

G Governance



Compliance

For Daiseki Group, which expands businesses with permissions, assuring compliance and meeting social responsibility and public responsibility are the most important issues for corporate management.

Basic Approach to Corporate Governance

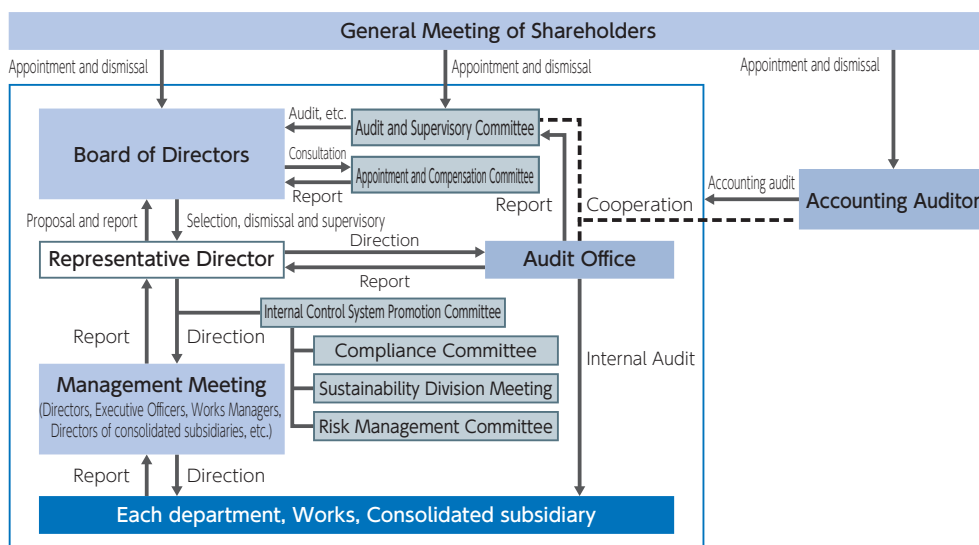
Daiseki positions corporate activities that comply with laws and social norms as the most important issue for improving transparency and soundness in corporate management. We adopted the Company with Audit and Supervisory Committee system, with an Audit and Supervisory Committee comprising three outside directors, further enhancing the supervisory function of directors. One of external directors is a woman, who gives recommendations from a female perspective.

In May 2020, Daiseki introduced an executive officer system with the aim of clarifying business execution responsibilities, streamlining management and

accelerating decision-making. Further, the authority necessary for conducting daily corporate activities is delegated to the works managers at each of the six worksites and the presidents of six Group companies, with the Management Meeting held with the participation of directors, executive officers, works managers, directors of consolidated subsidiaries and other staff.

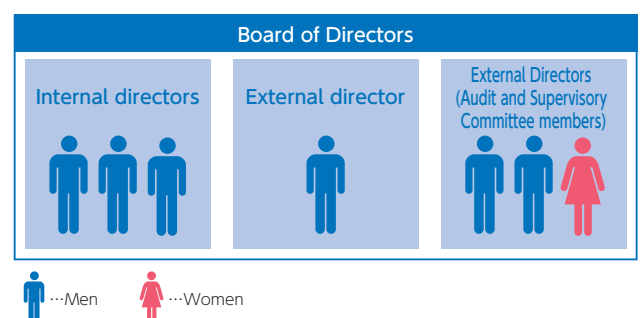
Also, in May 2023 we appointed an additional external director who has experience with corporate management in order to strengthen the company's governance, which means we now have a majority of external directors.

Daiseki's Corporate Governance System



Board of Directors

The Board of Directors is comprised of seven members: three internal directors, one external director, and three external directors who also serve as Audit and Supervisory Committee members. Of these members, one is a female director, contributing to a more diverse Board composition. In addition to regular Board of Directors meetings which are held once per month in principle, extraordinary Board of Directors meetings are held as necessary. The Daiseki Group holds Board of Directors meetings more frequently with the aim of facilitating prompt and accurate decision-making and efficient organizational management of the Group as a whole.



