

Corporate Governance Report

CORPORATE GOVERNANCE

Last Update: June 23, 2023

DTS CORPORATION

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Securities code: 9682

<https://www.dts.co.jp/>

The corporate governance of DTS CORPORATION (the “Company”) is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The Company recognizes corporate governance as one of the most important management issues. The Company has established the following basic policy and is working aggressively to develop corporate governance and internal control systems in order to ensure fair and efficient shareholder-oriented management, establish highly transparent management, continuously improve corporate value, and build relationships of trust with our stakeholders.

Basic Policy

- (1) Ensuring shareholder rights and equality
 - We provide shareholders with the necessary information to enable them to exercise their rights in a timely and accurate manner, and strive to create an environment for exercising voting rights.
 - When shareholders attempt to exercise their rights, the Company responds in good faith in accordance with laws.
- (2) Cooperating appropriately with stakeholders other than shareholders
 - We commit to fulfilling our obligations and responsibilities to various stakeholders through the practice of our corporate philosophy, credos, code of conduct, and other relevant policies, and to building even stronger relationships of trust with them.
- (3) Ensuring appropriate information disclosure and transparency
 - We strive to enhance trust in the market by proactively disclosing information to shareholders and investors at the right time.
 - We aim to realize transparent management by communicating smoothly with stakeholders through information disclosure.
- (4) Responsibilities of the Board of Directors, etc.
 - We set goals for enhancing long-term corporate value based on our corporate philosophy and determine the direction of the Company that will give concrete shape to the strategies and measures designed to achieve those goals.
 - We continue to appoint Outside Directors to maintain and further improve the supervisory function of Directors in the execution of their duties.
- (5) Dialogue with shareholders
 - We seek to communicate constructively with shareholders and investors by actively providing them with information relating to the Company’s financial conditions, progress on initiatives, and other similar matters not only at the general meeting of shareholders but also at financial results presentation meetings and other IR activities.

Reasons for Non-compliance with the Principles of the Corporate Governance Code

The Company complies with every principle of the Corporate Governance Code.

Disclosure Based on the Principles of the Corporate Governance Code

Principle 1.4: Cross-shareholdings

Cross-shareholding policy

The Company holds shares in its customers' and business partners' firms for the purpose of maintaining and developing medium to long-term business relationships and also for the purpose of collecting information in anticipation of future business alliances.

Verifying the suitability of cross-shareholdings

To verify the suitability of holding these cross-shareholdings, the Board of Directors examines and deliberates on the appropriateness of the purpose of each of the holdings every year. If any circumstances change in the future which lead us to determine that a cross-shareholding is no longer appropriate, we will review and reduce it.

Criteria for exercising voting rights pertaining to cross-shareholdings

With regard to exercising the voting rights pertaining to the shares it held, the Company believes that exercising these voting rights appropriately will help improve the medium to long-term value and sustainable growth of the stock issuer. The Company thus strives to comprehensively assess the advantages and disadvantages of the agenda proposals based on the financial and non-financial conditions of the issuing company.

Principle 1.7: Related Party Transactions

The Company's Rules for the Board of Directors stipulate that any transactions between related parties must be approved by the Board of Directors in advance and that a report shall be submitted to the Board of Directors after any transaction has taken place. In addition, each Director is required to report regularly on the concurrent appointment as officer at other companies and any transactions between related parties, among other matters, and to promptly report any changes in those circumstances so that we have a system in place that can constantly manage the latest information.

Supplementary Principle 2.4.1: Appointing women, non-Japanese and mid-career professionals to middle managerial positions

The Company is working to promote the active participation of women through three target goals: boosting the ratios of women employees to 22%, women managerial candidates to 10%, and women managers to 6%. As of April 1, 2023, the Company's ratios of women employees, women managerial candidates, and women managers are 20.0%, 8.1%, and 3.8%, respectively.

With particular reference to promoting the active participation of women in the workplace, the Company is building more flexible working environments in terms of working hours and locations in order to eliminate the gender gap regarding employment continuity and workplace activities, which are major issues, and to maximize the abilities of each individual. The Company is also working on training all employees, creating opportunities for interaction, and developing and promoting women employees based on an analysis of their roles and business assignments. Since fiscal 2022, promoting two women employees to general managers, the Company is continuously seeking to revitalize our whole organization and encourage corporate growth. These individual targets and results are disclosed in our integrated report.

(Integrated Report: <https://www.dts.co.jp/en/ir/library/report/>)

Furthermore, in order to grow the DTS Group, we believe we urgently need to foster and secure human resources with direct experience of business promotion in new fields, such as digital transformation (DX) in particular. The Company always bears in mind the need to ensure diversity and are striving to secure human resources who will help expand and promote our business.

Regarding non-Japanese or mid-career professionals, there is no special difference between candidates appointed as managers with reference to their nationality or when they were hired, and as of April 1, 2023, the ratio of mid-career professionals in managerial positions was 32.5%, and the number of non-Japanese manager was one. The Company will keep the present ratio of mid-career professionals in managerial positions, and appoint non-Japanese managers, taking into account the ratio of non-Japanese employees in all employees.

Principle 2.6: Roles of Corporate Pension Funds as Asset Owners

In recognition of the fact that management of corporate pension affects the stable asset formation of employees and the Company's financial position, the Company works hard to assign and properly train human resources with the necessary qualities to ensure the department in charge is able to appropriately monitor the pension management organization.

The Company also regularly discusses the status of pension management with the financial institutions entrusted to manage the corporate pension assets, monitors management results on a monthly basis, and makes decisions each year on whether to continue the pension management package or not.

Principle 3.1: Full Disclosure

(i) The Company has formulated DTS Group WAY consisting of four elements, Philosophy, Vision, Credo, and Code of Conduct, and, in April 2022, renewed Vision toward 2030. For its details and the management strategy, etc., please refer to our Corporate website.

(Management philosophy: <https://www.dts.co.jp/corp/dtsway/>)

(Management strategy: <https://www.dts.co.jp/ir/management/middle/>)

(ii) The Company's basic approach to corporate governance is described in the Basic Views (I.1) section of this report.

(iii) The method used to calculate the amount of compensation, etc. for Directors who are not Audit and Supervisory Committee Members (excluding Outside Directors) shall be determined upon the comprehensive consideration of past payment records and the Company's performance. Compensation, etc. shall consist of fixed compensation, performance-linked compensation and non-monetary compensation. Compensation for Outside Directors (excluding Directors who are Audit and Supervisory Committee Members) shall consist of fixed compensation only.

Performance-linked compensation shall be paid as a bonus, and shall be calculated by establishing an amount of consolidated

ordinary profit as a standard, comparing it against the consolidated ordinary profit in the fiscal year in which the bonus is to be paid, and multiplying the growth rate by the amount of the performance-linked standard and adjusting the result by the degree of achievement of performance forecasts and the degree of achievement of the medium-term management plan (financial and non-financial KPIs). However, in the event that business performance deteriorated significantly, the bonus may not be paid. Non-monetary compensation shall be paid as stock-based compensation, in the form of restricted shares, and shall be calculated based on a standard amount predetermined in accordance with position in order to appropriately function as an incentive to sustainably enhance the corporate value of the Company. The standard amount shall be determined annually, based on an assessment of corporate value (Company's TSR compared with TOPIX growth rate), the degree of achievement of performance forecasts, and the degree of achievement of the medium-term management plan.

When determining the payment ratios of fixed compensation, performance-linked compensation and non-monetary compensation, the ratio of basic compensation (fixed compensation) shall decrease the higher the position.

Director compensation, etc. is described in our Securities Report and can also be viewed on the Corporate website. Please refer to the following site:

(Securities Report: <https://www.dts.co.jp/ir/library/securities/>) (Japanese only)

- (iv) Regarding the nomination of candidates for Directors, the Company comprehensively examines and then selects candidates based on the knowledge gained through past experience, accurate decision-making and supervision, and expectations for their contribution to enhancing the Company's medium to long-term corporate value.

In determining Director compensation and nominating Director candidates, the Company has established the Nomination and Compensation Committee that conducts appropriate deliberations, including consulting with the Board of Directors and receiving advice from Outside Directors before reporting back to the Board.

- (v) An explanation of the selection and nomination of individual Directors is included in the separate sheet attached hereto entitled: Explanation of the Selection, Dismissal, and Nomination of Individual Candidates for Directors. Skills expected to be exercised and the skill matrix are included in the separate sheet attached hereto entitled: Skill Matrix.

For details, please refer to the Reference Documents for the General Meeting of Shareholders on the Corporate website.

(Shareholders' Meeting Reference Documents: <https://www.dts.co.jp/ir/stock/meeting/>) (English translation document is posted on the Japanese website.)

Supplementary Principle 3.1.3: Sustainability initiatives

The DTS Group is stepping up its ESG efforts to help realize a sustainable society, such as by becoming carbon neutral.

We promote our ESG initiatives in line with the three pillars of stepping up efforts for the environment, promoting employee engagement and diversity, and enhancing governance and information disclosures. We have set KPIs for each of these pillars.

In addition, to urge our people to take on challenges and speed up management decision making, we will continue working to reform our management foundation by overhauling operational processes and leveraging cutting-edge technologies.

Through hard work, we aim to grow sustainably with society, achieving sustainable corporate growth while helping realize a sustainable society through these initiatives.

We established the new Sustainability Committee in April 2022 to further strengthen the Group's environmental and social initiatives.

The Sustainability Committee is chaired by the Representative Director and President under the supervision of the Board of Directors, and its members mainly comprise directors and executive officers.

The committee deliberates sustainability related basic policies and targets, the formulation of action plans, the evaluation and management of progress toward targets, and individual measures, and regularly reports and offers advice to the Board of Directors. In this way, the committee will continue working to address various social issues, such as conserving the global environment and creating jobs.

<Investment in human capital and intellectual property, etc.>

The DTS Group has set a total investment limit of ¥25 billion over three years, as shown in our medium-term management plan, and we will fund human resources, R&D, equipment, and M&A.

With regard to human resource investment, we will heavily invest in training personnel who will play instrumental roles in our shift to new fields, such as the development of advanced human resources and the strengthening of mid-career and new graduate recruitment, and have earmarked a cumulative ¥7.5 billion for training over the three years of the current plan.

With regard to investment in intellectual property, we will invest approximately ¥2 billion in R&D, including the creation of new solutions and services through R&D, in order to secure and utilize intellectual property, which is our management resource.

We will make capital investment of approximately ¥3 billion to enhance security and strengthen the operation and monitoring center business and other businesses.

The DTS Group has the basic policy of growing its existing businesses organically, but we will invest approximately ¥10 billion to supplement the development of new business areas and the strengthening of DX businesses through M&A.

<Impacts of climate risks and revenue opportunities on our company's business activities and revenue, etc.>

The DTS Group recognizes that preservation of the global environment is an important priority for all of humanity. As a company that is responsible for the society of the future, we have created an environmental policy and are taking steps to carry it out. In carrying out our business activities, we are implementing a variety of initiatives, such as reduction of resource and energy consumption, promotion of recycling, reduction of waste, and provision of new social infrastructure based on IT.

In particular, we position action on climate change problems as an important management issue. We will continue expanding disclosure of climate change-related business risks and opportunities in line with the recommendations of the Task Force on Climate-related Financial Disclosures, which we support.

Regarding Scope 1, 2, and 3 emission reduction goals, we plan to apply for certification by the Science Based Targets (SBT) initiative in fiscal year 2024.

In order to achieve the goal of less than 2°C rise in global temperature, we have set targets for reducing CO2 emissions. With the target years for achieving net zero emissions of 2030 for Scope 1 and 2 and 2050 for Scope 3, we aim to achieve carbon neutrality.

