

Date: June 26, 2023

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## Principles for Responding to the Corporate Governance Code

HANWA Co., Ltd. (“the Company”) will further introduce measures required for corporate governance hereafter in line with the trend of the times toward improved governance. In response to the enforcement of the Corporate Governance Code, the Company believes that explanations from the Company focused on its current situations and its views will be conducive to the common interests of its shareholders, investors, and the Company. Accordingly, we have disclosed these principles for responding to all items of the Corporate Governance Code.

For disclosure at this time, the Company has partly revised the principles based on its current situations. The Company will endeavor to take measures from a long-term and continuous viewpoint to increase corporate value through reinforced effectiveness of governance.

We appreciate our shareholders and investors’ understanding.

### Section 1: Securing the Rights and Equal Treatment of Shareholders

#### General Principle 1

**Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively.**

**In addition, companies should secure effective equal treatment of shareholders.**

**Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective equal treatment of shareholders.**

The Company strives to develop an environment to secure the rights of all shareholders. With regard to corporate information, the Company proactively discloses information deemed beneficial to shareholders in addition to information subject to the timely disclosure standards of the stock exchange. In addition, the Company discloses the above information on its website without delay and makes efforts to disclose the information in English concurrently with its disclosure in Japanese, as far as practicable. With regard to voting rights, the Company provides a voting method via the Internet in addition to a method in writing, so that more shareholders have equal opportunities to exercise their rights.

#### Principle 1.1 Securing the Rights of Shareholders

**Companies should take appropriate measures to fully secure shareholder rights, including voting rights at the general shareholder meeting.**

With regard to the provision of opportunities to exercise voting rights, the Company uses a voting site operated by Sumitomo Mitsui Trust Bank, Limited and the Electronic Voting Platform operated by ICJ, Inc. (Investor Communications Japan). The Company therefore recognizes that it duly provides shareholders with wide opportunities to exercise their voting rights and takes appropriate measures.

#### Supplementary Principles

##### 1.1.1 When the board recognizes that a considerable number of votes have been cast against a proposal by the

**company and the proposal was approved, it should analyze the reasons behind opposing votes and why many shareholders opposed, and should consider the need for shareholder dialogue and other measures.**

Controversial proposals which a considerable number of votes will be cast in disapproval at the General Shareholders Meeting are recognized as such when they are presented to the meeting. In case of such proposals, the Company takes appropriate measures to carefully explain them to shareholders and clarify why the Company has chosen the content of the proposals.

The Company also acknowledges that approval or disapproval of measures under various management conditions may differ, depending on the various factors, such as positions of the respective shareholders. With respect to proposals which a considerable number of votes have been cast in disapproval as a result of voting in spite of sufficient explanation of the proposals and exchange of opinions, the Company will work to obtain the shareholders' understanding through continuous dialogue with them.

**1.1.2 When proposing to shareholders that certain powers of the general shareholder meeting be delegated to the board, companies should consider whether the board is adequately constituted to fulfill its corporate governance roles and responsibilities. If a company determines that the board is indeed adequately constituted, then it should recognize that such delegation may be desirable from the perspectives of agile decision-making and expertise in business judgment.**

With regard to the delegation of the matters requiring resolutions of the Shareholders Meeting to the Board of Directors, the Company considers it a necessary condition that the Board of Directors be a structure that can bear the responsibilities to decide such matters. The Company has elected four outside directors who oversee the appropriateness of decision-making by the Board of Directors. As we consider it desirable to delegate authority within a confined scope even though permitted under laws and regulations, the matters requiring resolutions of the Shareholders Meeting delegated to the Board of Directors under the provisions of the Articles of Incorporation at this point are issuance of shares within the authorized number of shares to be issued, implementation of interim dividends, and acquisition of treasury stock.

**1.1.3 Given the importance of shareholder rights, companies should ensure that the exercise of shareholder rights is not impeded. In particular, adequate consideration should be given to the special rights that are recognized for minority shareholders with respect to companies and their officers, including the right to seek an injunction against illegal activities or the right to file a shareholder lawsuit, since the exercise of these rights tend to be prone to issues and concerns.**

The Company has established Share Handling Regulations to stipulate procedures in advance for the exercise of rights by minority shareholders, and will not prevent the exercise of rights.

**Principle 1.2 Exercise of Shareholder Rights at General Shareholder Meetings**

**Companies should recognize that general shareholder meetings are an opportunity for constructive dialogue with shareholders, and should therefore take appropriate measures to ensure the exercise of shareholder rights at such meetings.**

To make the Shareholders Meeting an opportunity for constructive dialogue with shareholders, the Company discloses information at appropriate times, provides shareholders with opportunities to exercise their voting rights, explains business conditions using methods such as slides, and thereby strives to take appropriate measures to ensure the exercise of shareholder rights.

**Supplementary Principles**

**1.2.1 Companies should provide accurate information to shareholders as necessary in order to facilitate appropriate decision-making at general shareholder meetings.**

The Company considers that it should promptly disclose information which would facilitate appropriate decision-making by shareholders at the Shareholders Meeting. In addition, the Company posts the Notice of the Shareholders Meeting on the Company's website to broadly provide information.

**1.2.2 While ensuring the accuracy of content, companies should strive to send convening notices for general shareholder meetings early enough to give shareholders sufficient time to consider the agenda. During**

**the period between the board approval of convening the general shareholder meeting and sending the convening notice, information included in the convening notice should be disclosed by electronic means such as through TDnet or on the company's website.**

Currently, the notice for shareholders to access the electronic provision of information is to be sent out approximately three weeks prior to the Shareholders Meeting. In order to respect the purpose of the electronic provision system, which is required to be introduced in March of this year, and to ensure that shareholders have sufficient time to consider the agenda, regardless of the start date of the electronic provision measure stipulated in the Companies Act, the Notice of the Shareholders Meeting is published electronically on Japan Exchange Group's website and the Company's website as soon as possible after the decision to convene the Shareholders Meeting.

**1.2.3 The determination of the date of the general shareholder meeting and any associated dates should be made in consideration of facilitating sufficient constructive dialogue with shareholders and ensuring the accuracy of information necessary for such dialogue.**

The date of the Annual Shareholders Meeting of the Company is determined in late June, the third month after the fiscal year end, which is the time limit for extensions of final returns under the Corporation Tax Act. The Company selects this schedule to ensure itself the time required for account settlement and other procedures necessary for holding the Shareholders Meeting after the fiscal year end, with no intention to prevent shareholders from attending the meeting. Generally, we hold our general meeting of shareholders at the Osaka Head Office, where our registered head office is located, on the day when the ordinary general meetings of shareholders are concentrated. A total of 100 to 150 shareholders attend the meeting every year. We have moved forward the date of the 71st Ordinary General Meeting of Shareholders. We will continue to provide shareholders in Japan and overseas with sufficient time to consider the exercise of their voting rights by disclosing convening notices as soon as possible. At the same time, we will flexibly set the date of the general meeting of shareholders, while ensuring an appropriate time period for preparation.

**1.2.4 Bearing in mind the number of institutional and foreign shareholders, companies should take steps for the creation of an infrastructure allowing electronic voting, including the use of the Electronic Voting Platform, and the provision of English translations of the convening notices of general shareholder meeting.**

**In particular, companies listed on the Prime Market should make the Electronic Voting Platform available, at least to institutional investors.**

As mentioned above, the Company has created an infrastructure for the exercise of voting rights that allows shareholders to use a voting site operated by Sumitomo Mitsui Trust Bank, Limited and the Electronic Voting Platform operated by ICJ, Inc. (Investor Communications Japan), in addition to voting in writing, to ensure that institutional and foreign shareholders have opportunities to exercise voting rights. In addition, with regard to the Notice of the Shareholders Meeting, the essentials of the agenda are translated into English and posted on the Company's website, etc.

**1.2.5 In order to prepare for cases where institutional investors who hold shares in street name express an interest in advance of the general shareholder meeting in attending the general shareholder meeting or exercising voting rights, companies should work with the trust bank (shintaku ginko) and/or custodial institutions to consider such possibility.**

Currently, the Company permits shareholders recorded on the shareholder register to attend the Shareholders Meeting. The Company does not permit beneficial shareholders to attend the Meeting because there are no means by which to confirm the credibility of shareholding by beneficial shareholders. If and when the Company receives such a request, it will judge the matter according to the stance on information provision of true shareholders and the trust bank and/or custodial institutions, the representation of the true shareholders, and other factors.

The Company believes that if a system is established in the future to allow issuers to recognize true shareholders, the Company may deliberate on allowing them to attend the Shareholders Meeting.

### **Principle 1.3 Basic Strategy for Capital Policy**

**Because capital policy may have a significant effect on shareholder returns, companies should explain their basic strategy with respect to their capital policy.**

The Company aims at comprehensively increasing corporate value and sustainable corporate growth and believes that the most important management responsibilities is to enable sustainable returns of earnings to shareholders while building sufficient internal reserves for the reinforcement of management base and investment in future growth.

If the Company intends to raise funds by means that dilute existing shares, the Company will implement the fundraising after the Board of Directors sufficiently examines the purpose and effect of the funds and upon careful explanations are provided to shareholders.

With regard to shareholder returns, the Company's basic policy is to continuously pay stable dividends, while striving to sustainably enhance corporate value and aiming to increase the amount of dividends over the medium to long term.

In addition, the Company strives to improve capital efficiency and maintain financial soundness, taking into account capital structure and the levels of various management indicators.

### **Principle 1.4 Cross-Shareholdings**

**When companies hold shares of other listed companies as cross-shareholdings, they should disclose their policy with respect to doing so, including their policies regarding the reduction of cross-shareholdings. In addition, the board should annually assess whether or not to hold each individual cross-shareholding, specifically examining whether the purpose is appropriate and whether the benefits and risks from each holding cover the company's cost of capital. The results of this assessment should be disclosed.**

**Companies should establish and disclose specific standards with respect to the voting rights as to their cross-shareholdings, and vote in accordance with the standards.**

For the Company, which is in charge of intermediary distribution in the supply chains of various industries such as construction, automobiles, home appliances, etc., securing functions to increase added value in the distribution process and participation in various supply chains are considered essential from the perspective of maintaining and strengthening the Company's sustainable profitability.

Therefore, if it is likely that the Company can contribute to the establishment and strengthening of business relationships and the strengthening of functions necessary for the Company, such as immediate delivery, small-lot delivery, and processing, the Company considers whether or not to hold the shares of the company in question based on the expected effects.

We understand that such shareholdings are recognized as so-called "strategic shareholdings" and that they should be judged carefully from the perspective of deterioration of capital efficiency, hollowing out of capital invested by investors, market risk of shareholdings, and loosening of management judgment by securing stable shareholders. We believe that we should hold shares within the scope of necessity and rationality after verifying whether there is a specific relationship between the company we hold shares in and our business, as well as the benefits and risks that can be obtained from holding shares.

Based on the above, when holding shares, we examine whether the benefits associated with the holding of the shares are commensurate with the cost of capital and strive to maintain profitability at a level commensurate with the cost.

As for the specific verification method, every year, we present to the department in charge of the issuer of the stock we hold a chart comparing the rate of return from transactions and dividends received with the cost of capital, and confirm the intention to continue holding each stock. For stocks that do not meet the cost of capital, the Management Committee and the Board of Directors discuss how to respond.

