

The following is a report on the state of corporate governance at ES-CON JAPAN Ltd.:

## I. Basic thinking regarding corporate governance, capital structure, corporate attributes, and other basic information

### 1. Basic thinking

We regard corporate governance as a critical factor, both in implementation and continued reinforcement, in becoming a vital entity within society. Corporate governance is key to achieving enduring growth in corporate value and enhancing corporate transparency and soundness based on our purpose, vision, and principles of action.

<Purpose (The Group's raison d'être in society and the value of its presence from society's perspective)>

"IDEAL to REAL: Bringing ideals into reality to create a new future"

We create value rooted in the community, helping to bring about cherished cities and living environments in which residents can take pride.

The value we create represents our contributions to society. Consequently, each of us seeks to realize original forms of self-actualization through that value.

While designing an ideal future, we will be creating a new future, with the aim of being regarded as a unique, essential presence by all our shareholders.

<Vision (Our ideal shape for achieving our Purpose)>

To develop not just buildings but the lives of those who live in them, with their happiness in mind—this is the kind of life developer we aspire to be.

Through solutions proposed by cross-departmental teams made up of the best and brightest, we create a new prosperity unprecedented in the real estate industry, connecting people with people and communities with the future.

<Principles of Action (principles formulated to realize our vision)>

#### 1. Provision of new value

We will use our information networks, planning ability, and product development expertise to tap the unlimited potential of real estate and to create new value that responds to every need of our clients.

#### 2. Sustainability management

We will respond to various social challenges with precision and pursue scenarios in which our company and society can grow sustainably and side by side.

#### 3. Growth and stability

Rather than pursuing volume and scale, we aspire to achieve high-quality growth based on a keen awareness of capital and cash efficiency. At the same time, we seek to build firm financial and operational foundations capable of accommodating a broad range of business risk.

#### 4. Management awareness

We will strive to achieve a strong offense in management that is always one step ahead by ensuring that all Group employees are aware of management issues and by continuing to be a company that practices rapid decision-making.

#### 5. Compliance

We will comply with all applicable laws, regulations, and societal norms both within and outside Japan; maintain a keen awareness of compliance and governance issues; take appropriate action as human beings; and form an organization with great bottom-up communication.

#### 6. Gratitude

We will act at all times in ways that demonstrate our clear appreciation and respect for colleagues, whether within or outside the company. We will seek to build and maintain strong working relationships.

The Corporate Governance Report and Securities Report published on our website present our basic corporate governance policies (<https://www.es-conjapan.co.jp/english/ir/governance.php>).

Our corporate governance structure is outlined below.

The Company is a company with an audit and supervisory committee. Together with the board of directors, the Auditors Committee manages, supervises, and audits business execution.

The board of directors consists of ten members: three executive directors, three non-executive directors, and four directors who are members of the Auditors Committee. To enhance management oversight functions, the six external directors are the three non-executive directors and three of the four directors who are members of the Auditors Committee. Five of the six external directors are independent external directors. In principle, the board of directors meets at least once a month for thoroughgoing reporting and deliberations on all important matters, in addition to reporting on the state of execution of its decisions, to ensure the timely and accurate ascertainment of management information and effective controls.

In principle, the Auditors Committee meets once a month. To enhance its independence, as described above, three of the four Committee members are external directors; of these three, two are independent external directors. They interview core personnel in business divisions, review important documents such as circulars for approval, and collaborate with the accounting auditor and the internal auditing department to audit the legality and validity of the directors' performance of duties. In addition, it strengthens governance by selecting two full-time Auditors Committee members and making those persons the chief Auditors Committee members.

The Nomination and Remuneration Advisory Committee has been established as an advisory body to the board of directors to strengthen the independence, objectivity, and accountability of board functions related to matters such as the nomination and remuneration of directors.

The Nomination and Remuneration Advisory Committee is described in greater detail under 3 and 4 of Principle 3-1 [Full Disclosure], [Optional Committee], and Supplementary Principle 4-10-1 of Principle 4-10 [Use of Optional Approach].

### [Reasons for Not Implementing the Principles of the Corporate Governance Code]

As a company listed on the Prime Market with a controlling shareholder, we are required to appoint a majority of independent external directors. Of our ten current directors, five are independent external directors. While this does not satisfy the standard under Supplementary Principle 4-8-3, we are making steady progress toward appointing a majority of independent external directors next year.

### [Disclosure Based on the Principles of the Corporate Governance Code]

[Supplementary Principle 1-2-4. Exercise of Shareholder Rights at General Meetings of Shareholders]

We make it easier for shareholders to exercise their voting rights through the adoption of an Internet-based electronic voting system and use of the Electronic Voting Platform. We also provide English translations of announcements of regular general meetings of shareholders for foreign investors.