Please refer to our Corporate website for details of each initiative.

(Securities Report: <https://www.dts.co.jp/ir/library/securities/>) (Japanese only)

(Medium-Term Management Plan: <https://www.dts.co.jp/ir/management/middle/>)

(Integrated Report: <https://www.dts.co.jp/en/ir/library/report/>)

(Environmental Activities: <https://www.dts.co.jp/sustainability/eco/>)

Supplementary Principle 4.1.1: The Scope and Content of Matters Delegated to the Management

The Company has established the Board of Directors as a supervisory body delegated by shareholders for decision-making and business execution, and the Management Council as a framework for business execution. The roles of the Board of Directors and the Management Council are stipulated in the Rules for the Board of Directors, the Rules for the Management Council, and the Rules Regarding the Authority to Execute Duties, all of which have been determined or reported by the Board of Directors.

In addition to matters stipulated by laws and regulations and the Company's Articles of Incorporation, the Board of Directors determines the management policies of the Company and the Group, as well as other matters that affect corporate value over the medium to long term.

The Management Council, chaired by the Representative Director and President and composed of members nominated by the Representative Director and President, serves as an organization that deliberates on important matters related to business execution by the Company and the Group, and also organizes and examines matters for discussion by the Board of Directors in advance in order to facilitate active questioning of issues in Board of Directors' meetings.

Principle 4.9: Independence Standards and Qualification for Independent Outside Directors

The Company notifies the Tokyo Stock Exchange of Outside Directors as Independent Outside Directors who meet the requirements for Independent Directors specified by the Tokyo Stock Exchange.

When appointing Independent Outside Directors, we refer to the requirements stipulated under the Companies Act and appoint candidates as Independent Outside Directors who are expected to be able to successfully supervise the decision-making of the Board of Directors, contribute to the sustainable growth of the Company, and help improve our medium to long-term corporate value.

Supplementary principle 4.10.1: Appointing a Majority of Independent Outside Directors to Nomination and Compensation Committees

For the Board of Directors of the Company, the Company has appointed six Outside Directors accounting for a majority of 11 Directors, and registered all of them as Independent Outside Directors with Tokyo Stock Exchange. The Company has also established the Nomination and Compensation Committee under the Board of Directors, which comprises primarily Independent Outside Directors.

The Nomination and Compensation Committee is consulted by the Board of Directors before appropriately deliberating mainly by Outside Directors on Director compensation and the nomination of candidates for Director and reporting back to the Board.

The Board of Directors pays maximum heed to those reports when making final decisions on director compensation and the nomination of candidates for Director.

Supplementary Principle 4.11.1: Board of Directors' Approach to Balance, Diversity, and Scale

The Company currently appoints 11 Directors to ensure active deliberations and prompt decision-making. Six of these Directors are Outside Directors tasked with helping improve medium to long-term corporate value, and the Company believes that the size of the Board is appropriate for effectively carrying out its functions.

The Company appoints Directors, including Outside Directors, who are familiar with the industry to which the Company belongs, business content and corporate functions, and who possess a reasonable level of management-related knowledge, experience, and capabilities.

The Company believes that all our Directors currently have the right background to generate the expected response to major management issues and make prompt and decisive decisions. We also believe that the composition of the Board is suitably balanced in view of the Company's size and type of business.

As described in Principle 3.1.(iv) with regards to appointment policies, the Company appoints Directors based on a comprehensive examination of candidates' respective knowledge, ability to conduct accurate decision-making and supervision, and expected ability to help improve our corporate value over the medium to long term.

The expected roles of each Director are described in the attachment to this report entitled: Explanation of the Selection and Nomination of Individual Candidates for Director, and skills expected to be exercised and the skills matrix are included in the attachment to this report entitled: Skills Matrix.

Supplementary Principle 4.11.2: Concurrent Positions Held by Officers Including Outside Officers in Other Companies

Directors and Corporate Auditors devote the required time and effort to appropriately fulfilling their assigned roles and responsibilities, and the Company believes that the number of concurrent positions sits within a reasonable range. Details of Company Directors and Corporate Auditors concurrent senior positions in other listed companies are disclosed in the Business Report and the Reference Documents for the General Meeting of Shareholders. For details, please refer to the Corporate website.

(Business Report and Reference Documents for the General Meeting of Shareholders: <https://www.dts.co.jp/ir/stock/meeting/>)
(English translation document is posted on the Japanese website.)

Supplementary Principle 4.11.3: Analysis and Evaluation of Board Effectiveness

The Company conducts an analysis roughly twice a year of the composition of Directors, the status of proposal submissions, the frequency of meetings, the appropriateness of meeting times, and the quality of comments and remarks. Directors actively speak out on the proposals raised, and the Board of Directors meets more frequently than is legally required and makes timely and appropriate decisions.

In addition, the Company has been analyzing and evaluating the effectiveness of the Board of Directors since fiscal 2018 with the aim of improving the functions of the Board and enhancing corporate value. The outline of that analysis is as follows:

(1) Method of implementation

Implementation period: September to October 2022

Evaluation method: Self-evaluation by all officers (including Audit and Supervisory Committee Members)
[13 Directors, including 7 Outside Directors]

(2) Evaluation results

Regarding the evaluation results, the Company has confirmed that firm effectiveness of the Board of Directors is ensured after receiving positive evaluations from all officers, including such comments as “Sufficient time for concentrating on discussion was set aside and we had fruitful discussions,” and “Appointment of two female Directors enabled the Board to become more responsive to diversity.”

(3) Actions based on evaluation results, etc.

The Company has decided to promote the following initiatives to further improve the effectiveness of the Board of Directors.

- Greater involvement of the Board of Directors in the selection and the decision of themes to be discussed by the Board of Directors, such as themes to be included in the “subjects for discussion” of the Board of Directors newly introduced to enhance discussion.

Supplementary Principle 4.14.2: Officer Training Policy

The Company regularly explains the legal obligations and responsibilities that Directors and Corporate Auditors must observe as corporate officers. In addition, each Director and Corporate Auditor participates in training and seminars run by external training organizations and industry groups when necessary and strives to acquire any necessary knowledge.

When an outside officer is appointed, the Company creates opportunities to explain in advance the industry to which the Company belongs, the financial and business status of the Company, and its internal control system, among other matters, to help newly appointed candidates fully comprehend the responsibilities of the Company and its officers.

Principle 5.1: Policy for Constructive Dialogue with Shareholders

The Company’s policy on establishing and implementing systems to promote constructive dialogue with shareholders is as follows:

- (1) Dialogues with shareholders are supervised by the Director in charge of our staffing departments.
- (2) Dialogues with shareholders are mainly managed by the ESG Promotion Department, and also appropriately dealt with by Directors and Executive Officers in accordance with shareholders’ wishes, etc. within a reasonable range.
- (3) Information required for dialogues with shareholders is collected by the ESG Promotion Department from related divisions, and utilized for meaningful dialogues with shareholders within the scope in which disclosure is possible.
- (4) The Company strives to enhance a means of communication through measures such as attending briefings, etc. for individual investors in addition to holding quarterly financial results briefings for analysts and institutional investors, as a means of dialogue other than individual interviews.
- (5) The Company regularly reports opinions and requests, etc. of shareholders gained through communication with shareholders to the Board of Directors and utilize them for its management decisions.
- (6) In order to appropriately manage insider information, the Company establishes the Rules Relating to the Management of Insider Trading and strives to thoroughly manage all internal information.
- (7) The Company observes a quiet period spanning a few weeks prior to the announcement of its financial results in order to prevent any leakage of financial information and maintain impartiality. The Company refrains from providing answers to comments or questions, etc. received in relation to financial results during this period.
- (8) The Company conducts a survey of substantial shareholders of the Company as necessary in order to conduct dialogues with the substantial shareholders.
- (9) In order to improve dialogues with foreign shareholders, the Company appropriately formulates and provides the English version of documents that the Company deems useful for foreign shareholders.

Please refer to our Corporate website for details on the status of dialogue with shareholders.

(Corporate Governance : <https://www.dts.co.jp/ir/management/governance/>)

Principle 5-2 Formulation and publication of management strategies and plans

In our medium-term management plan, we have formulated a cash allocation that shows cash income from business and capital allocation to growth investments and shareholder returns. In addition, we have set targets for consolidated net sales, EBITDA, ROE, investments, dividend payout ratio, and total return ratio, and are managing our business with an awareness of return on capital as well as operating revenue, growth investments, and shareholder returns.

For more information on cash allocation and medium-term management targets, please refer to our Corporate website.

(Medium-Term Management Plan: <https://www.dts.co.jp/ir/management/middle/>)

(Integrated Report: <https://www.dts.co.jp/en/ir/library/report/>)

2. Capital Structure

| | |
|----------------------------|-------------|
| Foreign Shareholding Ratio | 30% or more |
|----------------------------|-------------|

Status of Major Shareholders

| Name or Company Name | Number of Shares Owned | Percentage (%) |
|---|------------------------|----------------|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 5,916,400 | 13.57 |
| DTS Group Employee Shareholding Association | 3,082,848 | 7.07 |
| Custody Bank of Japan, Ltd. (Trust Account) | 2,564,700 | 5.88 |
| STATE STREET BANK AND TRUST CLIENT OMNIBUS ACCOUNT OM02 505002 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.) | 2,252,245 | 5.17 |
| AVI GLOBAL TRUST PLC (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.) | 1,251,400 | 2.87 |
| NTC Corporation | 1,171,060 | 2.69 |
| Kumiko Akiyama | 1,120,800 | 2.57 |
| THE BANK OF NEW YORK MELLON 140044 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.) | 942,386 | 2.16 |
| Chitomu Kosaki | 803,328 | 1.84 |
| JPMorgan Chase Bank 385632 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.) | 790,273 | 1.81 |

| | |
|---|-------|
| Name of Controlling Shareholder, if applicable (excluding Parent Company) | ----- |
|---|-------|

| | |
|---------------------------------------|------|
| Name of Parent Company, if applicable | None |
|---------------------------------------|------|

Supplementary Explanation

The information on major shareholders is correct as of March 31, 2023.