In addition, the Investment Review Committee conducts a multifaceted review of the rationality of our holdings, such as by examining the effectiveness of holding stocks that have been acquired for three years. In the previous fiscal year, the Company acquired two listed issues (in addition to eleven listed issues acquired through client stock ownership plan that the Company is a member of) and sold three listed issues.

Market risk arising from holding listed shares is managed within the context of company-wide financial discipline, while maintaining a balance with the fund-raising side.

With respect to the exercise of voting rights of strategic shareholding companies, from the perspective of

maintaining the governance of the companies we hold from the standpoint of shareholders, we have established the following screening criteria for the exercise of voting rights from the perspective of consistency with our medium- to long-term holding objectives.

(Screening Criteria)

- 1) a company whose value of shares are judged to be significantly impaired according to its stock price level and financial conditions
- 2) a company whose operating income, ordinary income, or net income was recorded as negative in its business results for the previous fiscal year
- 3) a company that caused a scandal with significant social impact, including violations of laws and regulations or anti-social acts
- 4) a company that submits a proposal that is likely to hinder the purpose of shareholding and significantly impair the value of shares, including any proposal on changes of control or substantial revisions of corporate organization

### Supplementary Principles

#### **1.4.1 When cross-shareholders (i.e., shareholders who hold a company's shares for the purpose of cross-shareholding) indicate their intention to sell their shares, companies should not hinder the sale of the cross-held shares by, for instance, implying a possible reduction of business transactions.**

In the event that a policy-holding shareholder indicates his/her intention to sell the Company's shares, the Company will confirm the background of the intention to sell the shares. However, in principle, the Company will respect the intention of the other party. However, in the event that a sale or other reason impairs its business relationship or relationship of trust with the Company, or in the event that the Company holds the shares of a policy-holding shareholder, the Company might review the continuation of our business relationship or took measures such as selling off as if the purpose of holding had ceased to exist. In addition, in the event that a sale by a policy-holding shareholder is expected to have a major impact on its stock price, the Company would request a policy-holding shareholder to discuss the method and timing of the sale.

#### **1.4.2 Companies should not engage in transactions with cross-shareholders which may harm the interests of the companies or the common interests of their shareholders by, for instance, continuing the transactions without carefully examining the underlying economic rationale.**

In its business activities, the Company believes that it is essential to ensure economic rationality in business transactions in order to achieve sustainable growth and increase corporate value, and this does not depend on whether or not the Company holds policy-held stocks.

### Principle 1.5 Anti-Takeover Measures

**Anti-takeover measures must not have any objective associated with entrenchment of the management or the board. With respect to the adoption or implementation of anti-takeover measures, the board and *kansayaku* should carefully examine their necessity and rationale in light of their fiduciary responsibility to shareholders, ensure appropriate procedures, and provide sufficient explanation to shareholders.**

We have continued to implement Large Scale Purchase Countermeasures (so-called Takeover Defense) since they were introduced in February 2007. However, we discontinued the takeover defense measures at the conclusion of the Ordinary General Meeting of Shareholders held on June 22, 2018.

### Supplementary Principles

#### **1.5.1 In case of a tender offer, companies should clearly explain the position of the board, including any counteroffers, and should not take measures that would frustrate shareholder rights to sell their shares in response to the tender offer.**

In the event of a large-scale purchase of our shares, we will require the purchaser to provide necessary and sufficient information, and will disclose the opinions of our Board of Directors in a timely and appropriate manner. In addition, we will endeavor to secure the time and information necessary for shareholders to consider, and will take appropriate measures to the extent permitted by the Financial Instruments and Exchange Act, the Companies Act, and other relevant laws and regulations.

**Principle 1.6 Capital Policy that May Harm Shareholder Interests**

**With respect to a company's capital policy that results in the change of control or in significant dilution, including share offerings and management buyouts, the board and kansayaku should, in order not to unfairly harm the existing shareholders' interests, carefully examine the necessity and rationale from the perspective of their fiduciary responsibility to shareholders, should ensure appropriate procedures, and provide sufficient explanation to shareholders.**

The Company Is not currently scheduled to adopt a capital policy that results in a change of control or in significant dilution. If the Company plans to implement such a capital policy, however, the Company will duly consider the views of the independent outside directors and corporate auditors and make every effort to provide careful explanations to shareholders on the background, purposes, effects, etc. in relation to the adoption of the policy.

**Principle 1.7 Related Party Transactions**

**When a company engages in transactions with its directors or major shareholders (i.e., related party transactions), in order to ensure that such transactions do not harm the interests of the company or the common interests of its shareholders and prevent any concerns with respect to such harm, the board should establish appropriate procedures beforehand in proportion to the importance and characteristics of the transaction. In addition to their use by the board in approving and monitoring such transactions, these procedures should be disclosed.**

If the Company intends to engage in a transaction with a director of the Company or a company where a director of the Company holds office as a representative (related party transaction), the Company will conduct the related party transaction only after the Board of Directors deliberates on the transaction and gives approval.

With regard to transactions with major shareholders, financial transactions with Sumitomo Mitsui Banking Corporation and The Dai-ichi Life Insurance Company, Limited are conducted with approval from the Board of Directors. With regard to commercial transactions, the Company conducts them based on the Standards for Decision-making Authority established with approval from the Board of Directors according to the sizes of the transactions, and applies the same procedures to the Company's transactions with major shareholders such as Nippon Steel Corporation.

## Section 2: Appropriate Cooperation with Stakeholders Other Than Shareholders

### General Principle 2

**Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought about as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders.**

**The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.**

The resources that sustain the Company's corporate activities and increase its corporate value are the Company's employees who share the majority of their lives with the Company; customers who purchase the Company's products and services; suppliers who provide the Company with products and services; financial institutions who provide the Company with operating funds and investment funds; and local communities who support the Company's business by providing infrastructure; and sustainable corporate activities and increased corporate value result from cooperation of all of these persons. For these various stakeholders, the Company voluntarily chooses business activities in recognition of the merit of the Company's existence, and the Company will further deepen cooperative relationships with each of these stakeholders.

### Principle 2.1 Business Principles as the Foundation of Corporate Value Creation Over the Mid- to Long-Term

**Guided by their position concerning social responsibility, companies should undertake their businesses in order to create value for all stakeholders while increasing corporate value over the mid- to long-term. To this end, companies should draft and maintain business principles that will become the basis for such activities.**

The Corporate Philosophy of the Company proclaims that by "Coping with changing times and markets quickly, Hanwa makes a great contribution to society by satisfying various needs of customers as a 'distribution specialist.'" The Company has a policy of pursuing trading company logistics with a difference, increasing its corporate value, and fulfilling social responsibility with an emphasis on compliance.

### Principle 2.2 Code of Conduct

**Companies should draft and implement a code of conduct for employees in order to express their values with respect to appropriate cooperation with and serving the interests of stakeholders and carrying out sound and ethical business activities. The board should be responsible for drafting and revising the code of conduct, and should ensure its compliance broadly across the organization, including the front line of domestic and global operations.**

As a code of conduct to realize the Corporate Philosophy mentioned above, the Company has established a corporate creed, corporate slogan, and a corporate anthem, and provides each of its employees with the corporate slogan and corporate anthem card in an effort to raise the recognition of these principles at all times.

(Reference) Corporate slogan

1. Enhance trust through sincerity and effort
1. Become a leader at work through aspiration and energy
1. Seek efficiency through originality and cooperation
1. Enliven the Company's trade and establish happy families
1. Acknowledge our mission and contribute to society

### Supplementary Principles

**2.2.1 The board should review regularly (or where appropriate) whether or not the code of conduct is being widely implemented. The review should focus on the substantive assessment of whether the company's corporate culture truly embraces the intent and spirit of the code of conduct, and not solely on the form of implementation and compliance.**

The Company provides new recruits with the induction course about the meaning of the corporate creed, corporate slogan, and corporate anthem. The Company has also its employees sing the corporate anthem at

monthly morning assemblies to disseminate the principles they express. While the Board of Directors does not conduct any formal reviews, the employees of the Company fully recognize, in the course of daily business, that the motives embodied in the corporate creed and corporate slogan are indispensable to the Company's ongoing existence as an independent trading company, and the Company therefore believes that these principles are firmly rooted in the Company culture.

### **Principle 2.3 Sustainability Issues, Including Social and Environmental Matters**

**Companies should take appropriate measures to address sustainability issues, including social and environmental matters.**

The Company has established the Sustainability Promotion Committee and addresses the issues related to the Company's sustainability. The Company has also established the Environmental Promotion Committee and the "Environmental Policy" and "Guidelines for Environmental Corporate Action," has acquired ISO14001 certification and promotes an environmental management program, where internal committee members and outside professionals conduct regular reviews.

The summary of the Company's sustainability basic policy is as follows.

1. Realization of sustainability through our business
2. Building of a sound and highly transparent organization
3. Creating a workplace where diverse personalities resonate and enhance each other
4. Passing on a rich global environment to the next generation
5. Realization of a society in which everyone can live comfortably

### **Supplementary Principles**

**2.3.1 The board should recognize that dealing with sustainability issues, such as taking care of climate change and other global environmental issues, respect of human rights, fair and appropriate treatment of the workforce including caring for their health and working environment, fair and reasonable transactions with suppliers, and crisis management for natural disasters, are important management issues that can lead to earning opportunities as well as risk mitigation, and should further consider addressing these matters positively and proactively in terms of increasing corporate value over the mid-to long-term.**

The Company is promoting various initiatives to address issues related its sustainability in order to realize the sustainable development and enhancement of corporate value of the Company and its group companies (collectively referred to as the "Group") over mid-to long-term.

In responding to environmental issues, the Company obtained ISO14001 certification for environmental management according to international standards in April 2000 and is promoting environmental management. With regard to business activities, in addition to its business development for the recycling of resources such steel scrap, ferrous raw material, and wastepaper, the Company has realized effective measures for "reducing (curtailing waste), reusing (reusing waste) and recycling (recycling waste)" in its activities, including its trade business approved by the relevant countries' regulatory environmental authorities under the Basel Convention provisions governing procedures for the international transfer of metallic industrial waste and the biomass fuel/RPF business, in order to contribute to the evolution of a recycling-oriented society. In addition, we established the "Battery Team" in April 2022 and are working to realize decarbonized society, aiming to expand business related to rechargeable batteries for automobiles, etc. by utilizing the know-how we have cultivated through the handling of battery raw material resources.

Regarding to respect for human rights, in accordance with the Modern Slavery Act 2015 in UK, which prohibits modern slavery and human trafficking, the Company has disclosed a statement regarding our response to modern slavery in our business activities and supply chain policy for precious metal raw material transactions. In addition, we have formulated the Hanwa Group Human Rights Policy (<https://www.hanwa.co.jp/en/csr/society/human-rights.html>) and are working to ensure that human rights are respected in our business activities.

Regarding to employee health management, the Company established the "Hanwa Health and Productivity Management Declaration" in April 2018, and the President and Representative Director assumed the position of Chief Health Officer (CHO), and established the Health Management Promotion Section within the Personnel Department to promote the maintenance of an environment in which employees can



plan an active role.

Regarding to crisis management, the Company has established the Crisis Management Manual and the Business Continuity Plan (BCP) Manual for Large Scale Disasters in order to respond to various risk that may be arisen in the course of conducting business in a wide range of countries around the world, and is working to minimize damage and ensure the safety of employees in the event of a crisis.