Main accomplishments related to governance of FY2023 (Daiseki)

Board of Directors	Audit and Supervisory Committee	Ratio of external directors within all directors (as of May 25, 2023)
Held 21 times	Held 14 times	57.1 %

Basic Approach to Internal Controls

Based on the Companies Act and the Ordinance for Enforcement of the Companies Act, Daiseki established the following system for ensuring the appropriateness of operations (hereinafter, the "internal control system").

- 1 Within the Daiseki Ethics Charter, Daiseki established three guidelines for corporate behavior that convey its stance on growing and developing alongside society: Social roles and responsibilities, compliance with laws and regulations, respect for human rights and the fostering of a free and open corporate culture. To achieve perpetual development as an industry leader, Daiseki has developed an internal control system and strives to embody its Ethics Charter.
- 2 The Board of Directors formulates basic policies for internal control, provides instructions and supervision on the implementation status of internal controls, confirms maintenance and operational status and reviews basic policies and countermeasures when necessary.
- 3 Daiseki established the Internal Control System Promotion Committee chaired by the President and Representative Director to ensure reliable financial reporting through the establishment and maintenance of internal control system programs.

Risk Management

Daiseki established Risk Management Regulations in 2006 to address various risks including earthquakes and other natural disasters, occupational accidents and information leaks. Additionally, we created a risk map and established a response system defining responsible departments for each risk classification.

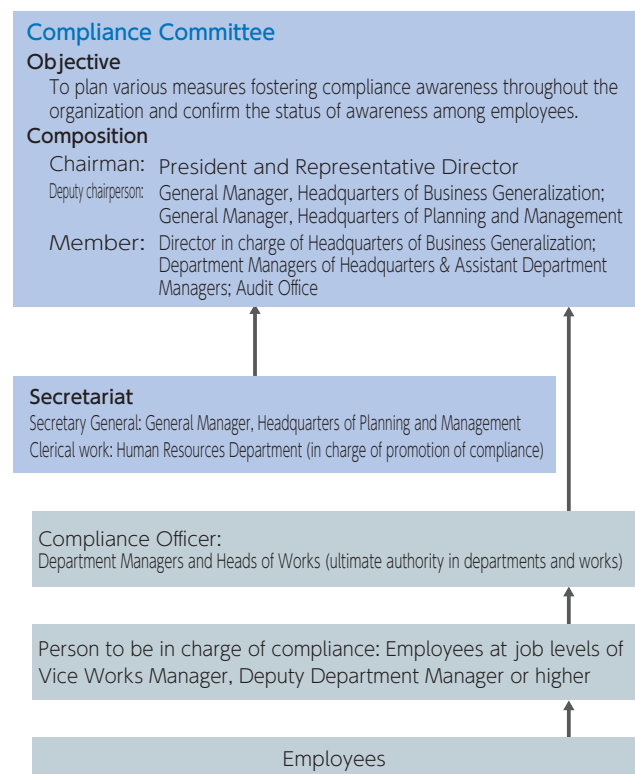
The Risk Management Committee, which plays a central role in risk management, is chaired by the President and Representative Director and manages risks facing the Daiseki Group thoroughly and comprehensively. The Audit Office audits the risk management status of each department, reports the results to the Risk Management Committee and the Board of Directors on a regular basis, and deliberates and decides on improvement measures.

Our Sustainability Division Meeting and Risk Management Committee have also deliberated on climate change risk analysis based on TCFD recommendations since FY2022, with progress confirmed at management meetings and results reported to the Board of Directors.

Compliance System

Daiseki established a Compliance Committee in May 2002 and formulated an Ethics Charter announced within and outside the Company. Compliance Committee chaired by the President and Representative Director works on grasping the status of company-wide compliance systems established and its problems, analyzing compliance risks at each department and embodying countermeasures. For the cases where the Daiseki Group management or compliance officers at each department find problems related to compliance, we have established a system to report to compliance committee immediately and thoroughly operate that system.

Compliance System



A Conversation with Our External Directors

Directionality to achieve Vision 2030, our long-term management vision

Three of our external directors had a conversation on the current status and future prospects of Vision 2030, Daiseki's long-term management vision formulated in 2018, and the efforts necessary to bring it to fruition.

New, future-oriented businesses take off, raising expectations for further growth

— How do you evaluate Daiseki's business strategy, performance, and social outcomes for FY2023?

