

Basic Policy on Corporate Governance

Chapter 1 - General Provisions

1. Basic View on Corporate Governance and Purpose of the Basic Policy

In accordance with Hakudo's Credo, Hakudo Co., Ltd. (hereinafter "the Company") recognizes the importance of ensuring thorough management transparency, fairness, and disclosure.

Based on this view, the Company has formulated a Basic Policy on Corporate Governance (hereinafter "the Basic Policy") to further strengthen Corporate Governance.

[Management Philosophy]

The Company engages in business activities under its Management Philosophy, "We strive to win the trust of all stakeholders and to contribute to the society through offering goods, convenience, and peace of mind to all those involved in manufacturing."

[Five Commitments]

1. Commitment to our Customers
To strive in exceeding expectations through evolving the quality, technology and service we offer.
2. Commitment to our Employees
To offer an environment where our employees can feel secure and also take pride in being a member of. To pursue the happiness of our employees and their families.
3. Commitment to our Business Partners
To cherish a mutually beneficial relationship.
4. Commitment to our Shareholders
To continuously pursue improvement of corporate value, and to return fair dividends.
5. Commitment to our Society
To contribute to the development of the local community and environmental protection by complying with the law and executing healthy corporate activities.

2. Institutional Design

The Company has adopted a corporate governance structure with an Audit and Supervisory Committee (consisting of at least three members who are directors of the company, half of which are outside directors) to further strengthen the oversight function of the Board of Directors and corporate governance, and to improve soundness and efficiency of management.

3. Establishment, Revision, and Abolition

The establishment, revision, and abolition of the Basic Policy must be approved by a resolution of the Board of Directors.

Chapter 2 - Relationship with Stakeholders

1. General Comments

In conducting its business activities, the basic position of the Company is to build relationships of trust with various stakeholders and contribute to the development of society by drawing on its employees willingness to seek out new challenges under its Management Philosophy, “We strive to win the trust of all stakeholders and to contribute to the society through offering goods, convenience, and peace of mind to all those involved in manufacturing.”

Accordingly, the Company has formulated a Basic Policy on Sustainability, and aims to concurrently enhance its corporate value and contribute to the realization of a sustainable society.

Further, the Company engages in environmental, social, and governance (ESG) initiatives and sustainable development goals (SDGs) initiatives, and has established an ESG/SDG Management Committee.

2. Relationship with Shareholders

(1) Policy

As part of the Five Commitments of its Group, the Company pursues a Commitment to Shareholders that calls for “continuously pursuing improvement in corporate value, and to return fair dividends.”

(2) General Meeting of Shareholders

The Company positions the General Meeting of Shareholders, which is made up of all shareholders, as its highest decision-making body, provides ample time for shareholders to exercise their rights, and maintains an environment in which shareholders can exercise their rights fairly.

In determining the dates of general meetings, the Company to the extent possible tries to avoid dates when many other companies hold shareholder meetings in an effort to allow many shareholders to attend. It also strives to provide convocation notices to shareholders that contain readily understandable explanations, and discloses the notices on its website before they are mailed. Further, the company ensures shareholders receive ample time to exercise their rights through efforts such as mailing the convocation notices roughly three weeks before the date of the meetings.

In addition, by allowing shareholders to exercise their voting rights electronically over the Internet and by disclosing English convocation notices, the Company works to further improve overall convenience, including by improving convenience related to the exercise of votes by shareholders and by using a voting rights exercise platform.

(3) Securing the Rights of Shareholders

The Company treats all shareholders fairly in accordance with their holdings, and maintains systems to appropriately respond to inquiries by minority shareholders. Further, the Company also accommodates requests by institutional investors, etc., that hold shares in the name of trust banks, etc., to exercise voting rights, etc., on behalf of the trust banks, etc. at General Meetings of Shareholders.

(4) Policy on Dialogue with Shareholders and Investors

The Company's investors relations (IR) activities are conducted by its Corporate Planning Division. The information required for IR activities is collected from the relevant divisions such as sales and manufacturing divisions or overseas subsidiaries.

Further, opinions or concerns ascertained through dialogue with shareholders and investors are reported to management meetings or to the Board of Directors as necessary. In addition, to prevent insider trading, the Company strives to prevent leaks of insider information in dialogue with shareholders and investors in accordance with its internal regulations.

(5) Analysis of Opposing Votes

If the ratio of opposing votes in the voting results for a proposal at the General Meeting of Shareholders exceeds a certain percentage, the Board of Directors analyzes the reasons behind the opposing votes, deliberates on measures to address those reasons in the future, and continues to appropriately disclose and explain information to, or engage in dialogue with, shareholders.