Regarding to compliance issues, the Company has created a compliance manual since April 2006 as a guideline to be observed by all officers and employees, and it has been prepared in various languages for all officers and employees of the Group around the world in order to ensure thorough compliance with law and regulations, and to raise awareness of the importance of building fair and appropriate business relationships with business partners.

In addition, in order to respond to the issues surrounding sustainability, the Company established the Sustainability Promotion Committee in October 2021, and established a system to discuss company-wide issues surrounding sustainability. Under the direction and supervision of the Board of Directors, the Committee plays a central role in promoting initiatives necessary for the Group to coexist with the Earth and society and sustainable development.

Specific information on our sustainability initiatives, including the above, can be found on the “Sustainability (<https://www.hanwa.co.jp/en/csr>)” page, etc. of our website.

## **Principle 2.4 Ensuring Diversity, Including Active Participation of Women**

**Companies should recognize that the existence of diverse perspectives and values reflecting a variety of experiences, skills and characteristics is a strength that supports their sustainable growth. As such, companies should promote diversity of personnel, including the active participation of women.**

The Company positions creating an environment in which individual employees acknowledge various backgrounds and values, and in which a variety of work styles can be pursued as an important management target. The Diversity Promotion Office is responsible for taking measures to ensure diversity of employees. We have introduced a supervisory scheme where senior employees supervise each new employee for a certain period, as well as a mentor scheme especially for female as well as for non-Japanese employees. An employee in a different section with longer work experience in the Company is assigned as a mentor to provide mental support, to create a better working environment. In addition, the Company assigns female employees to positions that will best enable them to develop to their full potential, proactively promotes female employees to managerial positions, and introduces study, training abroad, and job rotation programs for female employees. Through the combination of these initiatives, the Company promotes comprehensive development of human resources of a managerial caliber with a view to promoting female employees to executive officer positions.

## **Supplementary Principles**

### **2.4.1 Companies should present their policies and voluntary and measurable goals for ensuring diversity in the promotion to core human resources, such as the promotion of women, foreign nationals and midcareer hires to middle managerial positions, as well as disclosing their status.**

**In addition, in light of the importance of human resource strategies for increasing corporate value over the mid-to long-term, companies should present its policies for human resource development and internal environment development to ensure diversity, as well as the status of their implementation.**

The company operates globally in a wide range of fields, each of which is characterized by a high level of expertise as a distribution professional. In this type of business, we recognize that securing diversity in human resources is one of the indispensable requirements for improving corporate value over the medium to long term. In the development of our human resources, we have adopted the keyword "Professional & Global" (=“P&G”), and are working to develop human resources with an expanded sense of humanity who can understand and communicate with the uniqueness and diversity of each region of the world. Specifically, we are promoting the development of human resources with knowledge of management and business, language skills, and international perspectives by combining the acquisition of knowledge and language skills through the use of educational institutions and the Group's business infrastructure, such as the dispatching to domestic MBA and foreign language education institutions and overseas and to overseas subsidiaries as trainees, with

the practical application of the acquired knowledge in the workplace by assigning trainees to related position in the Group after completion of the training program.

In addition, in order to secure a diverse workforce, we are working to create a comfortable work environment and improve employee performance by, for example, developing infrastructure centered on a system for smooth work execution through telecommuting and establishing an "in-house university" where employees can continue to improve themselves.

With regard to the promotion of female, foreign, and mid-career hires to core personnel, we have not set a measurable target at this time, but are working to form a population for promotion to core personnel. The number and ratio of female, foreign nationals, and mid-career hires are increasing year by year, and we have set a numerical target for the ratio of new female graduates hired (30% or more of new graduates hired for career-track positions by FY2022), and are steadily promoting initiatives such as appointing female career-track employees to managerial positions. In addition, we have prepared an action plan based on the Law for the Promotion of Women's Activities since 2016, which is available on our website.

## **Principle 2.5 Whistleblowing**

**Companies should establish an appropriate framework for whistleblowing such that employees can report illegal or inappropriate behavior, disclosures, or any other serious concerns without fear of suffering from disadvantageous treatment. Also, the framework should allow for an objective assessment and appropriate response to the reported issues, and the board should be responsible for both establishing this framework, and ensuring and monitoring its enforcement.**

The Company has established points of contact both inside and outside the Company that group employees can freely reach to consult with and report on compliance and other issues with no restrictions from their organizations, and the Company will not be notified of the names of employees who report issues without their consent. Information reported to a point of contact is forwarded to the office of the Compliance Committee with strict protection of privacy, and the Company promptly investigates all the facts in cooperation with members of the Compliance Committee and takes measures to correct them, etc., as necessary. If an event is judged to be critical, the Company will disclose the relevant information promptly and accurately and fulfill all of its duties of accountability, and the event will be reported to the Management Committee and Board of Directors.

## **Supplementary Principles**

**2.5.1 As a part of establishing a framework for whistleblowing, companies should establish a point of contact that is independent of the management (for example, a panel consisting of outside directors and outside kansayaku). In addition, rules should be established to secure the confidentiality of the information provider and prohibit any disadvantageous treatment.**

The Company appoints outside directors and external attorneys as points of contact who are independent from the management. Such persons who are contacted for consultations report to the Company on facts that come to light through the consultations, give guidance, and conduct investigations with strict protection of the privacy of the consulters who contact them. In addition, the Company appropriately handles facts reported to the points of contact to ensure that the information providers are not treated unfairly by the Company, regardless of whether the information is reported anonymously or not.

## **Principle 2.6 Roles of Corporate Pension Funds as Asset Owners**

**Because the management of corporate pension funds impacts stable asset formation for employees and companies' own financial standing, companies should take and disclose measures to improve human resources and operational practices, such as the recruitment or assignment of qualified persons, in order to increase the investment management expertise of corporate pension funds (including stewardship activities such as monitoring the asset managers of corporate pension funds), thus making sure that corporate pension funds perform their roles as asset owners. Companies should ensure that conflicts of interest which could arise between pension fund beneficiaries and companies are appropriately managed.**

The Company manages pension reserves through the Hanwa Kogyo Corporate Pension Fund (hereinafter referred to as the Pension Fund). Although it is difficult to say that the Company sufficiently assigns personnel

who are highly qualified and experienced in investment in pension funds due to our size and expertise, the Company has established a Pension Committee within the Company to ensure stable and efficient management of Pension Fund and its investments. The Pension Committee is composed mainly of officers and section managers in charge of the Personnel Department, Finance Department, and Accounting Department. The committee selects investment institutions to be entrusted, allocates premiums, and evaluates investment performance. The results are submitted to the Board of Directors, Representatives of the Pension Fund, and the Chairman of the Board of Directors. Based on the report of the Pension Committee, the Pension Fund presents its investment policy to the investment management contractors, entrusts them to the fund, monitors the investment status of the fund to the contractors on a regular basis, and shares the investment results with the Pension Committee.

The selection of individual issues and the exercise of voting rights are left to the trustees, and the Company does not direct them directly. Therefore, the Company believes that there will be no conflict of interest between the pension beneficiaries and the Company.

## Section 3: Ensuring Appropriate Information Disclosure and Transparency

### General Principle 3

**Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk and governance.**

**The board should recognize that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore ensure that such information, particularly non-financial information, is accurate, clear and useful.**

As the Company believes that appropriate information disclosure is required to enable shareholders and other stakeholders to deepen their understanding of the Company, it strives for prompt and accurate information disclosure in accordance with the Disclosure Policy. With regard to important information including non-financial information, not to mention disclosures under laws and regulations, the Disclosure Committee deliberates on the necessity of disclosure and the content thereof. Important information judged by the Committee to facilitate the shareholders' and stakeholders' understanding of the Company will be provided on the Company's website, etc.

### Principle 3.1 Full Disclosure

**In addition to making information disclosure in compliance with relevant laws and regulations, companies should disclose and proactively provide the information listed below (along with the disclosures specified by the principles of the Code) in order to enhance transparency and fairness in decision-making and ensure effective corporate governance:**

- i) Company objectives (e.g., business principles), business strategies and business plans;**
- ii) Basic views and guidelines on corporate governance based on each of the principles of the Code;**
- iii) Board policies and procedures in determining the remuneration of the senior management and directors;**
- iv) Board policies and procedures in the appointment/dismissal of the senior management and the nomination of directors and kansayaku candidates; and**
- v) Explanations with respect to the individual appointments/dismissals and nominations based on iv).**

- i) Company objectives (e.g., business principles), business strategies and business plans;**

The Company's Corporate Philosophy proclaims that by "Coping with changing times and markets quickly, Hanwa makes a great contribution to society by satisfying various needs of customers as a 'distribution specialist.'" Under this Corporate Philosophy, the Company, as a user-oriented trading company which provides high value-added product distribution and proposal-based services which meet customer demands, pursues trading company logistics with distinction. The Company also has a policy of increasing its corporate value as well as fulfilling social responsibility with an emphasis on compliance through these activities. With regard to business strategies and business plans, the Company establishes a medium-term business plan every three years in principle and broadly discloses it.

- ii) Basic views and guidelines on corporate governance based on each of the principles of the Code;**

We aim to fulfill our social responsibilities as a good corporate citizen so that we can gain and retain the respect from stakeholders and be recognized as a valuable enterprise. We work to establish a high degree of transparency in management systems to ensure full legal and regulatory compliance and respect for social norms.

In addition, to assertively promote activities to realize sustainability and make our corporate brand even more respected, we have established the Sustainability Promotion Committee and promote management initiatives with a focus on CSR.

- iii) Board policies and procedures in determining the remuneration of the senior management and directors;**

The Company has established a system consisting of monetary compensation and compensation in the form of company stock (restricted stock compensation) for Directors. The annual monetary compensation decided at the Annual Shareholders Meeting held in June 2006 is within the total amount

of 860 million yen, and the restricted stock compensation is within the total annual amount of 150 million yen (maximum number of shares to be paid is 50,000 per year) decided at the 76th Annual Shareholders Meeting held in June 2023. The specific amount of compensation for each Director is determined by the Board of Directors, and the Company has determined the amount in this manner (Article 361 of the Companies Act), the Company has established a decision policy pertaining to the content of such remuneration, a summary of which is as follows.

The basic policy of the Company's remuneration system for Directors is to ensure that it functions sufficiently as an incentive for the sustainable enhancement of corporate value and that it is at an appropriate level based on the responsibilities of each position. Specifically, the remuneration system consists of two types of monetary compensation: basic remuneration, which is a monthly fixed amount of money determined based on the standard amount of remuneration for each position and taking into consideration the comprehensive evaluation of Directors made by the Executive Evaluation Committee chaired by the President, with an emphasis on their attitude toward medium- and long-term issues aimed at sustainable growth and the results of their efforts; and performance-linked remuneration, which is a money remuneration reflecting the performance indicators for each fiscal year that the management team as a whole bears, and restricted stock compensation designed to provide incentives to increase corporate value over the medium to long term.

Outside Directors, who are responsible for supervisory functions, are paid only basic remuneration in consideration of their duties.

In determining the ratio of remuneration by type, the Remuneration Committee considers the level of remuneration based on the benchmarks of companies in the same scale of business and related industries and business categories as the Company.

With regard to procedures for determining the individual compensation of the management members and directors, the Remuneration Committee, the majority of whose members are outside directors and outside corporate auditors, plays a leading role in determining them, in accordance with the following procedures.