Sahashi: Regarding new business strategy, I believe signing the cooperative agreement with a municipality (Gamagori, Aichi Pref.) to work toward the realization of a circular city was a major step toward the future. The question of how to promote environmental policy for decarbonization is an issue for many local governments. I believe that Daiseki, as a leader in resource regeneration in regions in Japan, can play a role by connecting local government bureaus across the board on the topic of the environment, thus breathing new life into the situation.

Kako: The knowledge and know-how obtained through such initiatives can be expanded horizontally to other local governments. This joint agreement was covered by various media outlets, and in this way I believe Daiseki's visibility will increase across Japan.

Mizuno: For performance, we regarded the large-scale water leak at Meiji Irrigation Works, an industrial

waterworks in the Tokai region, the global shortage of semiconductors, and the delayed impact of the COVID-19 pandemic as points of concern. When the factory utilization rate falls, demand for liquid waste recycling also declines. However, the water leak at Meiji Irrigation Works was remedied in about three months, and since the COVID-19 pandemic is coming to an end, I believe we can expect further growth in FY2024.

Kako: Susceptibility to external impact may be an issue going forward. From the perspective of personnel utilization, there have been new movements in the engagement of female employees. I have advised regular personnel transfers for female employees for quite some time, and I have heard that the female employees who have been assigned to work with Gamagori City are playing an active role in the project. Furthermore, it has been encouraging to hear directly from other employees about their enthusiasm for their work.

Sahashi: There has been an increase of three female employees promoted to management, and this has invigorated the company, hasn't it?

Kako: Yes, I think employees also feel that something is building. The company should take this opportunity to be proactive in training and other initiatives for skill



Profiles of External Directors (Audit and Supervisory Committee members)



Norikazu Sahashi

First election in 1987, he served on Nagoya City Council for six consecutive terms. Chairman of the Nagoya City Council from 2005 to 2006. Took on his current role in 2016 after being appointed as a Daiseki Auditor in 2012.



Nobukatsu Mizuno

Worked with Tohmatsu & Co. (now Deloitte Touche Tohmatsu LLC) before assuming directorship of the Nobukatsu Mizuno Certified Public Accountancy Office (ongoing position). Took on his current role at Daiseki in 2018.



Mitsuyo Kako

After serving on the staff of Aichi Prefecture, she was appointed trustee and board member of Aichi University in 2016 (ongoing role). Appointed board member of Chita City Board of Education in 2018 (ongoing role). Took on his current role at Daiseki in 2020.

development of all employees including women. I think it's essential to expand training for managers in order to raise the level of the organization as a whole.

Achieving Vision 2030: Using numbers and target items to visualize and execute a plan

— Please tell us about the status of Vision 2030 initiatives as well as the future outlook and expectations.

Sahashi: We are expecting Vision 2030 to promote the circular economy. Daiseki will not only recycle waste produced by companies, but also help circulate more resources throughout society. Vision 2030 will contribute to achieving the SDGs and also has the potential to create a consulting business. We anticipate that Daiseki, recycling companies, will develop into circular economy companies.

In light of increasing needs, I believe Daiseki now needs to sow the various seeds for collaboration with local governments and the circular economy, etc. Daiseki has established “Ideas, Plans, Structures, Actions” as its management principles. Based on new ideas, Daiseki develops plans and organizes structures to realize the idea and cultivate it into a business. I hope Daiseki will work hard to explore new business opportunities.

Regarding the collaboration with the city of Gamagori, Daiseki should test the process of connecting with other local governments across Japan and create an internal system. In addition to establishing this as a pillar of new business for Daiseki, I expect this will become a standard for working with local governments.

Mizuno: In order to do this, it is important that the board members further understand Vision 2030. Vision 2030 cannot be achieved by simply continuing on the present course. Working with local governments might also be within the scope of established practice. Daiseki needs to develop new businesses that differ from its existing businesses. The company must clearly envision the ideal image of Daiseki for the year 2030, and deliberate, discuss, and refine the actions it should take now. FY2024 is the year in which Daiseki should visualize specific figures and items and put a plan into action.

