

Basic Policy on Corporate Governance

YOKOREI Co., Ltd.

Chapter 1 General Provisions

1. Purpose

The corporate philosophy of YOKOREI Co., Ltd. (“the Company”) is “companies are social institutions and profits are a measure of their service.” The Company has established the Basic Policy on Corporate Governance (“the Basic Policy”) with a view to realizing the sustainable growth of the YOKOREI Group consisting of the Company and its affiliates (“the Group”) and increasing its corporate value over the medium to long term and will make continuous efforts to improve corporate governance.

2. Basic Approach to Corporate Governance

The Group seeks to fulfil the trust of diverse stakeholders, to realize sustainable growth, and to increase corporate value over the medium to long term. In addition to this, with the aim of achieving fair and highly transparent management, the Group endeavors to speed up decision-making and strengthen checking functions to enhance corporate governance.

The Company has adopted the institutional design of a Company with a Board of Company Auditors based on Japan’s Companies Act.

3. Establishment, Revision, and Abolition

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

Chapter 2 Relationships with Stakeholders

1. Relationship with Shareholders

(1) Securing the Rights and Equal Treatment of Shareholders

The Company takes actions and develops an environment so as to secure the rights and effective equal treatment of shareholders.

(2) General Meeting of Shareholders

The Company positions the General Meeting of Shareholders as the ultimate decision-making institution and makes efforts to develop an environment in which shareholders can exercise their rights appropriately by setting dates for meetings that facilitate attendance by shareholders, sending notices of convocation as early as possible, and introducing a platform for exercising voting rights, at least for institutional investors.

(3) Basic Strategy for Capital Policy

In order to realize the Group’s sustainable growth and increase in corporate value over the medium to long term, the Company positions operating profit, EBITDA, and the equity ratio as key indicators and strengthens the financial base with an awareness of the cost of capital.

The Company considers shareholder returns taking into account future business investment and capital efficiency and maintenance of credit ratings based on strengthening of equity capital.

(4) Policy on Cross-Shareholdings

The Board of Directors of the Company verifies cross-shareholdings annually, including periodically examining whether the benefits and risks of holdings are commensurate with the Company's cost of capital. The Company makes efforts to reduce cross-shareholdings when the significance of such holdings has fallen through such means as selling them in stages.

With respect to the exercise of voting rights of shares held as cross-shareholdings, the Company formulates specific standards and discloses them, and makes decisions whether to approve or disapprove a proposal based on a comprehensive judgement of the relationship with the relevant company and whether such a proposal will lead to sustainable growth for the Group and increase of its corporate value over the medium to long term. This includes opposition to a proposal in cases where shareholder value will be significantly undermined by such issues as serious concerns resulting from social scandal, legal violations, organizational restructuring, and so forth.

(5) Transactions with Related Parties

The Company will always obtain the approval of the Board of Directors when engaging in competing transactions and conflict-of-interest transactions with the Company's officers or with corporate entities that are substantially controlled by the Company's officers. The Company discloses the key facts appropriately in accordance with the provision of laws and regulations when it has engaged in such a transaction.

When engaging in transactions with its major shareholders, the Company obtains the approval of the Board of Directors in accordance with laws and regulations to ensure that such transactions do not harm the common interests of the Company and its shareholders, except when it is clear that the terms of transactions are the same as transactions in general.

2. Relationship with Stakeholders Other Than Shareholders

(1) Cooperation with Stakeholders

The Company builds positive relationships and strives to cooperate appropriately with stakeholders, including employees, customers, suppliers, and local communities with an eye to the sustainable growth of the Group and an increase in its corporate value over the medium to long term.

(2) Basic Policies

The Company has established and implements the Basic Policy on Compliance, the Basic Policy on Quality, and the Basic Policies on the Environment, which are appropriately amended in the Compliance Committee and reviewed by the Board of Directors. The Company also makes these policies known to employees at worksites all over Japan.

(3) Responding to Sustainability Issues

To address sustainability issues, the Company has established YOKOREI Basic Policies on the Environment and YOKOREI Sustainability Vision 2030, and develops and implements operations and plans that are integrated into management, in addition to disclosing initiatives in the appropriate manner. In particular, the Company will endorse the international framework for disclosure (TCFD) of the impact of climate change-related risks on management.

(4) Ensuring Diversity

The Company recognizes that the existence of diverse perspectives and values is valuable and makes efforts to ensure diversity, including the implementation of measures to promote the active participation of women.

(5) Whistleblowing

The Company has established an appropriate system based on the Whistleblowing Process Rules, and the Board of Directors checks on the status of responses to reports and manages the operation of the system.

(6) Role of Corporate Pension Fund as Asset Owner

Given that the management of the corporate pension fund impacts on stable asset formation for employees as well as the Company's financial position, the Company endeavors to assign and train human resources with the necessary experience and qualities so that the organization with the responsibility for managing the corporate pension fund can carry out the appropriate activities such as monitoring investment institutions. Moreover, the Company has introduced a defined contribution corporate pension plan as part of the welfare program and makes efforts to provide information on asset management in addition to providing explanations when employees join the Company.

Chapter 3 Enhancing Information Disclosure

1. Appropriate Information Disclosure

The Company utilizes a variety of media to actively disclose information deemed to be important to shareholders and stakeholders, even beyond the matters for disclosure required by laws and regulations. The Company also discloses and provides the required information from disclosure materials in English.