The Executive Evaluation Committee, chaired by the President and composed of members including outside directors and outside corporate auditors who serve as advisors, meets at least twice a year to conduct a comprehensive evaluation of basic remuneration based on an assessment of the commitment of directors and executive officers (excluding the President) and a mutual evaluation of directors and executive officers. Based on the results of the comprehensive evaluation by the Executive Evaluation Committee, the Remuneration Committee, the majority of whose members are outside directors and outside corporate auditors, prepares a proposal for basic remuneration and the Board of Directors makes a decision on the amount.

Performance-linked compensation is determined by the Board of Directors after the Compensation Committee examines the proposed calculation method for each fiscal year, with the aim of ensuring that the compensation accurately reflects the achievements and responsibilities of each management member and director.

Restricted stock compensation is positioned as compensation for each management member's responsibilities to shareholders in increasing corporate value in accordance with his or her position. With this in mind, the Board of Directors determines the specific number of shares to be paid (the amount of monetary compensation claims to be used to pay for the acquisition of shares) based on the Compensation Committee's consideration of the level deemed appropriate for each position.

The amount of remuneration for each executive member of the management team other than directors (executive officers) is determined in accordance with the same system and procedures as those for executive members who also serve as directors.

- iv) Board policies and procedures in the appointment/dismissal of the senior management and the nomination of directors and kansayaku candidates;

To select internal directors, the Nomination Advisory Committee, which is chaired by an outside director and the majority of its members consist of outside directors and outside corporate auditors, reviews the directors of the following fiscal year based on their evaluation from directors and executive

officers and the results of their performance evaluations of employees. A draft is then submitted to the Board of Directors where a proposal of the list of candidates is then forwarded to the Annual Shareholders Meeting. In addition, the Nomination Advisory Committee deliberates on the positions of directors and draws up a draft to be approved by the Board of Directors.

With regard to internal corporate auditors, the Board of Directors selects persons deemed capable of executing the duties of corporate auditors as candidates from among internal directors and executive officers, etc. in consideration of their fields of specialty, their careers, and other factors. A proposal list of candidates is then forwarded to the Annual Shareholders Meeting with prior consent from the Board of Corporate Auditors.

To select outside directors and outside corporate auditors, appropriate candidates are examined from all perspectives in consideration of the balance of their abilities and any excesses or deficiencies in the fields of specialty of the outside directors and outside corporate auditors based on the fields of specialty of those retiring and of those remaining, and a proposal of the list of candidates is then prepared.

More specific criteria for the nomination of candidates for directors and corporate auditors and the appointment and dismissal of senior management are currently under consideration, including the necessity of such criteria. Discussions will be held at the Nomination Advisory Committee in the future.

v) Explanations with respect to the individual appointments/dismissals and nominations based on iv).

Reasons for proposals for electing the senior management, directors and corporate auditors are stated in the Notice of Shareholders Meeting, together with brief career summaries. In the event that a senior executive is dismissed, the company will explain the background and the reason for the dismissal of the previous executive when disclosing the replacement.

## **Supplementary Principles**

### **3.1.1 These disclosures, including disclosures in compliance with relevant laws and regulations, should add value for investors, and the board should ensure that information is not boiler-plate or lacking in detail.**

With respect to descriptions in fields not legally regulated, including disclosures in compliance with relevant laws and regulations, the Company aims to offer descriptions that are practicably clear and specific to deepen the understanding of users.

### **3.1.2 Bearing in mind the number of foreign shareholders, companies should, to the extent reasonable, take steps for providing English language disclosures.**

**In particular, companies listed on the Prime Market should disclose and provide necessary information in their disclosure documents in English.**

To respond to increase in foreign shareholders, the Company provides fundamental information in English language company guides and web pages, and makes the utmost efforts to schedule its English language disclosures of settlement information, timely information disclosure, and Notice of Shareholders Meeting concurrently with its disclosures in Japanese. In addition, the Company prepares English versions of Integrated Report.

### **3.1.3 Companies should appropriately disclose their initiatives on sustainability when disclosing their management strategies. They should also provide information on investments in human capital and intellectual properties in an understandable and specific manner, while being conscious of the consistency with their own management strategies and issues.**

**In particular, companies listed on the Prime Market should collect and analyze the necessary data on the impact of climate change-related risks and earning opportunities on their business activities and profits, and enhance the quality and quantity of disclosure based on the TCFD recommendations, which are an internationally well-established disclosure framework, or an equivalent framework.**

In our 10th medium-term business plan, we have set "Sustainability Management" as one of our basic policies and are working on "business/investment strategies rooted in ESG and SDGs" as well as "strengthening the organizational structure to support sustainable growth". We also have a human resources strategy, and are working to create an environment in which a diverse workforce can work while growing sustainably, as well as promoting the introduction of systems that support each employee's ability to

demonstrate his or her strengths and take on challenges.

The Company will disclose information on sustainability as appropriate through the "Sustainability(<https://www.hanwa.co.jp/en/csr/>)" page on its website.

With regard to the impact of climate change-related risk and profit opportunities on the company's business activities and earnings, the company is currently preparing an internal system to disclose information in accordance with the TCFD framework and will gradually disclose information as it is complied.

### **Principle 3.2 External Auditors**

**External auditors and companies should recognize the responsibility that external auditors owe toward shareholders and investors, and take appropriate steps to secure the proper execution of audits.**

As the Company believes that the appropriateness of its financial information is guaranteed by the audits by the external auditor (independent auditor), the Company fully cooperates with the independent auditor's audit engagements and strives to ensure coordination of the Internal Audit Department and the Board of Corporate Auditors with the independent auditor. The Company judges that the independent auditor conducts the auditing of the Company with the same recognition.

### **Supplementary Principles**

#### **3.2.1 The kansayaku board should, at minimum, ensure the following:**

- i) Establish standards for the appropriate selection of external auditor candidates and proper evaluation of external auditors; and**
- ii) Verify whether external auditors possess necessary independence and expertise to fulfill their responsibilities.**

- i) Establish standards for the appropriate selection of external auditor candidates and proper evaluation of external auditors;

The Board of Corporate Auditors of the Company has not yet created clear standards for evaluating an external auditor (independent auditor), but it regularly exchanges information with the independent auditor to confirm the status of execution of duties by the independent auditor.

- ii) Verify whether external auditors possess necessary independence and expertise to fulfill their responsibilities.

The Company has selected KPMG AZSA LLC as its independent auditor. The Board of Corporate Auditors of the Company has confirmed that KPMG AZSA LLC possesses sufficient independence and expertise, through the actual results of past audits of the Company, social evaluations as an audit corporation, regular information exchanges, audit reports, etc.

#### **3.2.2 The board and the kansayaku board should, at minimum, ensure the following:**

- i) Give adequate time to ensure high quality audits;**
- ii) Ensure that external auditors have access, such as via interviews, to the senior management including the CEO and the CFO;**
- iii) Ensure adequate coordination between external auditors and each of the kansayaku (including attendance at the kansayaku board meetings), the internal audit department and outside directors; and**
- iv) Ensure that the company is constituted in the way that it can adequately respond to any misconduct, inadequacies or concerns identified by the external auditors.**

- i) Give adequate time to ensure high quality audits;

The Company believes that it provides necessary and adequate time for audits based on requests from the external auditor (independent auditor).

- ii) Ensure that external auditors have access, such as via interviews, to the senior management including the CEO and the CFO;

With regard to the point of contact between the independent auditor and the senior management of the Company, the independent auditor holds regular interviews with the Director and President around twice a year and requests interviews at any time as necessary. In addition, a place for hearing from other senior management has been established consecutively or as necessary.

- iii) Ensure adequate coordination between external auditors and each of the corporate auditor (J: Kansayaku)

(including attendance at the Board of Corporate Auditors meetings), the internal audit department and outside directors;

The independent auditor has a place to exchange information with the Corporate Auditors and the Internal Audit Department of the Company during the review of each quarterly settlement and makes inquiries, etc., at any time as necessary. Opportunities for regular interviews with outside directors, etc. have not yet been determined, but there is no hindrance from conducting interviews as necessary.

- iv) Ensure that the company is constituted in the way that it can adequately respond to any misconduct, inadequacies or concerns identified by the external auditors.

If the independent auditor discovers misconduct, etc. to which the Company is required to respond or identifies inadequacies or concerns, the independent auditor will report the fact to the management or to the Compliance Committee depending on content. In case of significant impact, the Company will report the fact to the Board of Directors, etc. while disclosing information in a timely and precise manner. A director or executive officer in charge will examine potential responses to the issues identified by the independent auditor and immediately take measures to correct or improve them as necessary.



## Section 4: Responsibilities of the Board

### General Principle 4

Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over the midto long-term and enhance earnings power and capital efficiency, the board should appropriately fulfill its roles and responsibilities, including:

- (1) Setting the broad direction of corporate strategy;
- (2) Establishing an environment where appropriate risk-taking by the senior management is supported; and
- (3) Carrying out effective oversight of directors and the management (including shikkoyaku and so-called shikkoyakuin) from an independent and objective standpoint.

Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization – i.e., Company with Kansayaku Board (where a part of these roles and responsibilities are performed by kansayaku and the kansayaku board), Company with Three Committees (Nomination, Audit and Remuneration) or Company with Supervisory Committee.

In principle, the Board of Directors of the Company establishes the medium-term business plan every three years to show the direction toward which the Company should strive. In addition, the Company stipulates the decision-making authority according to each position and allows the management members and directors to make management decisions within the scope of their authority to execute their duties taking a certain risk, provided that they are required to fulfill their responsibilities for results and accountability. With respect to highly effective oversight of the management and directors, the Company strives to ensure more appropriate and effective oversight mainly by strengthening the function of the Board of Corporate Auditors and separating the executive function from directors.

### Principle 4.1 Roles and Responsibilities of the Board (1)

The board should view the establishment of corporate goals (business principles, etc.) and the setting of strategic direction as one major aspect of its roles and responsibilities. It should engage in constructive discussion with respect to specific business strategies and business plans, and ensure that major operational decisions are based on the company's strategic direction.

The Board of Directors of the Company decides the final contents of the medium-term business plan drafted by the Management Committee while closely examining how specific the contents are and the appropriateness of the direction toward which the Company should strive. During the period of the medium-term business plan, the Company judges the appropriateness of execution of duties in light of the policies set forth in the plan.

### Supplementary Principles

#### 4.1.1 The board should clearly specify its own decisions as well as both the scope and content of the matters delegated to the management, and disclose a brief summary thereof.

The Company stipulates the decision-making authority of an organ according to the importance of decisions and monetary scale and other factors in the Regulation on the Board of Directors and the Standard for Submission to the Board of Directors, as well as the Regulations on the Management Committee and the Standard for Submission to the Management Committee, while prescribing the scope of operational delegation according to the positions of the executive officers, etc. in the Standard for Approval.

#### 4.1.2 Recognizing that a mid-term business plan (chuuki keiei keikaku) is a commitment to shareholders, the board and the senior management should do their best to achieve the plan. Should the company fail to deliver on its mid-term business plan, the reasons underlying the failure of achievement as well as the company's actions should be fully analyzed, an appropriate explanation should be given to shareholders, and analytic findings should be reflected in a plan for the ensuing years.