(6) Strategy for Capital Policy

With a view to improving corporate value, the Company pursues highly efficient management that takes into account financial indicators such as return on invested capital (ROIC) and return on equity (ROE). As part of its objective to maximize shareholder value, the Company endeavors to consistently pay stable dividends while taking into account its equity ratio.

Further, if the Company plans to implement a fundraising program that will result in a change of control or in significant dilution, it makes decisions after fully taking into account the impact on shareholders and fully deliberating on matters such as the use of the proceeds and improvement plans, and appropriately discloses and explains the fundraising program to shareholders and investors.

(7) Anti-Takeover Measures

The Company has not introduced anti-takeover measures. If a tender offer is made for the Company's shares, the Board of Directors will request information regarding corporate value improvement measures from the tender offeror, etc., deliberate on optimal strategies to ensure that the interests of shareholders and other stakeholders are not undermined, and promptly disclose such matters.

(8) Policy on Cross-Shareholdings

The Company's policy is to only hold shares deemed necessary from a strategic standpoint with the aim of maintaining and strengthening long-term, stable business relationships with business partners.

Further, the Company reduces shareholdings deemed to not necessarily have sufficient significance upon consideration of business relationships and other factors. It discloses its examination of the appropriateness of individual cross-shareholdings and the results thereof.

Once a year, the Company verifies the appropriateness of its individual cross-shareholdings, and reports its findings to the Board of Directors.

With regard to the exercise of voting rights for such shareholdings, the Company votes on each proposal based on a comprehensive consideration of whether the proposal contributes to sustainable growth and medium- to long-term improvement in the corporate value of the Company and the investee.

(9) Related Party Transactions

Conflict-of-interest transactions as defined in the Companies Act between the Company and a director must be approved by a resolution of the Board of Directors and the results of the transactions must be reported to the Board of Directors in accordance with the Regulations of the Board of Directors. Further, transactions with related parties such as major shareholders and subsidiaries must receive internal approval in accordance with the Regulations on Administrative Authority, as is also the case for transactions with third parties. In addition, the Company sends an annual questionnaire survey to all directors of the Company and its subsidiaries to confirm whether transactions have occurred between related parties such as directors or their close relatives. The Board of Directors and the Audit and Supervisory Committee have established systems to manage transactions between related parties.

3. Relationship with Employees

(1) Policy

As part of the Five Commitments of its Group, the Company pursues a Commitment to Employees that calls for “offering an environment where our employees can feel secure and also take pride in being a member of, and pursuing the happiness of our employees and their families.” Further, the Company has inherited and continues to uphold the following motto from its founder: “Have respect for humanity and pursue rationality.”

(2) Diversity

The Company welcomes diversity and respects the individual characters and differences of its employees. It aims to provide a work environment that allows individual employees to maximize their talents, and promotes diversity through efforts such as appointing female employees to managerial positions and employing foreign nationals.

(3) Code of Conduct

The Company has formulated a Code of Conduct to realize its Management Philosophy and Five Commitments. It distributes the Code of Conduct to all its officers and employees to ensure they can act with confidence whenever an issue raises doubt. The Board of Directors reviews risk management compliance conditions, and reassesses related matters if necessary. In addition, the Company provides compliance training tailored to different personnel levels.

(4) Internal Reporting Desk

The Company has established reporting desks inside and outside the Company where employees can consult or report on violations of laws, breaches of internal rules, or other forms of conduct that breaks social norms. Consultations or reports by employees to the reporting desks must remain confidential, and such employees may not be subjected to unfair treatment in accordance with the Regulations on Legal Compliance. The operating conditions for the reporting desks are reported to the Board of Directors as appropriate, and the operation and management of the internal reporting is kept independent from the management of the Company through measures such as collaborating with external law offices.

4. Relationship with Customers

As part of the Five Commitments of its Group, the Company pursues a Commitment to Customers that calls for “striving in exceeding expectations through evolving the quality, technology and service we offer.” The Company believes that improving the satisfaction of its customers is a key factor that underpins its long-term sustainability.

5. Relationship with Business Partners

As part of the Five Commitments of its Group, the Company pursues a Commitment to Business Partners that calls for “cherishing mutually beneficial relationships.” It respects its suppliers, distributors, and other business partners, adopts a fair and equitable attitude in its dealings with such partners, and believes it can grow in tandem with its partners through mutual contributions.

6. Relationship with Society

As part of the Five Commitments of its Group, the Company pursues a Commitment to Society that calls for “contributing to the development of the local community and environmental protection by complying with the law, and executing healthy corporate activities.” In addition, under its Credo, the Company has formulated a Basic Policy on Sustainability that calls for proactively promoting initiatives that contribute to the sustainable development of society.