[Principle 1-3. Basic Strategy for Capital Policy]

In accordance with the Purpose of the Group, we have sought to answer a specific question: How can we continue to create new future rooted in the community and win the regard of all our shareholders as a unique and essential presence? At the same time, under our Principles of Action, to achieve growth and stability, we aspire to build firm financial and operational foundations capable of accommodating all kinds of business risks while implementing high-quality management mindful of capital and cash efficiency. We implement our capital policy based on these ideas.

To help improve corporate value on a sustained basis, we deploy a capital policy based on the pillars of management with a focus on ROE, management that seeks to strike the ideal balance between stable returns to shareholders and corporate soundness, and investment choices that make it possible to realize stable growth strategies.

In the area of management with a focus on ROE, we maintain and realize ROE in excess of capital costs over the medium to long term.

In the area of returns to shareholders, we realize maximum and stable returns to shareholders while strengthening corporate financial soundness.

In the area of investment choices, we make investment choices to realize sustained and stable growth while maintaining investment efficiency and an optimal capital structure that accounts for ROE and returns to shareholders at all times and diversifying procurement.

[1-4. Cross-shareholdings]

(1) Policy on cross-shareholdings

We may choose to hold shares of stock in publicly traded firms as cross-shareholdings when the management policies of such publicly traded firms mesh with our management strategies and we believe these shareholdings contribute to improving corporate value over the medium to long term. Each year, we verify the effect of these shareholdings and report the result to the board of directors. In principle, we sell such shares if we determine, at the point in time three years after we began holding the shares, that we cannot achieve the initially expected effect.

(2) Details of verification of effect of holding cross-shareholdings

Every year, based on the above policy on cross-shareholdings, we confirm our progress toward the goals of cross-shareholdings. We determine whether to continue holding these cross-shareholdings based on comparison to capital costs and other measures.

(3) Standards for exercising voting rights on cross-shareholdings

In principle, we exercise all voting rights on cross-shareholdings. A decision to support or oppose resolutions is made based on the perspectives of medium- to long-term increases in value and sustained growth of both our Company and the companies in which we invest, as well as enhancements in the governance structures of these companies.

[1-7. Related Party Transactions]

All proposed conflict of interest transactions with directors including officers of important subsidiaries, non-director executive officers, or executive officers are submitted to the board of directors for deliberations. We respect the opinions of external directors in aspects such as the reasonability, appropriateness, and soundness of such transactions to determine whether or not to proceed. In addition, any transactions with major shareholders are determined after careful consideration to ensure they will not deviate from the standards governing transactions with third parties.

[2-4. Ensuring internal diversity, including promoting the active participation of women]

Supplementary Principle 2-4-1 (Ensuring Diversity of Core Human Resources)

In addition to developing workplace environments in which employees can demonstrate their abilities to the fullest through rewarding work, we promote diversity to enable diverse human resources to thrive.

We hire human resources and promote core human resources on an individual basis with an emphasis on their abilities and track record, regardless of gender, nationality, form of employment, age, or other factors. In this way, we promote the proactive hiring and promotion to core positions of diverse human resources, thereby realizing sustainable growth and growth in corporate value.

(1) Initiatives to secure diversity

① Percentage of women among new hires (total for new graduates and midcareer hires)

Pursuant to the Act on the Promotion of Female Participation and Career Advancement in the Workplace, we have formulated an action plan to maintain the percentage of women among new hires at an average of 35% or higher over three years.

- 2021: 56 new hires, of whom 26 (46%) were women
- 2022: 68 new hires, of whom 29 (43%) were women

- ② Promotion of women employees to managerial and management positions (end of December 2022)
    - Women directors: 1 person
    - Women Executive Officers: 1 person
    - Women in managerial positions: 2 persons
  - ③ Hiring of a certain number of midcareer hires each year to serve as immediate assets to the organization and their promotion to managerial and management positions
    - 2021: 36 midcareer hires, of whom seven were in managerial positions and one was an Executive Officer
    - 2022: 43 midcareer hires, of whom 20 were in managerial positions
  - ④ We have formulated plans to reduce overtime work by improving business efficiency, including no-overtime days intended to reduce working hours.
  - ⑤ We hire non-Japanese workers, regardless of nationality, and provide them opportunities to thrive in each section.
  - ⑥ We provide highly experienced senior employees with opportunities to thrive through a reemployment program for those past the mandatory retirement age of 65 years.
- (2) Internal environmental improvements
- ① In promoting active participation and career advancement of diverse human resources, we have introduced a broad range of modes of employment, including staggered working hours, shortened working hours, and programs for working from home. We survey all employees annually concerning their workplace environments as part of activities to build better workplace environments.
  - ② To promote health management, we have established a Health & Culture Fostering Team as an organization under the direct supervision of the President's Office. We were named one of the 2023 Certified Health & Productivity Management Outstanding Organizations (Large Enterprise Category).
  - ③ We strive proactively to hire people with disabilities and to improve working environments for them. Some people with disabilities hired by the Company who reside in rural districts work at an indoor farm (Cordiale Farm), assigned to work centered on hydroponic farming.