The Company positions the medium-term business plan as a milestone for putting employees' aims in operating activities and aims to clearly show the direction and goal toward which the Company should strive

and the strategies and tactics therefor. The Company believes that promoting activities toward realizing the plan, analyzing the results, correcting courses and proceeding to the next step are operational basics. The Company discloses the medium-term business plan to shareholders with its intent that the plan would be beneficial to the analysis of the Company's future and growth potential when the shareholders make investment decisions. The Company does not necessarily believe, however, that the details of the medium-term business plan represent commitments by the Company to the shareholders.

**4.1.3 Based on the company objectives (business principles, etc.) and specific business strategies, the board should proactively engage in the establishment and implementation of a succession plan for the CEO and other top executives and appropriately oversee the systematic development of succession candidates, deploying sufficient time and resources.**

With regard to personnel affairs of directors, the Company has established a Nomination Advisory Committee, which corresponds to nomination committee, within the Officers Evaluation Committee, an advisory organ of the Board of Directors. The Nomination Advisory Committee, in which outside directors and an outside corporate auditor participate as members, examines and submits a draft on the personnel affairs of the directors to the Company. With regard to successors of the CEO and other top executives, candidates will be narrowed down based on close examinations of the individual performance, characters, knowledge, and other factors of the respective directors and executive officers. The Company, however, does not expressly clarify any specific procedure or plan such as succession plan. Since fiscal 2003, the Company has introduced peer review system among executive officers, including executive directors, and has presented the desirable management requirements as evaluation criteria. The results of evaluations by all executive officers have been accumulated. In light of the number of senior executives, the Company believes that there is a level in which the rationale for and the appropriateness of the selection of successor candidates can be shared within the Board of Directors.

**Principle 4.2 Roles and Responsibilities of the Board (2)**

**The board should view the establishment of an environment that supports appropriate risk-taking by the senior management as a major aspect of its roles and responsibilities. It should welcome proposals from the management based on healthy entrepreneurship, fully examine such proposals from an independent and objective standpoint with the aim of securing accountability, and support timely and decisive decision-making by the senior management when approved plans are implemented.**

**Also, the remuneration of the management should include incentives such that it reflects mid- to long-term business results and potential risks, as well as promotes healthy entrepreneurship.**

With regard to routine work, the Company determines decision-making authority based on a monetary standard and allows the senior management members to make operational judgments within the scope of their authority, provided that senior management members are required to fulfill their responsibilities for results and accountability. In addition, with respect to investment and new business, the Company presents decision-making procedures and items to be confirmed, etc. leading to approval, to strive to facilitate the new efforts of the senior management.

In terms of the management's compensation, we use a system combining a basic compensation system that recognizes commitment to and achievement of business tasks from a medium- to long-term perspective; a bonus (performance-linked salary) determined based on each year's corporate performance; and a restricted stock compensation system that aims to reflect the medium- to long-term improvement in corporate value in the compensation of the management team. We design systems while considering perspectives such as time frame and objectives.

**Supplementary Principles**

**4.2.1 The board should design management remuneration systems such that they operate as a healthy incentive to generate sustainable growth, and determine actual remuneration amounts appropriately through objective and transparent procedures. The proportion of management remuneration linked to mid- to long-term results and the balance of cash and stock should be set appropriately**

The procedures for determining the specific amount of compensation for individual members of the Company's management team are described in "[Principle 3-1.] (iii) Board policies and procedures in determining the remuneration of the senior management and directors.

The percentage of each type of remuneration is determined by the Remuneration Committee, the majority of whose members are outside directors and outside corporate auditors, and the Board of Directors, which receives reports from the Committee, through deliberation and consideration in establishing the "Policy for Determining Individual Director Remuneration," and the Company believes that the content of these decisions is appropriate.

#### **4.2.2 The board should develop a basic policy for the company's sustainability initiatives from the perspective of increasing corporate value over the mid-to long-term.**

**In addition, in light of the importance of investments in human capital and intellectual properties, the board should effectively supervise the allocation of management resources, including such investments, and the implementation of business portfolio strategies to ensure that they contribute to the sustainable growth of the company.**

In order to achieve sustainable growth for the Group, the Company has established the Sustainability Promotion Committee, which oversees our efforts to address sustainability issues. The Board of Directors directs and oversees the efforts of the Committee, and periodically verifies the progress of the medium-term business plan and other plans, thereby effectively exercising its supervisory function to ensure the sustainable growth of the Group. The Company's sustainability basic policy is as follows.

##### **Sustainability Basic Policy**

As "Distribution specialist" as stated in our management philosophy, the Company and its group, by resonating with various stakeholders and understanding their needs, will connect each other through tangible and intangible services and contribute to society at large, thereby passing on prosperous planet and comfortable society to the next generation.

##### **1. Realization of sustainability through our business**

As a distributor, we will build a sustainable supply chain and contribute to each industry and society by providing a wide variety of products and services, taking into account the needs of suppliers and users at every stage of the supply chain.

##### **2. Building of a sound and highly transparent organization**

We will share the values of our corporate creed (Trust, Honesty, Ingenuity, Harmonious Cooperation, and Contribution) with all employees, and aim for management that is highly satisfactory to various stakeholders by making decisions in consideration of compliance and risks through appropriate and transparent processes.

##### **3. Creating a workplace where diverse personalities resonate and enhance each other**

We provide a healthy and stress-free work environment for a diverse range of employees regardless of nationality or gender, and foster a place where they can work hard for self-development and self-improvement by providing opportunities for them to play an active role in accordance with their abilities.

##### **4. Passing on a rich environment to the next generation**

We will preserve the ecosystem by complying with business rules and environmental regulations, making effective use of resources, and reducing environmental impact. We will pass on to future generations a global environment that is free from climate change and pollution, where a wide variety of living creatures can coexist and natural resources such as forests and oceans can be used sustainably.

##### **5. Realization of a society in which everyone can live comfortably**

We respect the human rights of individuals and the differences in culture and customs between countries and regions, do not engage in human rights abuses or discriminatory practices, and contribute to the development of comfortable and healthy international and local communities by realizing global partnerships through cross-border transactions.

### **Principle 4.3 Roles and Responsibilities of the Board (3)**

**The board should view the effective oversight of the management and directors from an independent and objective standpoint as a major aspect of its roles and responsibilities. It should appropriately evaluate company performance and reflect the evaluation in its assessment of the senior management.**

**In addition, the board should engage in oversight activities in order to ensure timely and accurate information disclosure, and should establish appropriate internal control and risk management systems.**

**Also, the board should appropriately deal with any conflict of interests that may arise between the company and its related parties, including the management and controlling shareholders.**

With regard to the evaluation of business execution of directors and executive officers, the Company has enforced the Officer Evaluation System since 2004 (as for executive officers, since 2012 when the Executive Officer System started) and determined the evaluation every year based on the examination by the Officers Evaluation Committee, whose members include outside directors and outside corporate auditors. Based on the results of the evaluation, the Nomination Advisory Committee examines the placement of directors and executive officers and the Board of Directors makes decisions.

With respect to information disclosure, internal control and risk management, the Company has established a Disclosure Committee, Internal Control Committee, Compliance Committee, Security Trade Control Committee, etc. to improve management systems for each item.

In addition, with regard to conflict-of-interest acts with related parties, the Company requires compliance with the Code of Ethical Business Conduct, and the related provisions are also stipulated in the Rules for Directors, Rules for Executive Officers, Rules of Employment, etc.

### **Supplementary Principles**

#### **4.3.1 The board should ensure that the appointment and dismissal of the senior management are based on highly transparent and fair procedures via an appropriate evaluation of the company's business results.**

The Officers Evaluation Committee, a body in which outside directors and outside corporate auditors participate, evaluates the senior management's past personal performance, knowledge, abilities, etc. As the result of the evaluation, the Nomination Advisory Committee determines drafts for the election, promotion and dismissal of senior management members, and consults the Management Committee and Board of Directors for deliberation.

#### **4.3.2 Because the appointment/dismissal of the CEO is the most important strategic decision for a company, the board should appoint a qualified CEO through objective, timely, and transparent procedures, deploying sufficient time and resources.**

The Company has introduced an officer executive evaluation system that employs peer review by directors and executive officers. Based on the evaluations conducted every fiscal year, the evaluation criteria are checked, and the results are reviewed by the Officers Evaluation Committee, which leads to the certification of candidates at the Nomination Advisory Committee. Since the Company has presented the requirements for executives that it should aim for since assuming office as directors through evaluation criteria, the Company believes that those who have won excellent evaluations will be selected as candidates for the position of Chief Executive Officer and will ultimately be selected as candidates for the position of Chief Executive Officer who is in agreement with the public. The establishment of more specific selection standards is under consideration, including the necessity of such standards, and will be discussed at the Nomination Advisory Committee in the future.

#### **4.3.3 The board should establish objective, timely, and transparent procedures such that a CEO is dismissed when it is determined, via an appropriate evaluation of the company's business results, that the CEO is not adequately fulfilling the CEO's responsibilities.**

The Company has not set standards for dismissal of the Chief Executive Officer beyond the standards for dismissal of directors and executive officers (e.g., deterioration of health and financial status, or the reason for disqualification of directors under the Companies Act). It is difficult to make a uniform decision as to whether or not it is appropriate for the CEO to be responsible for poor performance, investment failures,

corporate scandals, and other issues. The Company will continue to study the occurrence of events that require consideration at the Nomination Advisory Committee.

**4.3.4 The establishment of effective internal control and proactive enterprise risk management systems has the potential to supporting sound risk-taking. The board should place priority on the appropriately establish such systems on an enterprise basis and oversee the operational status, besides utilizing the internal audit department.**

The Company has established a Compliance Committee, Internal Control Committee, Security Trade Control Committee, etc., each of which is chaired by a director or executive officer in charge and is mainly composed of the heads of administrative departments. These Committees inspect risk on compliance, internal control, trade transactions, etc., serve as points of contact for consultation, appropriately handle the issues, and report the results to the Board of Directors as necessary.

**Principle 4.4 Roles and Responsibilities of Kansayaku and the Kansayaku Board**

**Kansayaku and the kansayaku board should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of directors' duties, appointment and dismissal of kansayaku and external auditors and the determination of auditor remuneration.**

**Although so-called “defensive functions,” such as business and accounting audits, are part of the roles and responsibilities expected of kansayaku and the kansayaku board, in order to fully perform their duties, it would not be appropriate for kansayaku and the kansayaku board to interpret the scope of their function too narrowly, and they should positively and proactively exercise their rights and express their views at board meetings and to the management.**

Corporate Auditors and the Board of Corporate Auditors strive to make appropriate judgments from independent and objective standpoints. To that end, they attend meetings of the Management Committee, the Board of Directors and a Sales Committee jointly held by all departments, conduct visiting audits of group companies, hold hearings with senior management, and establish a regular place for sharing information with the Internal Audit Department and external auditor (independent auditor), in order to monitor the Company and group companies. In addition, the Board of Corporate Auditors of the Company focuses on proactive auditing to prevent scandals and strives to audit operational validity as well as legal compliance. Selecting three outside corporate auditors who have ample knowledge and experience in corporate activities, the Board of Corporate Auditors maintains its independence from the Board of Directors to perform operational auditing accurately and expresses their opinions to the Board of Directors.