Chapter 4 Corporate Governance System

1. Board of Directors and Directors

(1) Roles and Responsibilities of the Board of Directors

The Board of Directors recognizes its fiduciary responsibility and accountability to shareholders and carries out the following matters with an eye to sustainable growth and an increase in corporate value over the medium to long term.

1. The Board of Directors indicates the direction of corporate strategy, etc.
2. The Board of Directors establishes an environment that supports appropriate risk taking.
3. The Board of Directors fulfils its roles and responsibilities appropriately, including the provision of highly effective oversight from an independent and objective perspective.

(2) Formulation of Strategy

The Board of Directors engages in constructive discussion on important decisions related to business execution, such as management strategy and management plans, and sets the strategic direction in accordance with the corporate philosophy.

(3) Scope of Delegation to the Board of Directors

In addition to the matters provided for in laws and regulations and the Articles of Incorporation, the Board of Directors makes decisions on important matters stipulated in the Regulations of the Board of Directors.

Authority for decision-making on other matters is delegated in accordance with the organizational rules and the rules on division of duties and job authority stipulated by the Board of Directors.

(4) Composition of the Board of Directors

The Board of Directors shall be composed of Directors with a good overall balance of knowledge, experience, and abilities, and the number of Directors shall not exceed 15. In addition, at least one third have been appointed as Outside Directors with advanced knowledge in any of the fields of corporate management, risk management, legal compliance, and finance and accounting in particular, and they create further oversight of management by advising the Board of Directors based on their opinions and extensive experience from an independent and objective perspective. Furthermore, in the case of social scandal or violation of laws and regulations or the Articles of Incorporation, or in the case of significant impairment to corporate value due to neglect of duties and other actions, the Director, including the Representative Director, is dismissed following deliberation by the Nominating and Remuneration Committee, ensuring a system that facilitates appropriate management.

(5) Remuneration

As cash remuneration, the Company pays the Directors basic remuneration, which is fixed remuneration, that takes account of their responsibilities, positions, and contributions to management and performance-related bonuses that depend on business performance in a given fiscal year. The Company also pays the Directors restricted stock remuneration with the objective of raising their awareness of contributing to the increase of corporate value over the medium to long term. The Outside Directors are paid basic remuneration, which is fixed remuneration, only.

(6) Concurrent Positions

Any service as an officer of another company by a Director shall be limited to the extent to which the duties of due care and loyalty as Director can be performed. In addition, the Company discloses significant concurrent positions annually.

(7) Evaluation of the Effectiveness of the Board of Directors

In order to secure its effectiveness, the Board of Directors analyses and evaluates the status of its operations and discloses a summary of the results.

2. Board of Auditors and Auditors

(1) Roles and Responsibilities of the Board of Auditors and Auditors

The Board of Auditors and the Auditors are entrusted by shareholders as an independent organization to oversee the execution of duties by the Directors, and are thereby responsible for ensuring soundness for the sustainable growth of the Company and the Group and the increase of corporate value over the medium to long term.

(2) Composition

Auditors shall be persons with the appropriate knowledge of finance and accounting, and there shall be no more than four Auditors, at least half of whom shall be Outside Auditors.

(3) Nomination

The nomination of candidates for Auditor from among persons with advanced knowledge in any of the fields of corporate management, risk management, legal compliance, finance and accounting is determined by the Board of Directors after obtaining the agreement of the Board of Auditors.

(4) Remuneration

The Company pays the Auditors basic remuneration, which is fixed remuneration, only.

(5) Concurrent Positions

Any service as an officer of another company by an Auditor shall be limited to the extent to which the duties of due care and loyalty as Auditor can be performed. In addition, the Company discloses significant concurrent positions annually.

3. Independence Standards

The Company has established its own Standards of Independence for Outside Directors and Outside Auditors based on independence standards of the Tokyo Stock Exchange and selects persons who meet these standards of independence as candidates for independent officers.

4. Policy on Training for Directors and Auditors

The Company provides newly appointed Directors with opportunities to acquire the necessary information and knowledge on laws and regulations, management strategy, and finance required for appointment as well as providing ongoing training needed in order to fulfil their roles and responsibilities. The Company gives newly appointed Auditors and Outside Directors an overview of the Group's business and carries out site visits, providing opportunities to deepen their understanding of the Group's business.

5. Nominating & Remuneration Advisory Committee

In order to strengthen the supervisory function of the Board of Directors and enhance the corporate governance system by ensuring fairness, transparency, and objectivity in procedures related to nomination and remuneration of Directors and Auditors, the Company has established an optional Nominating & Remuneration Advisory Committee, with Independent Outside Directors as a majority of the members.

Chapter 5 Dialogue with Shareholders

1. Basic Policy on Dialogue with Shareholders

Through constructive dialogue with shareholders, the Company endeavors to contribute to sustainable growth and an increase in corporate value over the medium to long term. The Company has established the Public Relations and IR Department as a dedicated IR unit, and management executives and the Directors engage in dialogue with shareholders to the extent it is reasonable. The Company holds financial results briefings regularly (twice a year) and actively engages in investor meetings, facility tours, and interviews. Chief of Corporate Management Sector provides appropriate feedback as necessary to the management meetings on the opinions, advice, and concerns received from shareholders and institutional investors following dissemination of information to them. In addition, by strengthening the collaboration of related departments through the officer with responsibility for the IR unit, the Company works to identify the actual composition of shareholders and to establish and operate rules on the prevention of insider trading.

2. Basic Policy on Business Portfolio

The Company will begin an examination of its business portfolio as part of the organizational reform under the Medium-Term Management Plan (Phase I).

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