According to its Large Shareholding Report (Change Report) issued for public inspection dated December 22, 2020, Mizuho Bank, Ltd. and its joint holders owned a stake in the Company as of December 15, 2020 as detailed below. However, the Company was not able to confirm the number of actual shares held by that investor as of March 31, 2023, and the Company has not included Mizuho Bank, Ltd. in the list of major shareholders detailed above. For reference, the content of the Large Shareholding Report (Change Report) is as follows:

[Individual or Company name (number of shares held, percentage of total shares issued)]
Mizuho Bank, Ltd. (621 thousand shares, 1.23%)
Asset Management One Co., Ltd. (1,298 thousand shares, 2.57%)
(Total: 1,919 thousand shares, 3.80%)

According to its Large Shareholding Report (Change Report) issued for public inspection dated August 5, 2021, Acadian Asset Management LLC owned a stake in the Company as of July 30, 2021 as detailed below. However, the Company was not able to confirm the number of actual shares held by that investor as of March 31, 2023, and the Company has not included Acadian Asset Management LLC in the list of major shareholders detailed above. For reference, the content of the Large Shareholding Report (Change Report) is as follows:

[Individual or Company name (number of shares held, percentage of total shares issued)]
Acadian Asset Management LLC (1,749 thousand shares, 3.47%)

According to its Large Shareholding Report (Change Report) issued for public inspection dated February 15, 2022, Asset Value Investors Limited owned a stake in the Company as of February 14, 2022 as detailed below. However, the Company was not able to confirm the number of actual shares held by that investor as of March 31, 2023, and the Company has not included Asset Value Investors Limited in the list of major shareholders detailed above. For reference, the content of the Large Shareholding Report

(Change Report) is as follows:

[Individual or Company name (number of shares held, percentage of total shares issued)]
Asset Value Investors Limited (4,489 thousand shares, 8.90%)

According to its Large Shareholding Report (Change Report) issued for public inspection dated November 7, 2022, Sumitomo Mitsui Trust Bank, Limited and its joint holders owned a stake in the Company as of October 31, 2022 as detailed below. However, the Company was not able to confirm the number of actual shares held by that investor as of March 31, 2023, and the Company has not included Sumitomo Mitsui Trust Bank, Limited in the list of major shareholders detailed above. For reference, the content of the Large Shareholding Report is as follows:

[Individual or Company name (number of shares held, percentage of total shares issued)]
Sumitomo Mitsui Trust Bank, Limited (531 thousand shares, 1.12%)
Sumitomo Mitsui Trust Asset Management Co., Ltd. (1,387 thousand shares, 2.92%)
Nikko Asset management Co., Ltd. (640 thousand shares, 1.35%)
(Total 2,560 thousand shares, 5.38%)

3. Corporate Attributes

| | |
|---|--|
| Listed Stock Exchange and Market Segment | Tokyo Stock Exchange, Prime Market |
| Fiscal Year-End | March |
| Business Sector | Information & Communication |
| Number of Employees (Consolidated) as of the End of the Previous Fiscal Year | 1,000 or more |
| Net Sales (Consolidated) as of the End of the Previous Fiscal Year | ¥10 billion or more and less than ¥100 billion |
| Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year | 10 or more and fewer than 50 |

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

5. Other Special Circumstances which May have Material Impact on Corporate Governance

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

| | |
|-----------------------------|------------------------------------|
| Corporate Governance System | Company with Supervisory Committee |
|-----------------------------|------------------------------------|

Directors

| | |
|---|---|
| Number of Directors Stipulated in Articles of Incorporation | 22 persons |
| Directors' Term of Office Stipulated in Articles of Incorporation | 1 year |
| Chairperson of the Board | Chairperson (excluding those concurrently serving as President) |
| Number of Directors | 11 persons |
| Election of Outside Directors | Elected |
| Number of Outside Directors | 6 persons |
| Number of Independent Directors | 6 persons |

Outside Directors' Relationship with the Company (1)

| Name | Attributes | Relationship with the Company* | | | | | | | | | | |
|-----------------|----------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k |
| Shinya Shishido | From another company | | | | | | | | | | | |
| Shinichi Yamada | From another company | | | | | △ | | | △ | | | |
| Yumiko Masuda | From another company | | | | | | | | | | | |
| Taeko Ishii | Lawyer | | | | | | | | | | | |
| Yutaka Takei | From another company | | | | | | | | | | | |
| Nobuyasu Iimuro | CPA | | | | | | | | | | | |

*Categories for "Relationship with the Company".

(Use "○" when the director presently falls or has recently fallen under the category; "△" when the director fell under the category in the past; "●" when a close relative of the director presently falls or has recently fallen under the category; and "▲" when a close relative of the director fell under the category in the past.)

- Person who executes business of the Company or a subsidiary
- Person who executes business or a non-executive director of a parent company
- Person who executes business of a fellow subsidiary
- Person/entity for which the Company is a major client or a person who executes business for such person/entity
- Major client of the Company or a person who executes business for such client
- Consultant, accounting expert, or legal expert who receives large amounts of cash or other assets in addition to director/Audit and Supervisory Board Member compensation from the Company
- Major shareholder of the Company (in cases where the shareholder is a corporation, a person who executes business of the corporation)
- Person who executes business for a client of the Company (excluding persons categorized as any of d, e, or f above) (applies to self only)
- Person who executes business for another company holding cross-directorships/cross-auditorships with the Company (applies to self only)
- Person who executes business for an entity receiving contributions from the Company (applies to self only)
- Other

Outside Directors' Relationship with the Company (2)

| Name | Membership of Supervisory Committee | Designation as Independent Director | Supplementary Explanation of the Applicable Relationship | Reasons for Appointment |
|-----------------|-------------------------------------|-------------------------------------|---|--|
| Shinya Shishido | | ○ | ----- | <p>Shinya Shishido has abundant experience and a high level of insight as a manager in the housing loan industry and the real estate industry. The Company expects that he will utilize this experience and insight in its management decisions and that he will contribute to strengthening the supervisory functions of business execution and provide advice from a broader perspective as an Outside Director. Therefore, the Company appointed him as an Outside Director. In addition, Mr. Shishido satisfies the requirements for independence as set forth by the Tokyo Stock Exchange. In comprehensive consideration of personal, capital and business relationships between the Company and Mr. Shishido, it is judged that there is no risk of a conflict of interests with general shareholders. Therefore, his independence is deemed to be ensured.</p> |
| Shinichi Yamada | | ○ | <p>Shinichi Yamada previously served as Representative Director and Executive Vice President of NTT DATA Corporation, which is one of our business partners. However, as it has already been twelve years since he resigned from said company, and he has not been involved in execution of business of the company after his resignation, the Company has determined that his former position does not have any influence on his independence. NTT DATA Corporation and the Group had business transactions totaling less than ¥11.2 billion per year and less than 11% of net sales (the amount of business transactions including not only sales but also purchasing, etc. as a percentage of gross net sales; hereinafter the same applies.) (consolidated results for the fiscal year ended March 31, 2023). Furthermore, Mr. Yamada previously served as Director of NTT TechnoCross Corporation (NTT Software Corporation and NTT-IT Corporation were merged into NTT TechnoCross Corporation), which is one of our business partners. However, as it has already been four years since he resigned from said company, and he has not been involved in execution of business of the company after his resignation, the Company has determined that his former position does not have any influence on his independence. NTT TechnoCross Corporation and the Group had business transactions totaling less than ¥80 million per year and less than 0.1% of net sales (consolidated results for the fiscal year ended March 31, 2023).</p> | <p>Shinichi Yamada has abundant experience and a high level of insight regarding the industry trends and corporate management in the IT industry. The Company expects that he will utilize this experience and insight in its management decisions and that he will contribute to strengthening the supervisory functions of business execution and provide advice from a broader perspective as an Outside Director. Therefore, the Company appointed him as an Outside Director. In addition, Mr. Yamada satisfies the requirements for independence as set forth by the Tokyo Stock Exchange. In comprehensive consideration of personal, capital and business relationships between the Company and Mr. Yamada, it is judged that there is no risk of a conflict of interests with general shareholders. Therefore, his independence is deemed to be ensured.</p> |

| Name | Membership of Supervisory Committee | Designation as Independent Director | Supplementary Explanation of the Applicable Relationship | Reasons for Appointment |
|---------------|-------------------------------------|-------------------------------------|--|---|
| Yumiko Masuda | | ○ | ----- | <p>Yumiko Masuda has experience of management at many major foreign-owned IT firms. The Company believes that she will utilize her expertise on consumer/customer-oriented management and responses to customers, as well as extensive experience and advanced insight of diversity & inclusion, in its management decisions. The Company also expects that she will contribute to strengthening the supervisory functions of business execution and provide advice from a broader perspective as an Outside Director, and therefore appointed her as an Outside Director. In addition, Ms. Masuda satisfies the requirements for independence as set forth by the Tokyo Stock Exchange. In comprehensive consideration of personal, capital and business relationships between the Company and Ms. Masuda, it is judged that there is no risk of a conflict of interests with general shareholders. Therefore, her independence is deemed to be ensured.</p> |
| Taeko Ishii | ○ | ○ | ----- | <p>Taeko Ishii is an attorney who we appointed as an Outside Director who is an Audit and Supervisory Committee Member so that the Company auditing structure could benefit from her extensive experience in and professional knowledge on legal and labor affairs, in the expectation of her contribution to enhancement of the supervisory functions of business execution as well as provision of advice from a broader perspective. In addition, Ms. Ishii satisfies the requirements for independence as set forth by the Tokyo Stock Exchange. In comprehensive consideration of personal, capital and business relationships between the Company and Ms. Ishii, it is judged that there is no risk of a conflict of interests with general shareholders. Therefore, her independence is deemed to be ensured.</p> |

| Name | Membership of Supervisory Committee | Designation as Independent Director | Supplementary Explanation of the Applicable Relationship | Reasons for Appointment |
|----------------|-------------------------------------|-------------------------------------|--|--|
| Yutaka Takei | ○ | ○ | ----- | <p>Yutaka Takei has an abundance of experience and a high level of insight as a manager of a trust bank, a securities transfer agent, and a retailing company that we wanted to apply to the Company audit structure so we appointed him as an Outside Director who is an Audit and Supervisory Committee Member, in the expectation of his contribution to enhancement of the supervisory functions of business execution as well as provision of advice from a broader perspective. In addition, Mr. Takei satisfies the requirements for independence as set forth by the Tokyo Stock Exchange. In comprehensive consideration of personal, capital and business relationships between the Company and Mr. Takei, it is judged that there is no risk of a conflict of interests with general shareholders. Therefore, his independence is deemed to be ensured.</p> |
| Nobuyasu Imuro | ○ | ○ | ----- | <p>Mr. Nobuyasu Imuro is certified as a certified public accountant, and has abundant experience and expertise regarding finance and accounting. The Company expects that he will utilize this experience and expertise in the audit structure of the Company, and that he will contribute to strengthening the supervisory functions of business execution and provide advice from a broader perspective. Therefore, the Company appoints him as an Outside Director who is an Audit and Supervisory Committee Member. Although he has never been involved in corporate management in any way other than as an outside officer in the past, for the above reasons, the Company believes that he is capable of appropriately performing his duties as an Outside Director who is an Audit and Supervisory Committee Member.</p> |

Supervisory Committee

Composition of Supervisory Committee and Attributes of the Chairperson

| | All Committee Members | Full-time Members | Inside Directors | Outside Directors | Committee Chair |
|-----------------------|-----------------------|-------------------|------------------|-------------------|-----------------|
| Supervisory Committee | 4 | 1 | 1 | 3 | Inside Director |

Appointment of Directors and/or Staff to Support the Supervisory Committee

Appointed

Matters Concerning Independence of Said Directors and/or Employees from Executive Officers

Dedicated staff to assist with duties of the Audit and Supervisory Committee have been deployed within the General Administration Department in order to help the Audit and Supervisory Committee smoothly execute its duties. Such dedicated staff to assist with duties of the Audit and Supervisory Committee shall follow instructions and directions from the Audit and Supervisory Committee, not accepting those from Directors who are not Audit and Supervisory Committee Members. In addition, personnel changes and evaluation, etc. of such dedicated staff are carried out, respecting opinions of Audit and Supervisory Committee Members. In this way, the Company has ensured their independence from Executive Officers and the effectiveness of instructions to such dedicated staff from the Audit and Supervisory Committee.

Status of Coordination between Supervisory Committee, Accounting Auditor, and Internal Audit Department

The Audit and Supervisory Committee receives audit plans and reports on interim and year-end audit results from the Accounting Auditor and hear about and confirm the quality management system related to audits by the Accounting Auditor as needed. In addition, opinions are appropriately exchanged with the Accounting Auditor in order to enhance the coordination. The Company has established the Internal Audit Office as an internal audit department which performs internal audits from a standpoint independent from executive divisions. The Audit and Supervisory Committee receives reports on internal audit results from the Internal Audit Office on a regular basis, and strives to conduct audits efficiently and improve quality of audits by coordinating the audit plan and sharing other information. We have also introduced a system whereby the Internal Audit Office can make investigations under instructions of the Audit and Supervisory Committee if especially necessary.