**Supplementary Principles**

**4.4.1 Given that not less than half of the kansayaku board must be composed of outside kansayaku and that at least one full-time kansayaku must be appointed in accordance with the Companies Act, the kansayaku board should, from the perspective of fully executing its roles and responsibilities, increase its effectiveness through an organizational combination of the independence of the former and the information gathering power of the latter. In addition, kansayaku or the kansayaku board should secure cooperation with outside directors so that such directors can strengthen their capacity to collect information without having their independence jeopardized.**

For the Board of Corporate Auditors, a inside Corporate Auditor chiefly elected from within the Company attends the meetings of the Management Committee and other meetings to collect management-related information, etc., and reports the information, etc. with his/her own commentary to the outside corporate auditors to facilitate the understanding of the outside corporate auditors while conducting interviews with the senior management, etc. and expressing his/her views as necessary.

With regard to cooperation with outside directors to assist with their collection of information, the outside directors attend hearings with senior management conducted by the Board of Corporate Auditors and may jointly conduct activities according to the importance of management issues.

**Principle 4.5 Fiduciary Responsibilities of directors and Kansayaku**

**With due attention to their fiduciary responsibilities to shareholders, the directors, kansayaku and the management of companies should secure the appropriate cooperation with stakeholders and act in the interest of the company and the common interests of its shareholders.**

Directors, Corporate Auditors and the management of the Company strive to execute their ideal roles in cooperation with various stakeholders in order to fulfill their fiduciary responsibilities to shareholders. The Company considers this to be conducive to the interests of the Company, and consequently to the common interests of its shareholders. In addition, the Company discloses information to its shareholders in a timely and appropriate manner.

#### **Principle 4.6 Business Execution and Oversight of the Management**

**In order to ensure effective, independent and objective oversight of the management by the board, companies should consider utilizing directors who are neither involved in business execution nor have close ties with the management.**

The Company has appointed four outside directors and therefore believes that the effectiveness of the Board of Directors' oversight function over management is duly ensured.

#### **Principle 4.7 Roles and Responsibilities of independent directors**

**Companies should make effective use of independent directors, taking into consideration the expectations listed below with respect to their roles and responsibilities:**

- i) Provision of advice on business policies and business improvement based on their knowledge and experience with the aim to promote sustainable corporate growth and increase corporate value over the mid- to long-term;**
- ii) Monitoring of the management through important decision-making at the board including the appointment and dismissal of the senior management;**
- iii) Monitoring of conflicts of interest between the company and the management or controlling shareholders; and**
- iv) Appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders.**

The Company's four independent outside directors have expertise in areas such as law, IT, etc. in addition to experience in corporate management and provide beneficial advice and opinions from third-party perspectives based on their knowledge, experience, etc. at the Board of Directors and others. In addition, the independent outside directors also participate in the Officers Evaluation Committee, the Nomination Advisory Committee and the Remuneration Advisory Committee and appropriately express their views from third-party perspectives about the evaluation, election, etc. of directors and executive officers.

#### **Principle 4.8 Effective Use of independent directors**

**Independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. Companies listed on the Prime Market should therefore appoint at least one-third of their directors as independent directors (two directors if listed on the other markets) that sufficiently have such qualities.**

**Irrespective of the above, if a company listed on the Prime Market believes it needs to appoint the majority of directors (at least one-third of directors if listed on the other markets) as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should appoint a sufficient number of independent directors.**

As of the conclusion of the 76<sup>th</sup> Annual General Shareholder Meeting held on June 23, 2023, the total number of directors is twelve, and four, one-third of them, independent outside directors have been appointed.

The Company recognizes that each outside director has expressed useful opinions and proposals from an independent standpoint at the Board of Directors meetings, and fulfill his/her functions sufficiently.

#### **Supplementary Principles**

**4.8.1 In order to actively contribute to discussions at the board, independent directors should endeavor to**

**exchange information and develop a shared awareness among themselves from an independent and objective standpoint. Regular meetings consisting solely of independent directors (executive sessions) would be one way of achieving this.**

The Company considers it appropriate for the independent outside directors to give their views, advice, etc. to the Board of Directors at their discretion from their respective independent standpoints. Currently, the four outside directors have opportunities to exchange information by themselves as necessary.

**4.8.2 independent directors should endeavor to establish a framework for communicating with the management and for cooperating with kansayaku or the kansayaku board by, for example, appointing the lead independent director from among themselves.**

Currently, the Company has four independent outside directors and sees no need to appoint in advance an intermediary to make adjustment or arrangement with the management and the Board of Corporate Auditors. In addition, the independent outside directors are expected to give third-party views, advice, etc. from their respective independent standpoints, and the Company believes that the ranking among outside directors and consolidation of their views could spoil active discussion. Therefore, the Company does not consider it necessary to do so.

**4.8.3 Companies that have a controlling shareholder should either appoint at least one-third of their directors (the majority of directors if listed on the Prime Market) as independent directors who are independent of the controlling shareholder or establish a special committee composed of independent persons including independent directors to deliberate and review material transactions or actions that conflict with the interests of the controlling shareholder and minority shareholders.**

The composition of the Company's major shareholders (top 10) as of the latest record date is as disclosed on the Company's website, etc. In addition, the Company recognizes that there are no shareholders, including so-called substantial shareholders who are not listed in the shareholders' register, who fall under the category of controlling shareholders of the Company because no shareholder or investor has submitted a report on the holding of shares at a level that has a controlling relationship with the Company in the Statement of Large-Volume Holdings submitted to the Finance Bureau in accordance with the Financial Instruments and Exchange Act.

**Principle 4.9 Independence Standards and Qualification for independent directors**

**Boards should establish and disclose independence standards aimed at securing effective independence of independent directors, taking into consideration the independence criteria set by securities exchanges. The board should endeavor to select independent director candidates who are expected to contribute to frank, active and constructive discussions at board meetings.**

With regard to standards for judgment when electing independent outside directors, we make use of articles referring to independence of outside officers stated in the Enforcement Rules for Securities Listing Regulations and the Guidelines for Listing Examination, etc., both established by the Tokyo Stock Exchange, on which the Company is listed. However, at a meeting of the Board of Directors held on September 26, 2017, the Company passed a resolution regarding "Independence Standards for Outside Officers" as follows.

"Independence Standards for Outside Officers"

When an outside officer (outside director and outside corporate auditor) of the Company does not fall under any of the following cases, he or she is judged independent from the Company.

1. A major shareholder of the Company (meaning a shareholder who holds either directly or indirectly 10% or more of the total voting rights of the Company at the end of the most recent fiscal year), or an executing person thereof.
2. A person belonging to or an executing person of a company of which the Company is a major shareholder (holding 10% or more of the total voting rights of the company at the end of the most recent fiscal year.)
3. A major business partner of the Company (whose annual transaction with the Company exceeds 2% of the consolidated net sales of the Company during the most recent fiscal year), or an executing person thereof.
4. A major lender to the Company (whose outstanding loans to the Company at the end of most recent fiscal year exceeds 2% of the consolidated total net assets of the Company), or an executing person thereof.

5. A representative or an employee who belongs to the audit corporation that is the accounting auditor of the Company.
6. A consultant, legal professional, certified public accountant, tax accountant, or other person providing a specialist service who received 10 million yen or more of monetary consideration or other properties per year from the Company other than officer remuneration in the most recent fiscal year (referring to a person belonging to the organization if the one who received the relevant property is an organization such as corporation and association.)
7. A person who received the annual total of 10 million yen or more of donations or aid funds from the Company in the most recent fiscal year (referring to an executing person who belongs to the organization if the one who received the relevant donations or aid funds is an organization such as corporation and association.)
8. A person who falls under any of 1 to 7 above in the past three years
9. A person whose close relative falls under any of 1 to 8 above.

(Note1.)An executing person refers to an executive director, executive officer, corporate officer, or staff executing business of an entity

(Note2.)A close relative means a relative within the second degree of kinship

Even if a person falls under any of the above criteria, such person maybe elected as a candidate for independent outside officer if the person satisfies the requirements of an outside director or an outside corporate auditor under the Companies Act, has specialization and experience necessary in view of the Company's current situations and his/her knowledge and viewpoint are judged to be beneficial to the Company's management, on the condition that the Company provides explanations to shareholders of the reasons of its judgement and the fact that the person satisfies the requirements of an independent outside officer.

#### **Principle 4.10 Use of Optional Approach**

**In adopting the most appropriate organizational structure (as stipulated by the Companies Act) that is suitable for a company's specific characteristics, companies should employ optional approaches, as necessary, to further enhance governance functions.**

To improve governance functions, the Company has established the Nomination Advisory Committee and the Remuneration Advisory Committee responsible for preparing drafts for personnel affairs, and compensation of directors and executive officers, and the Officers Evaluation Committee, which evaluates each director and executive officer as a basis for reviewing personnel and remuneration proposals. In addition, the Company has established committees such as the Disclosure Committee, Compliance Committee, Internal Control Committee, Security Trade Control Committee, Investment Examination Committee, and other committees to deal with companywide issues in the execution of business operations. Each committee examines relevant matters, gives advice as necessary, and provides the Management Committee and the Board of Directors with its opinions.

#### **Supplementary Principles**

**4.10.1 If the organizational structure of a company is either Company with Kansayaku Board or Company with Supervisory Committee and independent directors do not compose a majority of the board, in order to strengthen the independence, objectivity and accountability of board functions on the matters of nomination (including succession plan) and remuneration of the senior management and directors, the company should seek appropriate involvement and advice from the committees, including from the perspective of gender and other diversity and skills, in the examination of such important matters as nominations and remuneration by establishing an independent nomination committee and remuneration committee under the board, to which such committees make significant contributions.**

**In particular, companies listed on the Prime Market should basically have the majority of the members of each committee be independent directors, and should disclose the mandates and roles of the committees, as well as the policy regarding the independence of the composition.**

With regard to the evaluation, appointment, and compensation of directors and executive officers, the Company has established three committees: the Officers Evaluation Committee, the Nomination Advisory



Committee, and the Remuneration Advisory Committee, to ensure the independence and objectivity of the supervisory function of the Board of Directors. Specifically, the Executive Evaluation Committee, chaired by the President and with the participation of independent outside directors and independent outside corporate auditors (collectively referred to as the "Independent Outside Officers". In addition, the Company has replaced the words "independent outside directors shall be the principal members" with "independent outside officers shall be the principal members" and "the majority of the members shall be independent outside directors" with "the majority of the members shall be independent outside officers" in these supplementary principles.), determines the individual evaluation of each director and executive officer based on their self-evaluation and mutual evaluation, etc. Based on the results of these evaluations, the Nomination Advisory Committee for Directors and Executive Officers and the Remuneration Advisory Committee for Directors and Executive Officers, the majority of whose members are independent outside officers, consider appointment and compensation proposals.

The composition of the Nomination Advisory Committee and the Remuneration Advisory Committee is mainly composed of independent outside officers to ensure independence from the management. The role of the Nomination Advisory Committee is to discuss the proposed remuneration of the management team and directors (including candidates), and the role of the Remuneration Advisory Committee is to discuss the overall remuneration system for the management team and directors. Each committee has the authority to report to the Board of Directors the decisions made by the Committee.