Chapter 3 - Full Disclosure

1. Policy

To build relationships of trust with its stakeholders, the Company makes timely and appropriate disclosures of information deemed necessary in accordance with the Companies Act, the Financial Instruments and Exchange Act, and stock exchange regulations, and also makes disclosures on non-statutory matters.

Further, the Company discloses English information in its results briefing and other materials, and also strives to ensure high added value in other disclosed information.

The Company has formulated a Basic Policy on Disclosure that reflects the points above, and makes every effort to disclose information appropriately and ensure transparency.

Chapter 4 - Board of Directors and Audit and Supervisory Committee

1. Board of Directors

(1) Role

The Board of Directors makes decisions on important management matters in accordance with laws, the Articles of Incorporation of the Company, and the Regulations of the Board of Directors, and it oversees the execution of business by directors.

(2) Composition

The Board of Directors separates the functions of oversight and execution of management. It comprises no more than 10 directors (excluding directors who concurrently serve as Audit and Supervisory Committee members) and no more than four directors who concurrently serve as Audit and Supervisory Committee members in

accordance with the Article of Incorporation of the Company. Further, in order to maintain and enhance the functions of management oversight and execution, the Board of Directors proactively appoints independent outside directors.

(3) Scope of Matters Delegated to Management

The Board of Directors clearly defines the authority regarding matters such as decisions, inspections, and approvals delegated to the Board of Directors, the representative director and president, directors in charge of businesses, general managers, and other officers in the Regulations of the Board of Directors and the Regulations on Administrative Authority.

(4) Determination of Remuneration Structure for Directors

In accordance with the Standards for Payment of Directors' Remuneration, and the Standards for Payment of Directors' Bonuses, the Board of Directors determines the remuneration of its directors as follows.

i. Directors' Remuneration

The Company calculates a basic remuneration that takes into account title and tenure (full-time or part-time). On this basis, the individual remuneration for directors (excluding directors who concurrently serve as Audit and Supervisory Committee members) is determined by the Board of Directors following deliberations by the Nomination and Remuneration Advisory Committee. The individual remuneration for directors who concurrently serve as Audit and Supervisory Committee members is determined by the Audit and Supervisory Committee.

ii. Directors' Bonuses

Directors' bonuses comprise a performance-linked portion and a stock-linked portion, and the total amount is determined at the General Meeting of Shareholders. As for the breakdown, the individual remuneration is determined by the Board of Directors following deliberations by the Nomination and Remuneration Advisory Committee. The individual remuneration for directors who concurrently serve as Audit and Supervisory Committee members is determined by the Audit and Supervisory Committee.

(5) Appointment and Dismissal of Senior Management

The Board of Directors determines the appointment and dismissal of executive directors such as the representative director and directors who concurrently serve as Audit and Supervisory Committee members through its resolutions based on a report by the Nomination and Remuneration Advisory Committee (majority of members are outside directors), which serves as an advisory body to the Board of Directors.

(6) Oversight of Internal Controls

The Board of Directors develops internal control systems through initiatives such as establishing compliance and risk managements systems, and supervises whether the systems are operated effectively in collaboration with the Internal Audit Division.

(7) Operation

The Board of Directors strives to engage in free-spirited and constructive discussions and exchanges of opinions. Further, the Board of Directors distributes materials in advance (including materials related to matters other than Board of Directors meetings), proposes a yearly meeting schedule, and secures ample time for discussions. In addition, independent outside directors can request information from the Company as necessary to ensure they can engage in discussions in Board of Directors meetings from an

independent and objective standpoint, and also exchange information, share their understanding, and collaborate with the Company.

(8) Evaluation

To enhance its functions, the Board of Directors analyzes and assesses its effectiveness once every year, and discloses an overview of its findings. It sends a questionnaire survey to all its directors, and analyzes and assesses the effectiveness of the Board of Directors while taking into account the opinions of external consultants.

(9) Medium-Term Management Plan

In formulating and announcing medium-term management plans, the Board of Directors determines concrete policies such as business strategies and business plans, and discloses related information through its website and business reports. Further, following a comprehensive internal analysis, the Board of Directors reports on the progress and outcomes of such plans and the reasons for shortfalls or other deficiencies in its business reports and at the General Meeting of Shareholders, and reflects its findings in its plan for subsequent years.

(10) Succession Plan

To continue developing human resources that can contribute to its sustainable and global growth, the Company trains successors for its management executives by providing level-specific training to future candidates for executive positions to share overall management knowledge, encourages them to participate in external training workshops, and provides opportunities for them to join important meetings such as management meetings.