Voluntary Established Committee(s)

Voluntary Establishment of Committee(s) equivalent to Nomination Committee or Remuneration Committee

Established

Status of Voluntarily Established Committee(s), Attributes of Members Constituting the Committee and the Committee Chair (Chairperson)

| | Committee's Name | All Members | Full-time Members | Inside Directors | Outside Directors | Outside Experts | Other | Chairperson |
|--|---------------------------------------|-------------|-------------------|------------------|-------------------|-----------------|-------|------------------|
| Voluntarily Established Committee Equivalent to Nomination Committee | Nomination and Compensation Committee | 6 | 0 | 2 | 4 | 0 | 0 | Outside Director |
| Voluntarily Established Committee Equivalent to Remuneration Committee | Nomination and Compensation Committee | 6 | 0 | 2 | 4 | 0 | 0 | Outside Director |

Supplementary Explanation

The Board of Directors consults with and receives reports from the Nomination and Compensation Committee on director

compensation and the nomination of candidates for director, with outside directors playing central roles at said committee in robustly deliberating these matters.

The Board of Directors pays maximum heed to those reports when making final decisions on director compensation and the nomination of candidates for Director.

Matters Concerning Independent Directors

Number of Independent Directors

6 persons

Other Matters Concerning Independent Directors

The Company notifies the Tokyo Stock Exchange when any Outside Director and Outside Corporate Auditor who meets the Exchange's requirements for independent officer has been appointed as an Independent Officer.

Incentives

Implementation Status of Measures related to Incentives Granted to Directors

Introduction of Performance-linked Remuneration Scheme / Other

Supplementary Explanation for Applicable Items

The method used to calculate the amount of compensation, etc. for Directors who are not Audit and Supervisory Committee Members (excluding Outside Directors) shall be determined upon the comprehensive consideration of past payment records and the Company's performance. Compensation, etc. shall consist of fixed compensation, performance-linked compensation and non-monetary compensation. Compensation for Outside Directors (excluding Directors who are Audit and Supervisory Committee Members) shall consist of fixed compensation only.

Performance-linked compensation shall be paid as a bonus, and shall be calculated by establishing an amount of consolidated ordinary profit as a standard, comparing it against the consolidated ordinary profit in the fiscal year in which the bonus is to be paid, and multiplying the growth rate by the amount of the performance-linked standard and adjusting the result by the degree of achievement of performance forecasts and the degree of achievement of the medium-term management plan (financial and non-financial KPIs). However, in the event that business performance deteriorated significantly, the bonus may not be paid.

[The performance indicators for a bonus]

The indicators for performance-linked compensation comprise consolidated ordinary profit, as an indicator that ensures a healthy medium-term earnings structure across the entire Group, as well as the publicly announced performance forecasts (consolidated net sales, profit attributable to owners of parent, EBITDA, and ROE), as indicators associated with short-term business growth and the enhancement of corporate value. Moreover, the Company uses the targets of the medium-term management plan (consolidated net sales, EBITDA, growth investment, ROE) as financial indicators associated with medium-term enhancement of corporate value and non-financial indicators (reduction of CO2 emissions, ratio of female managers) as sustainability indicators. The Company has established internal rules on how to determine the amount of performance-linked compensation.

Non-monetary compensation shall be paid as stock-based compensation, in the form of restricted shares, and shall be calculated based on a standard amount predetermined in accordance with position in order to appropriately function as an incentive to sustainably enhance the corporate value of the Company. The standard amount shall be determined annually, based on an assessment of corporate value (Company's TSR compared with TOPIX growth rate), the degree of achievement of performance forecasts, and the degree of achievement of the medium-term management plan.

An overview of our company's restricted stock compensation plan is shown below.

[Recipients]

Directors who are not Audit and Supervisory Committee Members (excluding Outside Directors)

[Transfer restriction period]

30 years from the payment date (transfer restrictions removed upon retirement)

[Total amount of monetary compensation receivables]

Within 45 million yen per annum

[Maximum number of shares of common stock to be issued or disposed of]

Within 26,000 shares per annum

The standard amount used to calculate non-monetary compensation is predetermined based on position, but is revised annually based on factors such as corporate value (share price) and the degree of achievement of medium-term plans.

A similar restricted stock compensation plan has been introduced for Executive Officers of the Company.

Persons Eligible for Stock Options

Director Remuneration

Status of Disclosure of Individual Directors' Remuneration

No Disclosure for any Directors

Supplementary Explanation for Applicable Items

Director compensation, etc. is described in our Securities Report and can also be viewed on the Corporate website. Please refer to the following website: (Securities reports: <https://www.dts.co.jp/ir/library/securities/>) (Japanese only)

Policy on Determining Remuneration Amounts and the Calculation Methods Thereof

Established

Disclosure of Policy on Determining Remuneration Amounts and the Calculation Methods Thereof

- The amount of compensation, etc. for Directors who are not Audit and Supervisory Committee Members (excluding Outside Directors) and the calculation method thereof shall be determined upon the comprehensive consideration of past payment records and the Company's performance, and the compensation is composed of fixed compensation, performance-linked compensation, and non-monetary compensation. The compensation for Outside Directors (excluding Directors who are Audit and Supervisory Committee Members) shall be the fixed compensation only.
- The performance-linked compensation shall be paid as a bonus and calculated by determining the amount of consolidated ordinary income as a standard, comparing consolidated ordinary income in the year in which the bonus is paid, and multiplying the performance-linked base amount by the growth rate. In addition to the results, the degree of achievement of the performance forecast and the degree of achievement of the medium-term management plan (financial and non-financial KPI) shall be taken into account in the calculation. However, in the event that business performance deteriorated significantly, the bonus may not be paid.
- For non-monetary compensation, restricted shares shall be paid as the stock-based compensation, and shall be calculated based on a standard amount predetermined in accordance with position in order to appropriately function as an incentive to sustainably enhance the corporate value of the Company. The base amount for each position is revised every year based on the evaluation of corporate value (relative TSR to TOPIX), achievement level of performance forecasts, and achievement level of the medium-term management plan.
- When determining the payment ratios of fixed compensation, performance-linked compensation, and non-monetary compensation, the ratio of basic compensation (fixed compensation) shall decrease the higher the position, and the ratios of bonus (performance-linked compensation) and stock-based compensation (non-monetary compensation) shall increase the higher the position.
- The timing for payment of compensation for Directors who are not Audit and Supervisory Committee Members shall be monthly for basic compensation and once a year for bonuses and the stock-based compensation (excluding Outside Directors).
- Determination of individual compensation, etc. for Directors who are not Audit and Supervisory Committee Members shall be delegated as follows.
 - (1) Delegated person
Director and President.
 - (2) Delegated authority
The amounts of basic compensation (fixed compensation), bonuses (performance-linked compensation) and stock-based compensation (non-monetary compensation) paid to each Director who is not an Audit and Supervisory Committee Member (excluding Outside Directors) shall be determined within an annual amount of the compensation limit approved at the General Meeting of Shareholders and within the maximum number of shares of common stock to be granted. Also, the amounts of basic compensation (fixed compensation) paid to each Outside Director (excluding Directors who are Audit and Supervisory Committee Members) shall be determined within an annual amount of the compensation limit approved at the General Meeting of Shareholders.
 - (3) Measures for the appropriate exercise of delegated authority
Delegated persons in (1) above shall calculate individual compensation in accordance with content of reports of the Nomination and Compensation Committee (the majority of whose members are Independent Outside Directors).

Support System for Outside Directors

The General Manager of General Administration Department supports and conveys information to Outside Directors who are not Audit and Supervisory Committee Members, while the Standing Audit and Supervisory Committee Members and the General Manager of General Administration Department do the same thing for Outside Directors who are Audit and Supervisory Committee Members.

Statutes of Persons who have Retired as Representative Director and President, etc.

Information on Persons Holding Advisory Positions (*Sodanyaku, Komon, etc.*) after Retiring as Representative Director and President, etc.

| Name | Job title/ position | Responsibilities | Terms and Conditions of Employment (Full/part time, with/without remuneration, etc.) | Date when former role as president/ CEO ended | Term |
|-------|------------------------|------------------|--|---|-------|
| ----- | ----- | ----- | ----- | ----- | ----- |

Number of Persons Holding Advisory Positions (*Sodanyaku, Komon, etc.*)
After Retiring as Representative Director and President, etc. None

Other Related Matters

Although it is possible that the Company could establish a system for advisors, etc., the Company currently has no retired representative director and president who falls under the category.

2. Matters Concerning Functions of Business Execution, Auditing and Supervision, Nomination, and Remuneration Decisions (Overview of Current Corporate Governance System)

The Company has adopted the system of a company with Audit and Supervisory Committee in order to facilitate quick decision-making, strengthen discussion at Board of Directors meetings, as well as to enhance supervisory functions of the Board of Directors and further improve corporate governance by including Audit and Supervisory Committee Members responsible for audits, etc. of business execution by Directors in the Board of Directors.

[Board of Directors]

The Company currently appoints 11 directors. Six of these directors are outside directors who make up majority and are tasked with helping improve medium to long-term corporate value, and the Company believes that the size of the Board is appropriate for effectively carrying out its functions. In addition, two of directors are women.

The names of the members of the Board of Directors are as described in the Securities Report, "4 Status of Corporate Governance, etc. (2) Status of Officers (1) List of Officers", and the Chairman of the Board serves as the Chairman.

The outside directors play key roles, particularly in relation to strengthening our management function based on the knowledge and experience they have acquired in their respective fields as well as to strengthening the supervisory function of the Board's business execution. The outside directors are also appropriately involved in determining compensation for officers, etc., and nominating candidates for directors by, for example, providing a report to the Board of Directors as members of the Nomination and Compensation Committee.

We have secured seven outside directors based on a belief that their presence helps the Company improve its corporate value over the medium to long term, and the Company believes that the size of the Board is appropriate for effectively carrying out its functions.

The Company appoints directors, including outside directors, who are familiar with the industry to which the Company belongs, business content and corporate functions, and who possess a reasonable level of management-related knowledge, experience, and capabilities. The Company believes that all our directors currently have the right background to generate the expected response to major management issues and make prompt and decisive decisions. We also believe that the composition of the Board is suitably balanced in view of the Company's size and type of business.

Our policy for the nomination of director candidates is to comprehensively examine and then select candidates based on their knowledge, their competencies in terms of accurate decision-making and supervision, and expectations for their contribution to enhancing the Company's medium to long-term corporate value.

[Audit and Supervisory Committee]

The Audit and Supervisory Committee has four members, including one female member, three of whom are outside directors. The names of the members of the Audit and Supervisory Committee are as described in the Securities Report, "4 Status of Corporate Governance, etc. (2) Status of Officers (1) List of Officers", and an internal director serves as the Chairman.

Outside directors each play an important role in establishing an objective and fair audit system. The Company seeks to strengthen management accountability and improve management transparency by appointing outside directors.

The Company believes that it has an appropriate system in place for securing the trust of shareholders, investors, and other stakeholders.

[Nomination and Compensation Committee]

The Nomination and Compensation Committee is composed of a total of six members, the Chairperson and Representative Director, Representative Director and President, and four outside directors who are not Audit and Supervisory Committee members, and is chaired by an outside director.

The Board of Directors consults with and receives reports from the Nomination and Compensation Committee on director compensation and the nomination of candidates for director, with outside directors playing central roles at said committee in robustly deliberating these matters.

The Board of Directors pays maximum heed to those reports when making final decisions on director compensation and the nomination of candidates for Director.