#### **Principle 4.11 Preconditions for Board and Kansayaku Board Effectiveness**

**The board should be well balanced in knowledge, experience and skills in order to fulfill its roles and responsibilities, and it should be constituted in a manner to achieve both diversity, including gender and international experience, work experience and age, and appropriate size. In addition, persons with appropriate experience and skills as well as necessary knowledge on finance, accounting, and the law should be appointed as kansayaku. In particular, at least one person who has sufficient expertise on finance and accounting should be appointed as kansayaku.**

**The board should endeavor to improve its function by analyzing and evaluating effectiveness of the board as a whole.**

The Company operates in a wide range of business fields. The Company has internal directors who are well versed in each field to match our business balance. The Company has five out of eight internal directors who have experience of international assignments. Outside directors (one of whom is a female outside director) are also selected with outstanding expertise in legal exercise, IT, etc. in addition to experience of corporate management.

The Company believes that it should appoint personnel who are valuable to our management decisions as a director, regardless of gender or internationality or etc. As for the female director, one outside director is elected. In the future, the company will continue its efforts to promote female employees to management positions so that we can have female directors from within the company. There is no foreign director. Because, in light of the fact that there are inadequate internal systems, including language support, and that most of our current overseas sales ratio of approximately 35% is from Japan, the Company believes that there is no need to do so. The Company believes that it will take time to appoint women and foreigners as internal directors, but the Company intends to continue to discuss the inclusion of women and foreigners among the candidates for outside directors at the Nomination Advisory Committee as an issue to be studied in the future.

Some corporate auditors with financial knowledge who used to work at banks have been appointed. Although the Company judges that corporate auditors possess management experience, business experience, and skills that are appropriate for their duties as business auditors, they are not necessarily well versed in finance, accounting, and legal affairs, and they are naturally striving to improve their skills. However, in the course of auditing operations, the Board of Corporate Auditors judges that they complement each other and that the Board of Corporate Auditors as a whole possesses sufficient auditing capabilities. The Company believes that it is useful for the company to appoint corporate auditors from the perspective of enhancing substantial governance at this point in time, rather than relying on external standards such as the mother of origin.

In addition, the Board of Directors endeavors to improve its functions in consideration of the evaluations

of individual directors and the views expressed by corporate auditors.

## Supplementary Principles

### 4.11.1 The board should identify the skills, etc., that it should have in light of its managing strategies, and have a view on the appropriate balance between knowledge, experience and skills of the board as a whole, and also on diversity and appropriate board size. Consistent with its view, the board should establish policies and procedures for nominating directors and disclose them along with the combination of skills, etc. that each director possesses in an appropriate form according to the business environment and business characteristics, etc., such as what is known as a “skills matrix.” When doing so, independent directors with management experience in other companies should be included.

Under the 10th medium-term business plan, the Company aims to rebuild a solid business foundation and achieve long-term growth by strengthening both profitability and financial strength. In order to achieve this goal, we believe it is necessary to make decisions on management policies and business strategies accurately and promptly. Therefore, the Company has adopted a hybrid organizational design for our Board of Directors, which has both a management function to make decisions quickly and a monitoring function to ensure that the directors are executing their duties appropriately and precisely. In order to ensure the effectiveness of these functions, the Company believes that the main skills required of our Board of Directors are "corporate management," "sales/business strategy," "overseas experience," "finance/accounting," "legal/risk management," "human resources/labor affairs," and "IT/digital" and appoints the persons with each skill in a well-balanced manner.

With regard to the size of the Board of Directors, since the introduction of the Executive Officer System in 2012, the number of Directors has decreased from twenty-one before the system was introduced to twelve as of June 23, 2023, with a reduction of nine Directors.

The Company will continue to strive to optimize the size of the Board of Directors while taking into consideration the balance between management and monitoring functions.

The expertise possessed by each director and corporate auditor is as follows.

#### Skill Matrix

Name	Position	Corporate management	Sales/Business strategy	Overseas experience	Finance/Accounting	Legal affairs/Risk management	Human resources/Labor affairs	IT/Digital
Yasumichi Kato	Representative Director and Chairman	●	●					
Yoichi Nakagawa	Representative Director and President	●		●	●	●	●	
Hidemi Nagashima	Director and Senior Managing Executive Officer	●	●					
Yasuharu Kurata	Director and Senior Managing Executive Officer	●	●	●				
Yasushi Hatanaka	Director and Senior Managing Executive Officer	●	●	●				
Yoichi Sasayama	Director and Senior Managing Executive Officer	●	●	●				
Ryuji Hori	Outside Director	●	●			●	●	
Tatsuya Tejima	Outside Director	●	●		●	●	●	
Kamezo Nakai	Outside Director	●	●		●	●	●	●
Reiko Furukawa	Outside Director	●				●		●
Keiji Matsubara	Director and Managing Executive Officer	●	●	●				
Hisashi Honda	Director and Executive Officer	●	●		●		●	●
Hideo Kawanishi	Corporate Auditor (Full-time)	●	●					
Yoshimasa Ikeda	Corporate Auditor (Full-time)	●				●		●
Yasuo Naide	Outside Corporate Auditor	●	●	●				
Katsunori Okubo	Outside Corporate Auditor	●	●	●	●			
Hideyuki Takahashi	Outside Corporate Auditor	●			●	●		●

Note: "Sales/Business Strategy" means the skills or experiences related to the Company's business.

**4.11.2 Outside directors, outside kansayaku, and other directors and kansayaku should devote sufficient time and effort required to appropriately fulfill their respective roles and responsibilities. Therefore, where directors and kansayaku also serve as directors, kansayaku or the management at other companies, such positions should be limited to a reasonable number and disclosed each year.**

Concurrent positions of other internal directors and internal corporate auditors are limited to officer positions within the Company Group. The Company considers it desirable for its directors and corporate auditors to concentrate their attention and devote their efforts towards the Company. There may be cases, however, where their concurrent service as directors or corporate auditors at other listed companies expands their knowledge and consequently has positive influences on their managerial judgments at the Company. The Company does not disallow their concurrent service unless they are overburdened with concurrent positions.

Although Ryuji Hori, Outside Director, concurrently serves as representative director and president of TMI Ventures Co., Ltd., outside director of Riskmonster.com and outside corporate auditor of Lotte Co., Ltd., Tatsuya Tejima, concurrently serves as outside director of Furukawa Co., Ltd., Kamezo Nakai, Outside Director, concurrently serves as Outside Director of TAIHEI Engineering, Reiko Furukawa, Outside Director, serves as outside auditor of NHK SPRING CO., LTD, and Hideyuki Takahashi, Outside Corporate Auditor, concurrently serves as outside director of Aozora Bank, Ltd, Sunshine City Corporation and outside corporate auditor of WOWOW Inc. There are no special transaction relations between the above companies and the Company.

**4.11.3 Each year the board should analyze and evaluate its effectiveness as a whole, taking into consideration the relevant matters, including the self-evaluations of each director. A summary of the results should be disclosed.**

Within the scope of business delegated by the Board of Directors, the Company has designed an organizational structure under which a policy is decided mainly at a Management Committee consisting mainly of executives at the level of managing director or above and full-time auditors, business is executed, and the execution of business is overseen by the Board of Directors. Internal directors providing advice based on their deep business insight backed by rich experience and outside directors providing objective advice based on expertise in their respective fields oversee the execution of business through the Board of Directors. Therefore, the Company believes that effective oversight over management has been achieved.

In addition, the Company introduced the self-evaluation and peer review system for directors since 2004 (and included the executive officers into these systems in 2012). Not only corporate auditors confirm the effectiveness of the Board of Directors on a daily basis by attending the Board of Directors meetings, holding hearings with business departments, and exchanging opinions with the Internal Audit Department, but the Company has also established the Board of Directors Evaluation Committee chaired by one of outside directors, which reports the results of its evaluation and makes recommendations to the Board of Directors based on the results of a questionnaire survey of all directors. The outline of the current evaluation of the effectiveness of the Board of Directors is disclosed on “Corporate Governance (<https://www.hanwa.co.jp/en/governance.html>)” of the Company’s website and other media.

**Principle 4.12 Active Board Deliberations**

**The board should endeavor to foster a climate where free, open and constructive discussions and exchanges of views take place, including the raising of concerns by outside directors.**

The Company has endeavored to set an appropriate size for the Board of Directors since the introduction of the executive officer system, in order to facilitate active discussion at the Board of Directors meeting.

**Supplementary Principles**

**4.12.1 The board should ensure the following in relation to the operation of board meetings and should attempt to make deliberations active:**

- i) Materials for board meetings are distributed sufficiently in advance of the meeting date;**
- ii) In addition to board materials and as necessary, sufficient information is provided to directors by the company (where appropriate, the information should be organized and/or analyzed to promote easy**

understanding);

iii) The schedule of board meetings for the current year and anticipated agenda items are determined in advance;

iv) The number of agenda items and the frequency of board meetings are set appropriately; and

v) Sufficient time for deliberations.

i) Materials for board meetings are distributed sufficiently in advance of the meeting date;

Materials for the Board of Directors meeting are distributed three business days before the meeting. Since most agenda items of the Board of Directors meetings are deliberated at the Management Committee prior to the Board of Directors meetings, the Company distributes the materials for the Management Committee to the outside directors and outside corporate auditors at the timing of the Management Committee, and thereby makes efforts to compensate for the short lead time between the distribution of materials for the Board of Directors meeting and the meeting date.

ii) In addition to board materials and as necessary, sufficient information is provided to directors by the Company (where appropriate, the information should be organized and/or analyzed to promote easy understanding);

As mentioned above, all of the materials for the agenda items of the Management Committee are distributed to the outside directors and outside corporate auditors to provide information, while questions and requests for explanations with regard to individual items are handled by the relevant divisions.

iii) The schedule of board meetings for the current year and anticipated agenda items are determined in advance;

The schedule for the Board of Directors meetings over the next half is determined at least six months before the beginning month in order to arrange an easily adjustable schedule. With respect to agenda items, a rough timeline is determined for items related to settlement and items stipulated in laws and regulations, but since many spot agenda items arise, and the scheduling for agenda items are difficult to estimate in advance.

iv) The number of agenda items and the frequency of board meetings are set appropriately;

The time allotted for a meeting is half a day, in principle, but this period is generally extended to complete deliberations as necessary without adjusting the number of agenda items, chiefly because the respective agenda items have inherent circumstances and urgency. The Board of Directors meeting is in principle held once a month, and twice in the months when quarterly financial results are announced.

v) Sufficient time for deliberations.;

As mentioned above, because the time allotted for a meeting is in principle half a day and extended as necessary, the Company believes that sufficient time for deliberations is secured.

#### **Principle 4.13 Information Gathering and Support Structure**

**In order to fulfill their roles and responsibilities, directors and kansayaku should proactively collect information, and as necessary, request the company to provide them with additional information.**

**Also, companies should establish a support structure for directors and kansayaku, including providing sufficient staff.**

**The board and the kansayaku board should verify whether information requested by directors and kansayaku is provided smoothly.**

If there is anything uncertain or unclear in the various materials provided by the Company, the directors and the corporate auditors act to acquire additional information or additional explanations to enable them to form their own judgments appropriately. If the Company is requested to provide additional information, it will appropriately handle the request. In addition, the Company has the Secretarial Office for directors and employees appointed as a secretariat for corporate auditors from the Corporate Planning Department work to make adjustments with each relevant division when addressing requests from directors and requests from corporate auditors, respectively.