2. Audit and Supervisory Committee

(1) Role

The Audit and Supervisory Committee audits the execution of business by directors (excluding directors who concurrently serve as Audit and Supervisory Committee members), and positively and proactively exercises its authority and expresses its views on matters such as the exercise of authority in the appointment or dismissal of an accounting auditor or the determination of audit fees, and makes appropriate judgments from an independent and objective standpoint. Further, the Audit and Supervisory Committee receives timely reports as appropriate on matters necessary for audits from directors and other officers, and collaborates and shares necessary information with independent outside directors.

(2) Composition

In accordance with the Articles of Incorporation of the Company, the Audit and Supervisory Committee is composed of no more than four directors who serve as an Audit and Supervisory Committee member, with outside directors accounting for a majority.

(3) Collaboration with Accounting Auditor and Internal Audit Division

The Audit and Supervisory Committee collaborates with the accounting auditor and the Internal Audit Division to ensure a system under which appropriate audits can be performed.

To streamline the execution of the audit work, the Company appoints supporting personnel to assist the work of the Audit and Supervisory Committee, and the

appointment of, or changes in, such personnel require the approval of the Audit and Supervisory Committee.

(4) Statement of Opinions

The Audit and Supervisory Committee determines its opinions in relation to matters such as the appointment and remuneration of directors (excluding directors who concurrently serve as an Audit and Supervisory Committee member), including matters that need to be stated at the General Meetings of Shareholders.

(5) Attendance at Important Meetings

Directors who concurrently serve as an Audit and Supervisory Committee member may attend important meetings such as management meetings, and strive to understand and audit management execution conditions in a timely and appropriate manner.

Chapter 5 - Directors

1. Fiduciary Duty

Directors recognize they have a fiduciary responsibility to shareholders, and support the sustainable improvement of corporate value through their actions.

2. Appointment Standards

Directors are appointed based on the following policies, regardless of gender or nationality. Candidates are determined by the Board of Directors following deliberations by the Nomination and Remuneration Advisory Committee, and a proposal to appoint the director candidates is subsequently submitted to the General Meeting of Shareholders for approval.

Further, proposals to appoint directors who concurrently serve as an Audit and Supervisory Committee member that are submitted to the General Meeting of Shareholders, require the approval of the Audit and Supervisory Committee in accordance with the Companies Act.

(1) Directors (excluding Directors who concurrent serve as an Audit and Supervisory Committee Member)

For directors in charge of business execution, candidates are selected based on experience and track record from among human resources expected to be able to contribute to the sustainable growth of the Company. For independent outside directors, candidates must fulfill all criteria outlined in “Independence of Outside Officers” (Appendix) to ensure they can maintain and improve oversight functions, and they are selected from human resources with expert knowledge, and extensive experience and insights in management and business execution.

(2) Directors who concurrently serve as an Audit and Supervisory Committee member

For outside directors who concurrently serve as an Audit and Supervisory Committee members, candidates are selected from human resources that can perform audits from a neutral and objective standpoint, and who possess expert knowledge in fields such as finance, accounting, and law.

3. Independent Outside Directors

(1) Roles and Duties

Based on their own knowledge and from the standpoint of seeking to promote the sustainable growth and increase the corporate value of the Company over the medium to long term, independent outside directors strive to provide advice and supervise management, including conflict-of-interest transactions, and represent the opinions of stakeholders such as minority shareholders at the Board of Directors meetings.

(2) Number

To maintain and improve the management oversight function, the Company ensures the number of appointed independent outside directors is one third or more of the total number of directors.

(3) Criteria for Independence

In accordance with the requirements for outside directors stipulated in the Companies Act and the criteria for independence established by the Tokyo Stock Exchange, the Company has formulated its own Criteria for Independence, outlined in the Appendix.

4. Disclosure of Reasons for Appointment

The reasons behind the appointment of individual directors of the Company are outlined in the Notices of Convocation of General Shareholder Meeting. In addition, these notices are published on the website of the Company.

5. Concurrent Positions

Directors in charge of business execution who plan to concurrently serve as officers of other companies, require approval by a resolution of the Board of Directors from the standpoint of preventing conflicts of interests, in accordance with the Regulations of the Board of Directors. Important concurrent positions of each director are disclosed in business reports and the Notices of Convocation of General Shareholder Meeting.

6. Training

The Company appoints persons capable of assuming the roles and duties expected of directors, including outside officers. In addition, it provides business reports and implements review meetings for directors as an opportunity to deepen their understanding of the Company's businesses and current state of affairs. It also explains the state of initiatives related to management issues to directors, and provides opportunities for them to inspect all its workplaces.