[Executive Officer System and Management Council]

The Company appointed 15 executive officers (three of whom serve concurrently as directors). This system enables us to separate the supervisory functions of Board of Directors' decision-making and business execution from the Company's business execution functions and to establish a management system that facilitates prompt and appropriate business execution. In addition, the Company has established the Management Council to serve as an organization for the representative director and president to discuss policies and plans for business execution and other important matters.

[Risk Management Committee]

The Company has also established a Risk Management Committee to appropriately manage various risks. The Committee regularly assesses risks and strives to identify and grasp problems, formulates and promotes risk response planning, and monitors the organization for risks.

[Sustainability Committee]

The Sustainability Committee is chaired by the Representative Director and President under the supervision of the Board of Directors, and its members mainly comprise directors and executive officers. The Sustainability Committee formulates policies, targets and action plans, manages and evaluates progress against targets, discusses individual initiatives to address social issues such as the environment and human resources, and regularly reports and makes recommendations to the Board of Directors.

<Auditing>

① Status of the Audit and Supervisory Committee audits

The Audit and Supervisory Committee of the Company is composed of four members including three Outside Audit and Supervisory Committee Members. Each of three Outside Audit and Supervisory Committee Members is an expert of finance and accounting, legal affairs, and corporate management and has experience thereof, and has a considerable degree of knowledge about respective fields. Audit and Supervisory Committee Members attend Board of Directors meetings and other important management meetings. They also grasp the status of internal audit and compliance and confirm the status of business execution in light of the audit policy of the Audit and Supervisory Committee and the division of work, etc. in an audit implementation plan. With regard to the status of individual business execution, Audit and Supervisory Committee Members ask Directors in charge and division managers to make a report as necessary, and investigate and confirm its contents, etc. Through these activities, they appropriately audit business execution of Directors.

Audit and Supervisory Committee Members exchanged opinions and information with the Accounting Auditor as necessary, receiving reports and explanations on the status of its business execution and contents of audit, etc.

The main agenda of the Audit and Supervisory Committee includes preparing audit reports, appointing and dismissing standing Audit and Supervisory Committee Members and deciding on audit policies, ways to investigate into the status of operations and financial position, and other matters related to the execution of duties by Audit and Supervisory Committee Members. In addition, the Audit and Supervisory Committee examines matters subject to a resolution of the Audit and Supervisory Committee, such as selection and dismissal or refusal of reappointment of the Accounting Auditor and consent to compensation for the Accounting Auditor. In addition, throughout the year, including each quarter, the Audit and Supervisory Committee receives detailed explanations from the Corporate Planning and Accounting Departments and the Accounting Auditor regarding the consolidated financial results of our Group companies and the status of the accounting audits.

Standing Audit and Supervisory Committee Members attend meetings of the Board of Directors, Management Committee, Risk Management Committee, and other important meetings, inspect important approval documents and minutes of various meetings, and confirm the status of business execution at the Company and its group companies and conduct on-site investigations. In addition, Standing Audit and Supervisory Committee Members regularly exchange opinions and hold discussions on general management issues with representative directors and directors to understand the status of Directors' execution of duties and to express our opinions. With regard to specific management issues and themes, Standing Audit and Supervisory Committee Members receive explanations from Directors and employees, etc. as to the status of their execution of duties when necessary, and express opinions. With regard to group companies, Standing Audit and Supervisory Committee Members inspect documents, request explanation from Directors, etc. of group companies, as necessary, and regularly exchange information with Corporate Auditors of group companies. With regard to internal audits, Standing Audit and Supervisory Committee Members closely coordinate with the Internal Audit Office, and strive to share the same perception with the Internal Audit Office through measures such as exchanging information and opinions on the internal audit policy, plan, results, etc. and attending interviews with managers in charge of audited divisions. Furthermore, regarding the status of establishment and operations of internal control systems and matters relating to compliance and risk management as well, Standing Audit and Supervisory Committee Members receive reports and explanations from Directors, employees, etc. and express their opinions, as necessary.

② Status of Internal Audits

With regard to internal audits, the Internal Audit Office, which reports directly to the Representative Director and President, conducts regular audits of the Company and its group companies based on an annual audit plan to evaluate the appropriateness and effectiveness of internal controls, and also conducts temporary audits when necessary.

The Internal Audit Office reports audit results to the Representative Director and President, and also reports the audit plan for the current fiscal year once a year to the Board of Directors. The Internal Audit Office also exchanges information with the Audit and Supervisory Committee and the Accounting Auditor, when necessary, in order to promote the smooth execution of the Audit and Supervisory Committee audits and Accounting Auditor audits and improve their effectiveness and efficiency.

The composition of internal audits is as follows:

- Composition of internal audits: 9 members from the Internal Audit Office

③ Status of Accounting Audit

A. Name of audit corporation

Ernst & Young ShinNihon LLC.

B. Audit period

From the fiscal year ending March 31, 2021

C. CPA who performed the audit

Shigeru Sekiguchi

Saori Nakata

D. Composition of assistants for auditing services

3 CPA, 7 persons with accountancy qualifications, and 15 others

E. Selection Policy and Reasons for Selection of Accounting Auditor

The Audit and Supervisory Committee decides on the reappointment or non-reappointment of the Accounting Auditor after considering the Accounting Auditor's qualifications, audit system, audit level, and other factors.

With regard to the dismissal or non-reappointment of the Accounting Auditor, if the Audit and Supervisory Committee finds that the Accounting Auditor falls under any of the items of Article 340, Paragraph 1 of the Companies Act, the Audit and Supervisory Committee, with the consent of all Audit and Supervisory Committee Members, will dismiss the Accounting Auditor.

In this case, the Audit and Supervisory Committee Member selected by the Audit and Supervisory Committee will report the dismissal of the Accounting Auditor and the reason for the dismissal at the first General Meeting of Shareholders convened after the dismissal.

In addition to the above cases, if the Audit and Supervisory Committee determines that such dismissal or non-reappointment of the Accounting Auditor is necessary, taking into consideration the independence of the Accounting Auditor, the status of execution of duties, etc., the Audit and Supervisory Committee shall, by its resolution, determine the content of the proposal for dismissal or non-reappointment of the Accounting Auditor, and the Board of Directors shall submit such proposal to the General Shareholders Meeting in accordance with such determination.

F. Evaluation of audit firms by the Audit and Supervisory Committee

We evaluate the Accounting Auditor from the following perspectives.

- Eligibility, independence, and internal control status as an Accounting Auditor (corporation/individual)
- Audit system including the number of accountants in charge and members' years of experience, qualifications, etc.
- Audit implementation status and audit standards
- Timely and appropriate reports, etc., status of cooperation with the Audit and Supervisory Committee and the company

The Company's Audit and Supervisory Committee receives timely explanations from the Accounting Auditor on "Notices Based on Article 131 of the Corporate Accounting Regulations," and evaluated the Accounting Auditor based on the above viewpoints as it received quarterly audit reports, etc., and requested explanations as necessary.

<Outline of Limited Liability Agreement>

Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company enters into agreements with Directors (excluding Directors who are also Executive Officers) and Corporate Auditors to limit their liability stipulated in Article 423, Paragraph 1 of the Companies Act. Under the agreement, their liability is limited to one (1) million yen or the amount stipulated in Article 425, Paragraph 1 of the Companies Act, whichever is greater.

3. Reasons for Adoption of Current Corporate Governance System

The Company shifted to a company with Audit and Supervisory Committee, based on the resolution at the 50th Ordinary General Meeting of Shareholders held on June 23, 2022. It has adopted the system of a company with Audit and Supervisory Committee in order to facilitate quick decision-making, strengthen discussion at Board of Directors meetings, as well as to enhance supervisory functions of the Board of Directors and further improve corporate governance by including Audit and Supervisory Committee Members responsible for audits, etc. of business execution by Directors in the Board of Directors.

The Company's Board of Directors currently includes 11 Directors including two female Directors, six of whom are Outside Directors. The Outside Directors play key roles particularly in relation to strengthening our management function based on the knowledge and experience acquired in their respective fields and strengthening the supervisory function of the Board's business execution. The Outside Directors are also appropriately involved in determining compensation for officers, etc. and nominating candidates for Director by, for example, providing a report to the Board of Directors as members of the Nomination and Compensation Committee.

Meanwhile, the Audit and Supervisory Committee has four members including one female member, three of whom are Outside Directors. Outside Directors each play an important role in establishing an objective and fair audit system. The Company seeks to strengthen management accountability and improve management transparency by appointing Outside Directors. The Company believes that it has an appropriate system in place for securing the trust of shareholders, investors, and other stakeholders.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Facilitate Exercise of Voting Rights

| | Supplementary Explanation |
|---|--|
| Early Posting of Notice of the General Shareholders Meeting | In principle, the Company dispatches the notification three business days before the statutory date. |
| Scheduling of the General Shareholders Meeting During Non-Peak Days | The Company avoids peak days to enable many shareholders to attend. |
| Electronic Exercise of Voting Rights | The Company adopted a voting system that enables shareholders to exercise their votes by electromagnetic means from the 2003 General Meeting of Shareholders. |
| Participation in a Platform for the Electronic Exercise of Voting Rights and Other Initiatives to Enhance Environment for Institutional Investors to Exercise Voting Rights | It is possible to exercise voting rights using a voting platform designed for institutional investors and operated by ICJ, Inc. |
| Provision of Notice (or Summary of Notice) of the General Shareholders Meeting in English | The Company publishes the Convocation Notice in English on the Corporate website. (Shareholders' Meeting Reference Documents: https://www.dts.co.jp/ir/stock/meeting/) (English translation document is posted on the Japanese website.) |
| Other | The Company publishes the Convocation Notice on the Corporate website. (Shareholders' Meeting Reference Documents: https://www.dts.co.jp/ir/stock/meeting/) (English translation document is posted on the Japanese website.) |

2. Status of IR-related Activities

| | Supplementary Explanation | Explanation by a representative director or a representative executive officer |
|---|--|--|
| Formulation and Publication of Disclosure Policies | IR Policy URL: https://www.dts.co.jp/ir/library/policy/ | |
| Regular Investor Briefings held for Analysts and Institutional Investors | Financial results briefings for analysts and institutional investors are held every quarter, and the representative explains full year results and the first-half results. | Held |
| Online Disclosure of IR Information | IR Information: https://www.dts.co.jp/en/ir/ | |
| Establishment of Department and/or Placement of a Manager in Charge of IR | Manager in charge of IR has been assigned in the ESG Promotion Department. | |

3. Status of Measures to Ensure Due Respect for Stakeholders

| | Supplementary Explanation |
|--|--|
| Establishment of Internal Rules Stipulating Respect for the Position of Stakeholders | The matter is set out in the Company's Code of Conduct: (Code of Conduct: https://www.dts.co.jp/sustainability/governance/compliance/) (Japanese only) |
| Implementation of Environmental Preservation Activities and CSR Activities, etc. | The DTS Group has set forth "strengthening ESG initiatives" as one of its key challenges under the long-term Vision2030, and will work toward realizing a sustainable society and achieving sustainable growth as a company through the promotion of efforts for the environment and the initiatives for enhancing employee engagement and diversity and strengthening governance and disclosures. For details, please refer to our Corporate website. (Medium-Term Management Plan: https://www.dts.co.jp/ir/management/middle/) (Integrated Report: https://www.dts.co.jp/en/ir/library/report/) (Securities Report: https://www.dts.co.jp/ir/library/securities/) (Japanese only) |
| Formulation of Policies, etc. on Provision of Information to Stakeholders | The matter is set out in the Company's Code of Conduct: (Code of Conduct: https://www.dts.co.jp/sustainability/governance/compliance/) (Japanese only) |

IV. Matters Concerning the Internal Control System

1. Basic Views on Internal Control System and Status of Development

The Company has formulated the following basic policy regarding the “development of systems necessary to ensure that the execution of the duties by the Directors complies with the laws and regulations and the articles of incorporation, and other systems necessary to ensure the properness of operations of a company and of operations of a group of entities consisting of the relevant company and its de facto subsidiary companies” and “matters necessary for the execution of duties of the Audit and Supervisory Committee” in accordance with Article 399-13, Paragraph 1, Item 1, (b) and (c) of the Companies Act and Article 110-4, Paragraph 1 and 2 of the Ordinance of Enforcement of the same Act:

Basic Views on Building the Company’s Internal Control System

When establishing internal control systems, the Company shall seek to formulate and appropriately operate frameworks relating to the building of an internal control system based on the concept explained below, and strive to continuously improve those frameworks in response to changes in the environment to ensure that its internal control systems comply with laws and regulations and the Company’s Articles of Incorporation, and ensure the appropriateness of business operations and the reliability of financial reporting.