In Japan there are close to 4,000 listed companies, but only 480 companies*1 have released a medium-term business plan, and Daiseki is one of these companies. This shows how Daiseki is a listed company that places importance on engaging in dialogue with shareholders, but I would like to see the company go even further and incorporate detailed progress

management for its goals. The number of companies actually doing this in Japan is likely less than 100.

Kako: Employees may not realize how much attention Daiseki is attracting both in Japan and internationally. The company should put even more of a focus on improving the work environment as a part of human resource development. Daiseki should continue its efforts to increase the annual leave utilization rate of managers and engagement of female employees. On the other hand, the extremely low turnover rate of 3.2% on a consolidated basis and 1.9% on a Daiseki non-consolidated basis in FY2023 is highly commendable.

Mizuno: I believe Daiseki is the only company in the environmental industry with a turnover rate in the single digits. It has also earned high scores for labor-related items in international ESG-related assessments.

Balancing existing and new businesses through “ambidextrous leadership”

— What do you consider the effectiveness of the Board of Directors?

Mizuno: These changing times call for “ambidextrous leadership.”*2 In this era, companies who achieve management combining the deepening of existing businesses (deepening of knowledge) and the search for new businesses (searching for knowledge) will grow and survive. The Board of Directors’ role is not only conducting the company’s present core business, but also strongly supporting the challenge of sowing the seeds of future businesses. We expect them to take responsibility and action for this.

Sahashi: To that end, we have decided to appoint someone with management experience as an external director from FY2024. We hope to not only reinvigorate the Board of Directors, but also to strengthen the functions of continual management supervision and counsel.

Kako: The Board of Directors is structured such that external directors receive regular business reports from the person in charge of each department. As external directors, we, too, will closely monitor the Board of Directors and the company itself, and promote company-wide efforts to realize Vision 2030.

*1 Daiwa Institute of Research “Recent Trends of Medium-term Management Plans Sep. 2022” Total for Jan.-Aug. 2022

*2 A management theory proposed by professors Charles A. O'Reilly and Michael L. Tushman. This management methodology simultaneously pursues two contrasting aspects: the deepening of existing businesses and the exploration of new businesses.

Whistleblower Protections

The Daiseki Group established a compliance consultation counter where employees can directly consult with The Daiseiki Human Resources Department or corporate lawyers that is easy for employees to use, and thoroughly operate it informing the importance of it. When employees consult, the consultation counter will investigate the matter, determine the countermeasure to prevent it from happening again with the related departments and implement it thoroughly, company-wide. The whistleblowing system stipulates the protection of whistleblowers so that employees who make report suffer no adversity. All information from whistleblowers handled in the strictest confidence only by those who respond in the whistleblower system so no information is leaked to the outside.

Information Protection and Management

In 2005, we formulated Personal Information Protection Rules to ensure all officers and employees maintain a thorough understanding of appropriate personal information protections in an effort to strengthen management.

Based on the Information Security Basic Policy, we strictly manage and control the creation, use, removal and storage of information. In FY2023, there were no incidents involving the leak of personal information.

Respect for Intellectual Property Rights

We formulated employee invention regulations to address inventions and other intellectual property created by employees while on the job. By clarifying the attribution of rights to employee inventions and guaranteeing inventor rights, we are working to increase motivation for research and development.

Number of intellectual property rights(FY2023 end) (cases)

	Patents holding	Patents pending
Number of intellectual property rights	4	4

Compliance with the Excellent Industrial Waste Disposal Company Certification System

The purpose of this system is to create an environment in which generators of industrial waste can easily outsource treatment to excellent certified businesses and to promote the proper treatment of industrial waste. If an industrial waste disposal company with a track record of five years or more meets certain standards, a seal of excellence will be printed on the permit and introduced on the Industrial Waste Information Net website.

Daiseiki was the first operator to be certified under this system by the city of Nagoya in 2011, and as of February 28, 2023, we were certified as excellent by a total of 49 local governments (45 prefectures and four cities).



The Certification of the Excellent Industrial Waste Disposal Company by Nagoya City

Preventing corruption

The Daiseiki Group has established and abides by the following items in its Code of Conduct to prevent corruption.