#### **Supplementary Principles**

##### **4.13.1 Directors, including outside directors, should request the company to provide them with additional**

**information, where deemed necessary from the perspective of contributing to transparent, fair, timely and decisive decision-making. In addition, kansayaku, including outside kansayaku, should collect information appropriately, including the use of their statutory investigation power.**

If there is anything uncertain or unclear regarding the contents of materials, etc. provided by the Company for the Board of Directors meeting, directors, including outside directors, do not hesitate to request additional material and additional information, and the Company appropriately responds to such requests to provide additional information. The Company takes due measures to enable outside directors and corporate auditor (full-time) to attend a Sales Committee jointly held by all departments once every month and to grasp the conditions of business execution. In addition, the Board of Corporate Auditors additionally requests necessary information and requests the relevant persons to give explanations based on the authority of the corporate auditors. The Company instructs the provision of information conducive to audits through the Internal Audit Department and Legal Department and otherwise takes appropriate measures.

#### **4.13.2 directors and kansayaku should consider consulting with external specialists at company expense, where they deem it necessary.**

If the directors and corporate auditors determine it to be necessary to consult with external specialists in order to fulfill their roles and responsibilities, the Company does not hesitate to appoint external specialists at the Company's expense within an appropriate scope.

#### **4.13.3 Companies should ensure coordination between the internal audit department, directors and kansayaku by establishing a system in which the internal audit department appropriately reports directly to the board and the kansayaku board in order for them to fulfill their functions. In addition, companies should take measures to adequately provide necessary information to outside directors and outside kansayaku. One example would be the appointment of an individual who is responsible for communicating and handling requests within the company such that the requests for information about the company by outside directors and outside kansayaku are appropriately processed.**

The Company's Internal Audit Department is under the direct control of the Management Committee and regularly submits audit reports to the directors and corporate auditors.

With regard to the provision of information to outside directors and outside corporate auditors, the Company appoints a person responsible for contact and adjustment for outside directors from the Secretarial Office, and for outside corporate auditors from the Corporate Planning Department, respectively, and takes necessary measures.

### **Principle 4.14 director and Kansayaku Training**

**New and incumbent directors and kansayaku should deepen their understanding of their roles and responsibilities as a critical governance body at a company, and should endeavor to acquire and update necessary knowledge and skills. Accordingly, companies should provide and arrange training opportunities suitable to each director and kansayaku along with financial support for associated expenses. The board should verify whether such opportunities and support are appropriately provided.**

It is needless to say that the directors and corporate auditors should endeavor to acquire and deepen their knowledge and skills as necessary to fulfill their roles and responsibilities. The Company believes that it has selected personnel who can discern skills that are needed, skills that are lacking, and skills that must be strengthened, and accordingly strive for self-improvement as directors and corporate auditors. With regard to support for training, the Company provides guidance for new directors and corporate auditors when they assume their positions and distributes materials for the Management Committee as information on the Company's management operations and business trends to enable every outside director and outside corporate auditor to perform appropriate monitoring operations. In addition, the Company encourages the directors and corporate auditors to proactively visit domestic and overseas group companies and other investees in order to understand the current situations and issues facing the Company Group. Furthermore, the Company provides the outside directors with opportunities to attend an internal Sales Committee meeting and receive meeting materials. With regard to amendments to laws and regulations and other matters that affect managerial judgment in management activities and the monitoring thereof, the Company provides

opportunities for training by holding internal study sessions and, when necessary, by recommending that outside directors attend external training sessions.

#### **Supplementary Principles**

##### **4.14.1 Directors and kansayaku, including outside directors and outside kansayaku, should be given the opportunity when assuming their position to acquire necessary knowledge on the company's business, finances, organization and other matters, and fully understand the roles and responsibilities, including legal liabilities, expected of them. Incumbent directors should also be given a continuing opportunity to renew and update such knowledge as necessary.**

When the directors and the corporate auditors assume their positions, the Company provides guidance on essential information and points they are required to know and introduces and arranges any outside lectures, materials, etc. that the Company recommends that they attend or study. In addition, in the event of any amendments to laws and regulations, accounting standards, etc. that affect management, the Company will explain the details at the Management Committee, Board of Directors meeting, and other meetings.

##### **4.14.2 Companies should disclose their training policy for directors and kansayaku.**

With regard to training for management administration and oversight that directors and corporate auditors require to perform monitoring and management activities other than those in the specialized fields of business relating to the execution of duties by internal directors, the Company provides guidance for directors and corporate auditors when they assume their positions, provides internal study sessions on amendment to laws and regulations, etc. that significantly affect management, and recommends that they attend external training, etc. as necessary.

In addition, the Company provides external directors with opportunities to attend monthly joint meetings of sales departments to enable them to understand the status of the business operations of the Company. The Company also distributes Management Committee materials to outside directors and outside corporate auditors, and thereby promotes the provision of information on matters conducive to managerial judgments other than agenda submitted to the Board of Directors meetings. In addition, the Company proactively encourages outside directors to visit domestic and overseas group companies and investees, and thereby provides the outside directors with opportunities to understand the current situation of the Group.

With regard to the provision of further training opportunities and financial support for associated expenses, the Company examines the necessity therefor and judges the adoption or rejection each time training is requested.

## Section 5: Dialogue with Shareholders

### General Principle 5

**In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting.**

**During such dialogue, senior management and directors, including outside directors, should listen to the views of shareholders and pay due attention to their interests and concerns, clearly explain business policies to shareholders in an understandable manner so as to gain their support, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.**

The Company proactively works on IR activities for institutional investors and, in addition to quarterly financial results briefings, participates in small meetings for business briefings, conferences hosted by securities companies, and overseas roadshows as far as practicable. The details of meetings with investors, investor trends, etc. are regularly reported to the directors for their perusal when management policies, dividend policy, etc. are examined.

### Principle 5.1 Policy for Constructive Dialogue with Shareholders

**Companies should, positively and to the extent reasonable, respond to the requests from shareholders to engage in dialogue (management meetings) so as to support sustainable growth and increase corporate value over the mid- to long-term. The board should establish, approve and disclose policies concerning the measures and organizational structures aimed at promoting constructive dialogue with shareholders.**

The Company has a structure in which the Corporate Planning Department is in charge of IR activities and promotes the activities in cooperation with the Finance Department, Accounting Department, other administrative departments, and sales departments. The Company proactively conducts dialogue with investors and may approach investors to provide meetings, in addition to meetings requested by investors. The Company thinks of IR activities as opportunities to provide investors with materials that help them to deepen their understanding about the Company's actual business conditions and revenue structure and judge the Company's growth potential and future prospects. Going forward, the Company will aggressively strive for stronger ties with investors accordingly.

### Supplementary Principles

#### **5.1.1 Taking the requests and interests of shareholders into consideration, to the extent reasonable, the senior management and directors, including outside directors, and kansayaku should have a basic position to engage in dialogue (management meetings) with shareholders.**

Dialogue with shareholders is conducted by officers of the Corporate Planning Department in charge of IR. The President may participate in small meetings with institutional investors and overseas roadshows. In addition, upon receiving requests from investors at individual meetings, the senior management and directors will respond to the extent practicable.

#### **5.1.2 At minimum, policies for promoting constructive dialogue with shareholders should include the following:**

- i) Appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place, including the matters stated in items ii) to v) below;**
- ii) Measures to ensure positive cooperation between internal departments such as investor relations, corporate planning, general affairs, corporate finance, accounting and legal affairs with the aim of supporting dialogue;**
- iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities);**
- iv) Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board; and**
- v) Measures to control insider information when engaging in dialogue.**

- i) Appointing a member of the management or a director who is responsible for overseeing and ensuring that constructive dialogue takes place

The Company operates IR under control of the president and the information handling officer assists the president. Operation is supported by directors and executive officers in administrative departments and sales departments as necessary depending on the theme of IR.

- ii) Measures to ensure positive cooperation between internal departments such as investor relations, corporate planning, general affairs, corporate finance, accounting and legal affairs with the aim of supporting dialogue;

Major IR operations are conducted by Corporate Planning Department who studies responsive measures in cooperation with, and create consensus between, internal departments such as the Accounting, Finance, Legal& Credit, General Affairs etc. according to the themes of settlement, capital policy, legal regulations, governance, CSR, etc.

- iii) Measures to promote opportunities for dialogue aside from individual meetings (e.g., general investor meetings and other IR activities);

In addition to financial results briefing sessions held twice a year, the Company participates in small meetings for business briefing, domestic and overseas conferences hosted by securities companies, and overseas roadshows. In addition, the Company makes arrangements to mediate visits to its domestic and overseas offices upon the request of its investors.

- iv) Measures to appropriately and effectively relay shareholder views and concerns learned through dialogue to the senior management and the board

The Company distributes to senior management a report on topics taken up at meetings with investors as appropriate during IR periods after financial results announcement. The Company also reports to the Board of Directors on the latest investor trends when it reports the results of its research to identify shareholders twice a year. In addition, the Company reports IR activities to the Board of Directors four times a year.

- v) Measures to control insider information when engaging in dialogue.

The Company establishes the disclosure guideline for IR/SR/PR activities as a standard of its information disclosure. To prevent the leakage of financial results information and ensure fairness, the Company in principle sets the three-week period before the date of financial results announcement (including quarterly results) as a quiet period during which the Company withholds information disclosure on financial results, the exchange of relevant comments, responses to related inquiries, etc. In addition, before opening of IR periods, the results of analyses of the details of settlement are shared among the relevant departments that settle the details of the information to be provided to investors. In principle, two or more officers and employees of the Company conduct a meeting with an investor so as to avoid the leakage of insider information to specific interviewers.

### **5.1.3 Companies should endeavor to identify their shareholder ownership structure as necessary, and it is desirable for shareholders to cooperate as much as possible in this process.**

The Company confirms the shareholders on the shareholders register every half and researches beneficial shareholders at the end of every March and September, in order to grasp the actual composition of shareholders and to use that information for planning targets for its IR activities.

## **Principle 5.2 Establishing and Disclosing Business Strategy and Business Plan**

**When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company's cost of capital. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human capitals, and specific measures that will be taken in order to achieve their plans and targets.**

The Company formulates and discloses a medium-term business plan spanning generally three-year periods. Contents incorporated in the plan vary depending on management issues and the directions to which the Company should strive each time. Capital costs are considered when formulating profit plans and capital



policies. When considering investments such as capital investments and equity investments, the Company compares the weighted average cost of capital (WACC) with the investment yield. For projects below the WACC, the Company is particularly careful in considering the necessity of such investments.

The Company's objectives, business activities and measures to be promoted are disclosed to an extent that does not affect specific activities, and a summary version prepared for release is posted on the Company's website together with presentation slides.

### **Supplementary Principles**

#### **5.2.1 In formulating and announcing business strategies, etc., companies should clearly present the basic policy regarding the business portfolio decided by the board and the status of the review of such portfolio.**

In order to achieve sustainable growth and further enhance corporate value, the Company formulates strategies for each business segment and conducts business portfolio management.

The Board of Directors decides the medium-term performance targets in the medium-term business plan and reports on the progress of the plan. In addition, strategies for each business segment are formulated and verified flexibly in light of the business environment and other factors at target meetings held twice a year.

In addition, for important new businesses and investment projects, the Investment Examination Committee verifies profitability and identifies risks, and periodically reports to the Board of Directors and the Management Committee on the verification of the effects after implementation, in order to evaluate the business from a medium- to long-term perspective.

In the future, including this medium-term business plan, the Company will further visualize the growth potential and capital profitability of each business segment, verify whether or not the Company is the best owner of each business, and strive to build a business portfolio for sustainable growth.