- (1) The Board of Directors shall decide on policies and plans for the development of internal control systems and receive regular progress reports.
- (2) The Company shall seek to maintain and further improve the supervisory function of Directors in the execution of their duties by continuously appointing Outside Directors.
- (3) The Representative Director and President shall establish, operate, and improve the internal control system as the chief executive officer for business execution.
- (4) The Company shall establish an Internal Control Promotion Department to build, operate, and improve internal control systems.
- (5) The Company shall establish the Internal Audit Office as a department that conducts internal audits from a standpoint that is independent from business activities. The Internal Audit Office shall monitor the effective building of frameworks to help establish an internal control system and to point out any necessary improvements.
- (6) The Company shall implement appropriate initiatives designed to ensure the reliability of internal controls related to financial reporting based on the Financial Instruments and Exchange Act.

Individual Frameworks Relating to the Internal Control System

1. A framework for ensuring that the execution of duties by Directors and employees of the Company complies with laws and regulations and the Articles of Incorporation
 - (1) The Company shall create a department to plan and manage compliance, and shall establish a compliance system.
 - (2) The Company shall determine the DTS Compliance Guide and continue to instruct officers and employees through training, among other ways, to view compliance from their respective standpoints as their own immediate issue and to conduct business operations accordingly.
 - (3) Based on the DTS Group Code of Conduct, the Company shall firmly eliminate ties to antisocial forces that pose a threat to the order and safety of civil society.
 - (4) The Company shall establish a helpline as a way for its employees and other related persons to consult and report any activities that they suspect may be in violation of laws and regulations.
 - (5) The Internal Audit Office shall create annual audit plans and conduct internal audits from a standpoint that is independent from Company business activities.
 - (6) The Company shall establish the necessary rules and systems to ensure reliable financial reporting.
2. A framework for storing and managing information pertaining to the execution of duties by Directors of the Company
 - (1) The Company shall stipulate in the Rules on the Management of Information Assets how documents related to the execution of duties by Directors (this includes electromagnetic records, the same shall apply hereinafter) and other important information should be handled, and establishes a system based on those rules to store those documents in an easily searchable format and enable them to be viewed when required by relevant parties.
 - (2) The Company shall establish an internal information system for the storage, management, and effective use of necessary information for the execution of duties by its officers and employees.
 - (3) With regard to information management, the Company shall establish a department to plan and manage information security and a system for information security. In addition, the Company shall establish basic policies and guidelines for protecting personal information.
3. Regulations and other frameworks for managing the risk of incurring losses at the Company
 - (1) The Company shall establish the Sustainability Committee that is chaired by the person responsible for overseeing sustainability efforts, who is appointed by the Representative Director and President following consultation of the Management Council. The Committee shall work to identify risks and opportunities for sustainability issues, and make a plan and assessment of the efforts.
 - (2) The Company shall establish the Risk Management Committee that is chaired by the person responsible for risk management, who is appointed by the Representative Director and President after consulting with the Management Council. The Committee shall work to systemize risks, identify problems, and formulate response plans for relevant departments and specific issues. The Company shall also conduct consistent monitoring to ascertain whether any risks have occurred.

- (3) The Company shall establish emergency responses to deal with large-scale disasters, etc., and puts in place rules and systems to ensure business continuity.
 - (4) The Company shall establish the Project Promotion Committee that is chaired by the person responsible for project development, who is appointed by the Representative Director and President after consulting with the Management Council. The Committee shall seek to eliminate or reduce any factors that impede efficiency and increase the likelihood of achieving targets by deliberating on the advantages and disadvantages of accepting orders and determining service launch for projects that meet the prescribed criteria.
4. A framework to ensure that the execution of duties performed by Directors of the Company is carried out efficiently
 - (1) The Board of Directors shall determine the Rules Regarding the Authority to Execute Duties and ensure that the Representative Director and President and other Directors in charge of business execution execute business in accordance with those rules.
 - (2) Regarding the pursuit of business throughout the Company, specific measures that need to be implemented and efficient business operations shall be conducted according to business execution authority and decision-making rules under internal regulations.
 - (3) The Company shall set company-wide targets for both our executives and employees which it seeks to instill, and the Company shall also formulate medium-term management plans that cover a period of three business years and focus on those targets. Based on this medium-term management plan, the Company shall then set business targets and budgets in the form of short-term plans for individual business divisions for each year.
 - (4) The Company shall establish the Management Council as an organization designed to debate business execution policies, plans, and other important matters. The Company shall also provide monthly business corporate performance reports to the Management Council to help manage actual performance against the performance targets.
 5. A framework for ensuring the appropriateness of operations in the Group, which comprises the Company and its subsidiary companies
 - (1) The Company shall establish the Subsidiary Companies' Management Department in order to ensure the appropriateness of business operations across the corporate group. The department shall offer guidance and advice to ensure that subsidiary companies develop appropriate internal control systems.
 - (2) Persons assigned as part-time officers of subsidiary companies shall provide guidance and advice in cooperation with the Subsidiary Companies' Management Department to ensure that subsidiary companies comply with laws and regulations and conduct appropriate business operations.
 - (3) The Company shall hold group-wide meetings to facilitate information sharing across the Group and to ensure the appropriateness of business operations.
 6. A framework for reporting matters pertaining to the execution of duties performed by Directors, etc. of subsidiary companies to the Company
 - (1) The Company shall determine the Rules Relating to the Management of Affiliated Companies with regards to subsidiary companies, which require those subsidiary companies to seek the Company's approval or to submit a report regarding specific matters prior to resolution by the Board of Directors. Any matters that fall under the prescribed standards will be placed on the agenda for discussion by the Board of Directors.
 7. Regulations and other systems for managing the risk of incurring losses at subsidiary companies
 - (1) The Company's Risk Management Committee shall seek to gain a clear grasp of issues and planned responses by subsidiary companies, and shall receive periodic progress reports on those plans. The Committee shall also consistently monitor subsidiary companies for risks.
 - (2) Regarding projects at subsidiary companies that fall under the prescribed standards, the Company shall seek to eliminate or reduce any factors that impede efficiency and increase the likelihood of achieving targets by deliberating on the advantages and disadvantages of accepting orders and determining service launch in Project Promotion Committee meetings.
 8. A framework for ensuring that the execution of duties performed by Directors of subsidiary companies is carried out efficiently
 - (1) The pursuit of business operations at subsidiary companies shall be in accordance with the rules on business execution authority and decision-making that are based on each companies' internal regulations. However, some specific matters shall be executed in accordance with the Company's Rules Relating to the Management of Affiliated Companies.
 - (2) The Company shall set targets which it seeks to instill across all employees of the Company and its subsidiary companies. The subsidiary companies shall formulate a medium-term management plan that covers a period of three business years and focuses on these targets. Based on the medium-term management plan, the subsidiary companies shall also set operational targets and budgets in the form of short-term plan, and shall submit regular progress reports to the Company.
 9. A framework for ensuring that the execution of duties by Directors, etc. and employees of subsidiary companies complies with laws and regulations and the Articles of Incorporation
 - (1) The Company shall disseminate a DTS Compliance Guide across its subsidiary companies. The Company shall also give guidance and advice to its subsidiary companies.
 - (2) The Company shall establish a Group Helpline as a way for employees of subsidiary companies to consult and report any activities that they suspect may be in violation of laws and regulations.

10. Matters concerning employees who are required to assist with the duties of the Company's Audit and Supervisory Committee
 - (1) The Audit and Supervisory Committee may give instructions or directions to employees who assist with their duties with regards to items required for the execution of audits.
11. Matters concerning the independence of the employees referred to in item 10 above from the Directors who are not Audit and Supervisory Committee Members
 - (1) The Directors shall respect the opinions of the Audit and Supervisory Committee regarding personnel changes or performance evaluations, etc. of employees who are required to assist with the duties of the Audit and Supervisory Committee.
12. Matters relating to ensuring the effectiveness of the Audit and Supervisory Committee's instructions to employees assisting the Audit and Supervisory Committee
 - (1) Employees who have been given an instruction or direction by the Audit and Supervisory Committee when conducting audits cannot receive any instructions or directions from Directors who are not Audit and Supervisory Committee Members while they are executing those Audit and Supervisory Committee's duties.
13. A framework for Directors who are not Audit and Supervisory Committee Members and employees to report to the Audit and Supervisory Committee, and other frameworks relating to reporting to the Audit and Supervisory Committee
 - (1) Audit and Supervisory Committee Members appointed by the Audit and Supervisory Committee (hereinafter referred to as "Appointed Audit and Supervisory Committee Members") may attend important meetings, such as Board of Directors', Management Council, and Risk Management Committee meetings in order to fully grasp important decision-making processes and the status of business execution.
 - (2) Appointed Audit and Supervisory Committee Members may view important documents circulated for approval as well as other documentation and may request explanations from Directors who are not Audit and Supervisory Committee Members and employees when necessary.
 - (3) Directors who are not Audit and Supervisory Committee Members shall report the following matters to the Audit and Supervisory Committee as soon as they are discovered:
 - ① Matters that cause, or could cause, significant damage to the Company or a significant deterioration in trust in the Company
 - ② Matters that represent, or could represent, serious violations of laws, regulations, Articles of Incorporation, or internal regulations
 - ③ Important compliance-related matters
 - ④ Other matters that pertain to ① to ③ above
 - (4) Employees may report directly to the Audit and Supervisory Committee when they discover any serious facts relating to ① to ④ in the preceding paragraph.
14. A framework for ensuring that Directors or employees, etc. of subsidiary companies, or any people who receive reports from those Directors, employees, etc., convey those reports to the Company's Audit and Supervisory Committee
 - (1) Appointed Audit and Supervisory Committee Members of the Company may attend business planning hearings, etc. with subsidiary companies.
 - (2) Appointed Audit and Supervisory Committee Members of the Company may view subsidiary companies' documents and request explanations from Directors, etc. of subsidiary companies if necessary.
 - (3) Directors or employees, etc. of subsidiary companies who have discovered any of the following matters or any persons who have received reports from those Directors or employees may report the matter directly to the Company's Audit and Supervisory Committee:
 - ① Matters that cause, or could cause, significant damage to the Company or a significant deterioration in trust in the Company.
 - ② Matters that represent, or could represent, serious violations of laws, regulations, Articles of Incorporation, or internal regulations
 - ③ Important compliance-related matters
 - ④ Other matters that pertain to ① to ③ above
15. A framework for ensuring that a person who conveyed a report to the Audit and Supervisory Committee is not treated disadvantageously for having conveyed the report
 - (1) The Company shall establish the Rules Relating to the Operation of the Whistleblowing System, which clearly stipulate the obligation to protect and confidentiality of whistleblowers. The Company shall also create the necessary environment to ensure all employees can access and read these rules.
16. Procedures for prepayment or reimbursement of expenses arising from the execution of duties by Audit and Supervisory Committee Members (limited to those related to the execution of duties of the Audit and Supervisory Committee) and other items regarding policies pertaining to the processing of expenses or obligations arising from the execution of said duties
 - (1) Any expenses expected to be incurred in the audit plan determined by the Audit and Supervisory Committee are budgeted for in advance. Any expenses required to respond to a sudden event may either be paid in advance or reimbursed.

