. The Board of Directors will oversee the operations of these steps concerning whistleblowing.

##### **(2) Related Party Transactions**

Before the Company engages in a transaction with a director, executive officer, or principal shareholder (related party), the Board of Directors will first examine the reasonableness of the transaction and a potential conflict of interest before deciding whether to approve the transaction or not, so that the transaction will not damage the Company's interests or the common interests of shareholders.

#### **5. Dialogue with Shareholders**

##### **(1) Information Disclosure**

The Company will properly disclose information required by laws and regulations and also disclose information, other than that required by laws and regulations, in a timely and appropriate manner so that such information offers greater added value to users. The Company will also disclose and provide information in the English language for overseas investors to a reasonable extent.

##### **(2) Stance on Engagement (Dialogue with Specific Focus)**

The Company will endeavor to improve its system for constructive communication with shareholders pursuant to the Basic Policy on the Investor Relations System.

[Basic Policy on the Investor Relations System]

- The officer in charge of the Administration Division will control all communication with shareholders and equivalent parties in an effort to achieve constructive communication. The officer in charge of the Administration Division or any other personnel named by him or her will engage in actual communication or interviews with shareholders and equivalent parties in view of the wishes of the shareholders or equivalent parties and the principal subjects of the interviews.
- Other relevant departments assisting the communication will work in close collaboration in putting together the relevant disclosure materials and sharing information in an effort to achieve constructive dialogue.

- As a means of communication other than individual interviews, the Company will organize financial results briefings targeted at analysts, institutional investors, and other similar individuals. In addition, the Company's website will have a webpage dedicated to investor relations information for publishing financial results and other information in plain form.
- Personnel engaging in the above-mentioned communications will report the opinions and concerns heard from shareholders to the management team and others in a timely and appropriate manner.
- If any insider information emerges at the time of communications, the Company will manage the same in accordance with the Regulations on the Management of Insider Information and Insider Transactions which will be formulated.

## **6. Asset Owners**

The Company recognizes that the management of its company pension plan will have an impact not only on its employees' stable asset building but also on its financial conditions. In order for the Asset Management Committee to monitor how the pension plan is managed and take other appropriate steps, the Company has staff who are knowledgeable about asset building, such as those who have worked in the Finance Department or served as labor union officials, and encourage them to improve their credentials by attending externally organized seminars or qualifying as a financial planner.

The Company engages an asset management organization to manage the company pension plan and instructs it to exercise voting rights in accordance with Japan's stewardship code. The Company receives regular reports of how the voting rights are exercised.

In addition, the Company properly manages any conflict of interest that may arise between the Company and beneficiaries of the company pension plan.

### Supplementary Provision

This Basic Policy on Corporate Governance shall go into effect on June 29, 2022.

Established on October 29, 2015

Partially amended on December 21, 2018

Partially amended on May 10, 2019

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