(1) Developing sound corporate activities

- We engage with all business partners in good faith, justly and fairly.
- We establish mutually beneficial relationships with business partners and aim for stable growth and development.
- We conduct corporate activities in accordance with social norms and standard business practices.
- We build an internal control system for the purpose of ensuring the reliability of financial reports.
- We aim to enhance shareholder returns as profits grow.

(2) Compliance with the antimonopoly act

- We do not discuss or enter into agreements that mutually restrict free corporate activities.
- We do not use one's position to influence business transactions.
- We do not make inappropriate displays or provide excessive gifts or prizes.

(3) Appropriate approach to entertainment, gifts, and similar practices

- We don't entertain or give gifts to business partners and other stakeholders beyond the scope of social conventions and common courtesies.
- We don't entertain or give gifts to current or former civil servant employees, except when permitted by laws and regulations.
- We don't provide our shareholders with entertainment or gifts that exceed the scope of social conventions and common courtesies.
- We don't give any favors to antisocial forces (extortionists).

(4) Transactions with public institutions, handling of political contributions and donations

- We act with thorough consideration for sociality, commonality, necessity, etc.
- We do not make illegal political contributions.

Protecting human rights

We respect the basic human rights of its employees and strive to prevent discrimination and human rights violations on the basis of race, creeds, gender, physical disabilities or other anomalies. To this end, power harassment workshops for all managers are conducted regularly by an outside lecturer. Additionally, we are conducting training aimed at preventing sexual and power harassment for new managers. Further, the Human Resources Department regularly interviews employees to monitor for human rights violations.

- ① We respect the basic human rights of its employees and strive to prevent discrimination and human rights violations on the basis of race, creeds, gender, physical disabilities or other anomalies.
- ② We protect personal privacy.
- ③ We don't engage in sexual harassment or other acts that violate human rights.
- ④ We create a corporate culture in which employees have mutual respect for one another.

State of human rights protection

The Daiseki Group does not engage in discrimination, forced labor, child labor, human trafficking, or any other acts that are detrimental to human rights. Furthermore, we do not engage in business with companies or organizations that may be involved in such acts that are detrimental to human rights.

Effectiveness evaluation of Board of Directors

Effectiveness evaluation of Board of Directors held in FY2023 was conducted, and its results were reported and discussed at Board of Directors. The evaluation results are as follows.

① Task implemented

- Evaluation subject
 - …Board of Directors held in September 2021 through September 2022
- Person in charge of evaluation
 - …All Directors
- Overview
 - …Items to be evaluated
 - Composition and operation of the Board of Directors
 - Management strategy and business strategy
 - Discussions at the Board of Directors
 - Operation of the Board of Directors
 - Dialogue with external directors
 - Effectiveness of governance system and the Board of Directors

② Analysis and evaluation results

- Questionnaire results
 - …Generally positive
- Effectiveness of Board of Directors
 - …Confirm that it is generally secured

③ Measures to realize effectiveness

- Three items pointed out as improvement was required were as follow.
 - Considering strengthening the governance system as a company listed on the Prime Market by increasing the ratio of external directors to over half
 - Considering an initiative to hold broader discussions than before by including external directors with corporate management experience in the Board of Directors
 - Considering increasing the time spent discussing Group governance

Directors skill matrix (as of May 25, 2023)

Name	Title	Age	Gender	Term of office	Committee		C	B	O	G	SA	M	F	S	T	H
					A	Audit										
Tetsuya Yamamoto	Representative Director	58	Men	28	○		●	●					●	●	●	
Yasuo Ito	Representative Director	50	Men	13	○		●		●	●	●					
Koji Amano	Directors	62	Men	20				●			●					●
Mitsuru Okada	Independent External Directors	66	Men	—			●		●	●						
Norikazu Sahashi	Independent External Directors	64	Men	7	○	○		●				●		●		
Nobukatsu Mizuno	Independent External Directors	70	Men	5	○	○			●			●	●			
Mitsuyo Kako	Independent External Directors	69	Women	3	○	○			●			●				●

Note: A: Appointment, Reward Committee C: Corporate management B: Business knowledge O: Operation strategy G: Global SA: Sales marketing M: Management risk F: Financial accounting S: Sustainability T: Technology innovation H: Human resource, education, diversity