Further, among newly appointed officers that have been promoted internally, the Company cultivates an understanding of their roles and duties, including matters they are required to learn as managers and legal knowledge.

Chapter 6 - Accounting Audit

1. Accounting Auditor

(1) Role

The accounting auditor assumes the important role of assuring the reliability of the information disclosed by the Company, and is accountable to shareholders and investors.

(2) Independence and Expertise

The accounting auditor must be independent and possess professional expertise. The Audit and Supervisory Committee formulates standards for evaluation and selection by which it confirms the independence and expertise of the accounting auditor.

(3) Ensuring Appropriate Audits

To ensure the accounting auditor has sufficient time to perform a high-quality audit, the Board of Directors and the Audit and Supervisory Committee provide opportunities for the accounting auditor to receive information from top management as necessary.

Further, they provide systems that enable the accounting auditor to sufficiently collaborate with directors who concurrently serve as an Audit and Supervisory Committee member, the Internal Audit Division, and the independent outside auditors, and systems to respond to inadequacies discovered by the accounting auditor.

(4) Dismissal or Refusal of Reappointment

If the accounting auditor is unable to perform its duties, the Audit and Supervisory Committee, if deemed necessary, will determine the contents of a proposal to dismiss or refuse reappointment of the accounting auditor to be submitted to the General Meeting of Shareholders for approval.

Further, the Audit and Supervisory Committee will, by unanimous agreement, dismiss the accounting auditor if the accounting auditor is deemed to fall under any item of Article 340, Paragraph 1 of the Companies Act. In such a case, an Audit and Supervisory Committee member selected by the Audit and Supervisory Committee will report on the facts and reasons of the dismissal of the accounting auditor at the first General Meeting of Shareholders convened after the dismissal.

Effective from January 12, 2022

[Appendix]

[Independence of Outside Officers]

The Company regards outside directors and candidates for such positions as independent if it deems that they do not meet any of the conditions below.

1. A party whose major business partner is the Company (*1), or a person who served as an executive at such a party (*2) over the last three years.
2. A party who is a major business partner of the Company (*3), or a person who served as an executive at such a party over the last three years.
3. A consultant, accounting expert (such as a certified public accountant), or legal expert (such as an attorney) who has received a significant amount (*4) or other assets outside of directors' remuneration from the Company over the last three years. (An organization [such as a corporation or union] that has received such assets, or a person who has been affiliated with and has served as an executive or in an equivalent position at such an organization over the last three years.)
4. A major shareholder of the Company (*5), or a person who has served as an executive or auditor at a major shareholder of the Company over the last three years.
5. A person who serves as an executive or auditor of a company, etc., of which the Company is currently a major shareholder.
6. A major lender of the Company (*6), or a person that has served as an executive at a major lender of the Company over the last three years
7. A person who has been affiliated with an accounting auditor that has performed a statutory audit of the Company over the last three years.
8. A person who has been affiliated with a leading brokerage firm of the Company over the last three years.
9. A person who has received a significant donation from the Company (*7) (either a person who received said donation, or a person who served as an executive or in an equivalent function at an organization that has received said donation).
10. A person working at a company where outside officers are mutually appointed (*8) between said company and the Company.

A spouse or relative within the second degree of kinship of a person that falls under any of 1. through 10. above.

Notes

(*1) "A party whose major business partner is the Company" means a recipient of payments from the Company that amount to 2% or more of consolidated sales of such business partner during any of the last three years (mainly applies to suppliers).

(*2) "An executive" means an executive officer, executive director, executive managing officer, or senior manager holding a rank equivalent to or higher than divisional manager.

(*3) "A major business partner of the Company" means a party that has made payments to the Company that amount to 2% or more of the consolidated sales of the Company during any of the last three years (mainly applies to customers).

(*4) “A significant amount” means a total annual amount of 10 million yen or more for individuals or 2% or more of the total income for organizations on average over the past three years.

(*5) “A major shareholder” means a shareholder who directly or indirectly holds 10% or more of the total number of voting rights in the Company.

(*6) “A major lender” means a business partner that has provided a loan that amounts to 2% or more of the consolidated assets of the Company on average over the past three years.

(*7) “A significant donation” means the higher of either the total annual amount of 10 million yen or 2% of the total expenses of the relevant organization on average over the past three years.

(*8) “Outside officers are mutually appointed” means a situation in which an executive of a company where a former executive of the Company currently serves as an outside officer, is accepted by the Company as an outside officer.