17. Other frameworks for ensuring that audits by the Audit and Supervisory Committee are conducted effectively
 - (1) The Audit and Supervisory Committee may hold meetings to exchange opinions with the Representative Directors or the Accounting Auditor whenever necessary.
 - (2) The Audit and Supervisory Committee may communicate and exchange information with the Directors and Corporate Auditors of subsidiary companies in order to perform their duties appropriately.
 - (3) The Audit and Supervisory Committee may receive advice on auditing operations from external experts, such as lawyers and certified public accountants, when necessary and at their own discretion.

Overview of Operational Progress of Framework for Ensuring Appropriate Business Operations

The following is an overview of the status of operation of framework for ensuring appropriate business operations during the current fiscal year.

The Company transitioned to a company with an audit and supervisory committee organizational structure based on the resolution of the 50th General Meeting of Shareholders held on June 23, 2022. Accordingly, with regard to "(4) Execution of Duties by the Audit and Supervisory Committee" below, an overview of the status of operation after the transition is stated. However, the same system had been established and operated for the Board of Corporate Auditors before the transition as well.

- (1) Framework on Compliance with Laws and Regulations and the Articles of Incorporation

The Company and its Group companies conduct compliance education and training for executives, employees, and partner company employees and take measures to raise compliance awareness. In addition, the Company has set up a common whistleblowing hotline for the Group and ensures that the hotline is operated appropriately.

Regarding the management of information deemed necessary for the execution of duties by officers and employees, the Company has established frameworks for information security and protecting personal information and has managed those systems appropriately in accordance with our Rules on the Management of Information Assets.
- (2) Risk Management Framework

The Company has established a Risk Management Committee to appropriately manage various risks. The Committee regularly assesses risk and strives to identify and grasp problems, formulates and promotes risk response planning, and regularly monitors for the emergence of any risks. The Risk Management Committee also confirms the status of risks and the implementation of response plans for important risks at Group companies, and helps Group companies improve their risk management systems.
- (3) The Execution of Duties by Directors

In fiscal 2022, the Company held 12 meetings of the Board of Directors to determine matters stipulated by laws and regulations, etc. as well as important management-related issues, and to supervise business execution from the perspective of compliance with laws and regulations, the Company's Articles of Incorporation, and the appropriateness of business operations. We have determined the Rules Relating to the Management of Affiliated Companies and response appropriately to all matters relating to Group companies. The Company has introduced an executive officer system to separate the supervisory functions of Board of Directors' decision-making and business execution from the business execution functions, and to secure a management framework that facilitates prompt and appropriate business execution. The Company also held 32 meetings of the Management Council to discuss policies and plans and other important matters when the Representative Director and President execute duties based on the management policy determined by the Board of Directors.
- (4) The Execution of Duties by Audit and Supervisory Committee

Audit and Supervisory Committee Members, including Outside Directors, conduct audits based on audits plans determined in the Audit and Supervisory Committee and attend important meetings such as the Board of Directors' and various committee meetings to obtain a clear grasp of the Directors' decision-making processes and the status of business execution. In fiscal 2022, the Audit and Supervisory Committee convened eight times, and held meetings twice each with the Representative Director and Chairman and the Representative Director and President, four times in total, to exchange views on important audit-related issues. The Audit and Supervisory Committee Members also exchange opinions with Corporate Auditors and other members of Group companies and conduct audits of Group companies in cooperation with local auditing staff.

(The Company held three meetings of the Board of Corporate Auditors from April to May last year, when the Company was a company with Board of Corporate Auditors, because the Company has shifted to a company with Audit and Supervisory Committee based on the resolution of the 50th Ordinary General Meeting of Shareholders held on June 23, 2022.)

2. Basic Views on Measures for Eliminating Anti-Social Forces and Status of Development

1. Basic Views on Eliminating Anti-Social Forces

The DTS Group Code of Conduct has established the following basic approach to eliminating antisocial forces:

 - (1) The Company is determined to firmly eliminate ties with antisocial forces and organizations (*Sokaiya*, organized crime groups, etc.) that pose a threat to the order and safety of civil society as part of the Company's ethical corporate duty.
 - (2) Driven by a basic premise to never give them money, never use them, never fear them, the Company strives to always maintain a crisis-management awareness and never gives antisocial forces and organizations the opportunity to take advantage.

(3) If any problems with antisocial forces or organizations did arise, the Company refers to its predetermined prompt communication framework to ensure a systematic response in cooperation with the police, lawyers, and any other relevant persons.

2. How We are Striving to Eliminate Antisocial Forces

The Company has established the following system in order to eliminate antisocial forces:

(1) Progress on Establishing a Response Management Department and Person in Charge of Preventing Unreasonable Demands
Our General Administration Department serves as our response management department for the elimination of antisocial forces and our General Manager of General Administration Department is designated as the person in charge of preventing unreasonable demands.

(2) Cooperation with External Specialist Organizations

The Company is working with specialist organizations such as the Metropolitan Police Department, the Tokyo Center for Removal of Criminal Organizations, the Open Intelligence Associate, and the Tokyo Bar Association.

(3) The Collection and Management of Information on Antisocial Forces

The Company collects and stores information by closely exchanging information with external specialist organizations.

(4) Progress on Preparing a Response Manual

The DTS Compliance Guide, which is distributed to all employees, clearly lays out the Company's basic stance and specific responses to the elimination of antisocial forces, and provides guidance and education on the subject.

(5) Training Activities

The Company actively participates in workshops hosted by specialist organizations.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures

Not Adopted

Supplementary Explanation for Applicable Items

2. Other Matters Concerning the Corporate Governance System

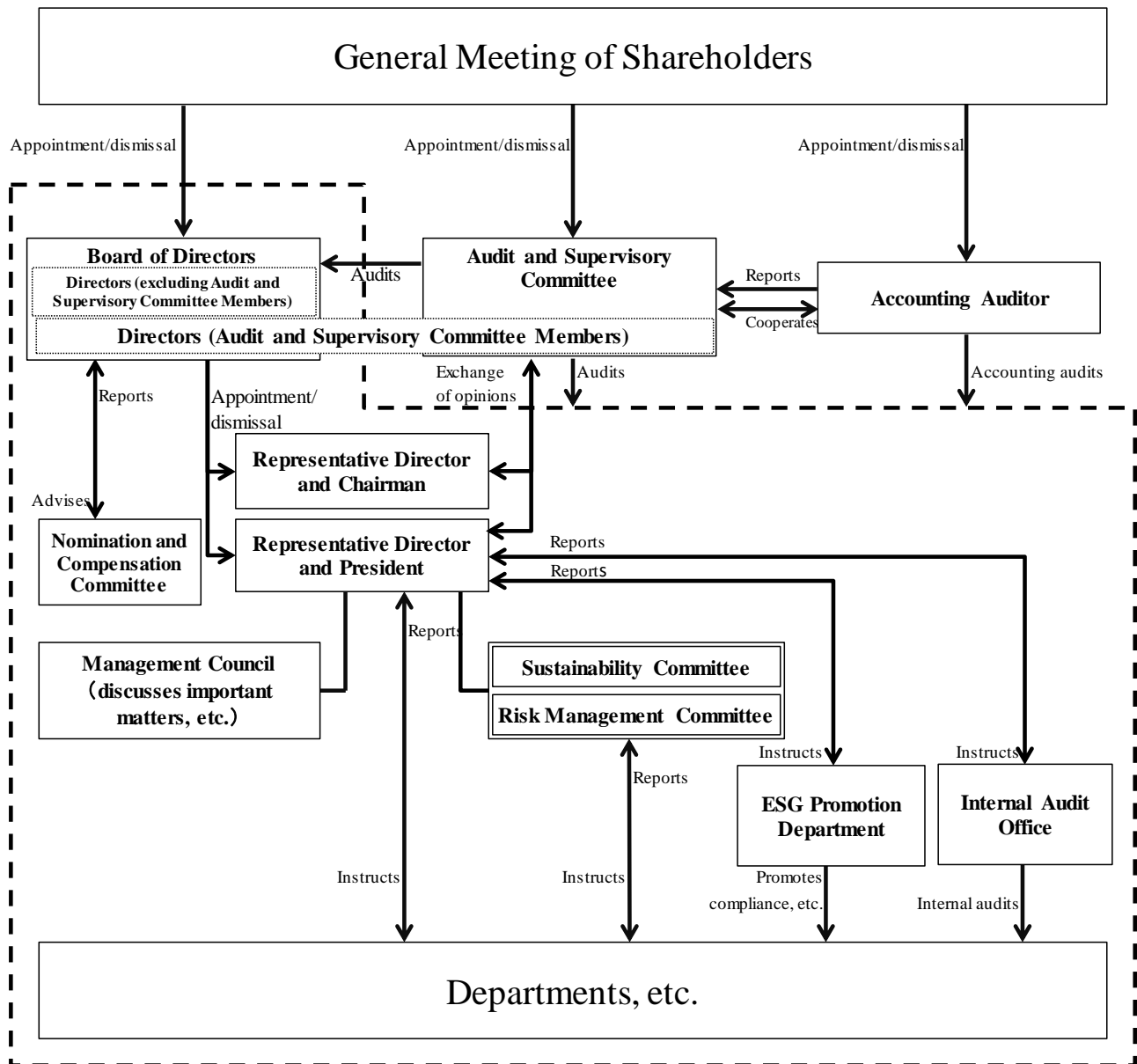
The Company strives to disclose information appropriately and fairly and to qualitatively improve its information disclosure by committing to greater transparency and fuller disclosure materials with regards to corporate information that is required to be disclosed in a timely manner under the Financial Instruments and Exchange Act and the Securities Listing Regulations stipulated by the Tokyo Stock Exchange, Inc. as well as any other company information that could have a significant impact on investment decisions.

The Company has established a system in which the Director in charge of our staffing departments is appointed as the officer in charge of information handling, any important company information is promptly and fully reported to the officer in charge of information handling, and that information is appropriately managed right up to the point of disclosure. The officer in charge of information handling confirms the content of any reported important information, examines the need and potential method for disclosing that information, and promptly reports his/her findings to the Company's Representative Director and President.

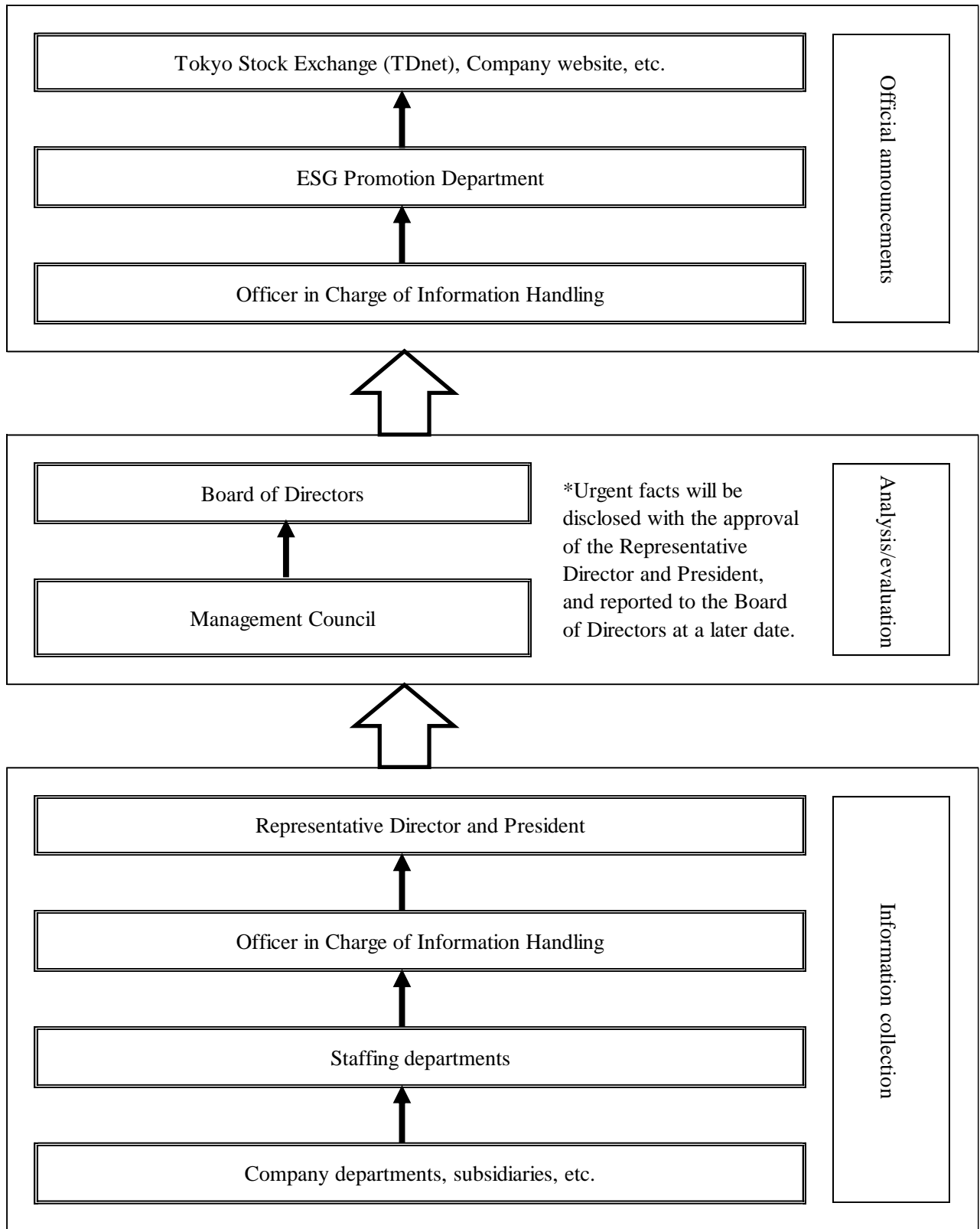
Important information that needs to be disclosed timely will be promptly disclosed following deliberation in the Management Council, which is made up primarily of Executive Officers, and approval by the Board of Directors. When required, the Board of Directors can meet in a timely manner to approve a disclosure. However, if some information or facts emerge that require a more urgent response, the Representative Director and President will approve disclosure and the matter will be reported to the Board of Directors at a later date.

Regarding timely information disclosure, the ESG Promotion Department, under the direction of the officer in charge of information handling, discloses the information on the Tokyo Stock Exchange's TDnet, and publishes it on the Corporate website.

Corporate Governance Framework (schematic diagram)



Overview of Timely Disclosure Framework (schematic diagram)



Explanation of the Selection and Nomination of Individual Candidates for Director or Corporate Auditor

| Name | Position | Reason for Selection | Concurrent Positions at other Listed Companies |
|------------------|---|---|--|
| Koichi Nishida | Representative Director and Chairman | Mr. Koichi Nishida has a wealth of experience in corporate management, including the organizational management in the financial sector of a major information and telecommunications company. He has been leading the overall management of the Group as Representative Director and President from FY2010 to FY2020, and has been working on business expansion and management reform. The Company expects that he will leverage his abundant experience and achievements and play a role in supervising its business execution for promoting ESG management and creating new corporate value. | |
| Tomoaki Kitamura | Representative Director and President | Mr. Tomoaki Kitamura has a wealth of experience in technology and R&D and corporate management at a major information and telecommunications company and its group companies. He has been responsible for managing the Group as Representative Director and President since FY2021. The Company expects that he will leverage his abundant experience and achievements to continue promoting the business of the Group and play a role in supervising its business execution for promoting ESG management and creating new corporate value. | |
| Minoru Takeuchi | Director Managing Executive Officer | In addition to organizational management in the financial sector, Mr. Minoru Takeuchi has a wealth of experience and achievements in global business development through managing Group companies outside Japan, and has been responsible for the management of the Company. The Company expects that he will leverage his experience and achievements to continue promoting the business of the Group and playing a role in supervising its business execution. | |
| Isao Asami | Director Senior Executive Officer | In addition to organizational management in the built-in software and telecommunications sector, Mr. Isao Asami has a wealth of experience and achievements in administrative departments, and has been responsible for the management of the Company. The Company expects that he will leverage his experience and achievements to continue promoting the business of the Group and playing a role in supervising its business execution. | |
| Shinya Shishido | Outside Director Independent Officer | Mr. Shinya Shishido has abundant experience and a high level of insight as a manager in the housing loan industry and the real estate industry. The Company expects that he will utilize this experience and insight in its management decisions and that he will contribute to strengthening the supervisory functions of business execution and provide advice from a broader perspective as an Outside Director. | Director, Takamatsu Corporation Co., Ltd. |
| Shinichi Yamada | Outside Director Independent Officer | Mr. Shinichi Yamada has abundant experience and a high level of insight regarding the industry trends and corporate management in the IT industry. The Company expects that he will utilize this experience and insight in its management decisions and that he will contribute to strengthening the supervisory functions of business execution and provide advice from a broader perspective as an Outside Director. | |
| Yumiko Masuda | Outside Director Independent Officer | Ms. Yumiko Masuda has management experience at multiple major foreign IT companies, and has expertise in consumer- and customer-oriented management and customer relations, and abundant experience and a high level of insight regarding diversity & inclusion. The Company expects that she will utilize this experience and insight in its management decisions and that she will contribute to strengthening the supervisory functions of business execution and provide advice from a broader perspective as an Outside Director. | Outside Director, PC DEPOT CORPORATION |

| Name | Position | Reason for Selection | Concurrent Positions at other Listed Companies |
|----------------|---|---|---|
| Takao Sakamoto | Director Audit and Supervisory Committee Member | Mr. Takao Sakamoto has experience in administrative departments such as company-wide corporate planning and human resources, as well as experience and track records of managing Group companies. In order to utilize his experience in the Company's business execution in the audit structure of the Company, the Company appoints him as a Director who is an Audit and Supervisory Committee Member. | |
| Taeko Ishii | Outside Director Independent Officer Audit and Supervisory Committee Member | Ms. Taeko Ishii is a licensed attorney, and has abundant experience and expertise regarding legal and labor affairs. The Company expects that she will utilize this experience and expertise in the audit structure of the Company, and that she will contribute to strengthening the supervisory functions of business execution and provide advice from a broader perspective. | Outside Director, Sumitomo Metal Mining Co., Ltd. Outside Statutory Auditor, Dai Nippon Printing Co., Ltd. |
| Yutaka Takei | Outside Director Independent Officer Audit and Supervisory Committee Member | Mr. Yutaka Takei has abundant experience and a high level of insight as a manager of a trust bank, a securities transfer agent and a retailer. The Company expects that he will utilize this experience and insight in the audit structure of the Company, and that he will contribute to strengthening the supervisory functions of business execution and provide advice from a broader perspective. | |
| Nobuyasu Imuro | Outside Director Independent Officer Audit and Supervisory Committee Member | Mr. Nobuyasu Imuro is certified as a certified public accountant, and has abundant experience and expertise regarding finance and accounting. The Company expects that he will utilize this experience and expertise in the audit structure of the Company, and that he will contribute to strengthening the supervisory functions of business execution and provide advice from a broader perspective. Although he has never been involved in corporate management in any way other than as an outside officer in the past, for the above reasons, the Company believes that he is capable of appropriately performing his duties as an Outside Director who is an Audit and Supervisory Committee Member. | |

Skills Matrix

Toward achieving the Company's Long-Term Outlook (Vision 2030) and the Medium-Term Management Plan (FY2022 to FY2024), we identified skills that Directors are expected to demonstrate in light of the five key issues. These skills and the skills matrix are as follows:

■ Key issues

Increase in the value of proposals; Combination of SI and digital technology; Expansion into new fields and the global market; Enhancement of ESG initiatives; and Reform of its management base

■ Our stance on skills

| Skills | Our stance on skills |
|------------------------------------|--|
| Corporate management | To <u>enhance ESG initiatives</u> with an aim to become a company that practices sustainable management and grows together with a society, management experience and skills gained at listed companies are expected. |
| Internationality | To <u>expand into new fields and the global market</u> with an aim to capture new opportunities for business growth and revenue source, insight gained through experiencing overseas businesses and skills for future business development are expected. |
| Sales / Marketing | To <u>increase the value of proposals</u> through a broad range of proposal capabilities and solutions based on leading technologies, business experience and skills in sales and marketing fields are expected. |
| Development / R&D | To add on digital solution services to the SI business at which we excel with an aim to realize the <u>combination of SI and digital technology</u> , business experience and skills in development / R&D fields are expected. |
| Finance / Capital strategy | Besides accurate financial reporting, to strengthen the operations and <u>reform our management base</u> through continuous investments by taking the advantage of our solid financial base, business experience and skills in finance / capital strategy fields are expected. |
| Human resource development / D&I | To realize diversity and inclusion where employees share the joy of work and respect diversity with an aim to <u>enhance ESG initiatives</u> , business experience and skills in human resource development / D&I fields are expected. |
| Internal control / Risk management | To strengthen governance and to establish and practice risk management systems, as well as to <u>enhance ESG initiatives</u> , business experience and skills in internal control / risk management fields are expected. |

■ Skills Matrix

| Name | Skills | Corporate management | Internationality | Sales / Marketing | Development / R&D | Finance / Capital strategy | Human resource development / D&I | Internal control / Risk management |
|------------------|--|----------------------|------------------|-------------------|-------------------|----------------------------|----------------------------------|------------------------------------|
| | | Koichi Nishida | ● | | ● | ● | ● | |
| Tomoaki Kitamura | | ● | | ● | ● | | ● | |
| Minoru Takeuchi | | | ● | ● | ● | | | |
| Isao Asami | | | | | ● | ● | | ● |
| Shinya Shishido | Outside | ● | | ● | | | ● | |
| | Independent | | | | | | | |
| Shinichi Yamada | Outside | ● | ● | | ● | | | |
| | Independent | | | | | | | |
| Yumiko Masuda | Outside | | ● | ● | | | ● | |
| | Independent | | | | | | | |
| Takao Sakamoto | | | | | | ● | ● | ● |
| | Audit and Supervisory Committee Member | | | | | | | |
| Taeko Ishii | Outside | | | | | | ● | ● |
| | Independent | | | | | | | |
| | Audit and Supervisory Committee Member | | | | | | | |
| Yutaka Takei | Outside | ● | | | | ● | | ● |
| | Independent | | | | | | | |
| | Audit and Supervisory Committee Member | | | | | | | |
| Nobuyasu Jimuro | Outside | | ● | | | ● | | ● |
| | Independent | | | | | | | |
| | Audit and Supervisory Committee Member | | | | | | | |

Note: A maximum of four items that are particularly expected to be performed are indicated as ● for each person. Not all expertise and experience are presented in the table.