#### [2-6. Roles of Corporate Pension Funds as Asset Owners]

At this time, we have adopted only a defined-contribution pension plan. We do not play an active role in the investment of a reserve fund. As such, we have not implemented specific measures regarding this principle.

#### [3-1. Full Disclosure]

1. Matters such as Company objectives (e.g., purpose, vision and principles of action), management strategies, management plans, and management policies are described in this Report under "1. Basic thinking regarding corporate governance"; in the Securities Report; and on the Company website. (<https://www.es-conjapan.co.jp/english/ir/governance.php>). The Company has published "IDEAL to REAL 2023," its fourth medium-term management plan, covering the FY2021-2023 three-year period. The fourth medium-term management plan is described in the Securities Report and on the Company website ([https://www.es-conjapan.co.jp/english/about\\_us/plan.php](https://www.es-conjapan.co.jp/english/about_us/plan.php)).
2. Basic thinking and basic policies on corporate governance based on each of the principles of the Code  
Our basic thinking and basic policies regarding corporate governance are described under "1. Basic thinking regarding corporate governance" in this Report, in the Securities Report, and on our website (<https://www.es-conjapan.co.jp/english/ir/governance.php>).
3. Board of directors policies and procedures for determining the remuneration of senior management and directors  
The Company has established the Nomination and Remuneration Advisory Committee as an advisory body to the board of directors to strengthen the independence, objectivity, and accountability of board functions related to matters such as nomination and remuneration of directors. This Committee makes decisions on proposed remuneration amounts for individual directors who are not members of the Auditors Committee and deliberates on policies governing remuneration decisions, including the establishment of and revisions to officers' remuneration systems, remuneration levels, and evaluation systems, and makes decisions on related proposals. Policies and procedures for remuneration decisions are described below under "Disclosure of policies for decision-making on remuneration amounts or their calculation method."
4. Board of directors policies and procedures for the appointment/dismissal of senior management and nomination of candidate directors  
We appoint members of senior management after deliberations in the Nomination and Remuneration Advisory Committee to select proposed candidates followed by comprehensive assessments by the board of directors of the candidates' track record, reputation, experience, and so forth.  
Senior management members recognized to have failed to satisfy the conditions of the appointment policies described above and presenting no indication that they may do otherwise in the future are dismissed by the board of directors following deliberations in the Nomination and Remuneration Advisory Committee. Senior management members, including the CEO, are subject to annual performance evaluations by the Nomination and Remuneration Advisory Committee. Reappointment decisions are made based on these evaluations.  
Candidates for directors who will not serve as members of the Auditors Committee are nominated based on comprehensive assessments of their familiarity with Company management and businesses and the knowledge, experience, track record, character, discernment, and so forth needed to contribute to Company growth. The Nomination and Remuneration Advisory Committee deliberates on and selects proposed candidates; this is followed by decisions by the board of directors after deliberations in the Auditors Committee.  
Candidates for directors who will serve as members of the Auditors Committee are nominated based on comprehensive assessments of matters such as specialized knowledge and experience in management, law, accounting, finance, or other areas and recognition of outstanding character and discernment.
5. Explanations with respect to individual appointments/dismissals of senior management and nominations of directors based on 4 above  
Explanations of individual appointments of senior management and nominations of candidate directors are provided in the announcements of regular general meetings of shareholders. These provide brief career histories of the candidates and the reasons for their selection as candidate directors. The appointment and nomination of independent external directors is based on comprehensive assessments of each candidate's knowledge, experience, and other factors, in accordance with the

Company's own criteria for evaluating independence, in addition to the independence requirements established by the Tokyo Stock Exchange.

Supplementary Principle 3-1-3 (Sustainability Initiatives, Disclosure under the TCFD Framework)

(1) Sustainability initiatives

Under our IDEAL to REAL (Bringing ideals into reality to create a new future) corporate message articulated as part of this Purpose, we seek to realize a sustainable society and sustained growth by responding to social issues. We promote ESG management as a life developer committed to creating ideal lifestyles in response to the changing needs of the times. Based on our ESG management principles, the department in charge of ESG promotion, which is led by the director responsible for sustainability and whose personnel are drawn from each section, is divided into three teams: the E team (environment), the S team (social), and the G team (governance). The division sets annual targets to advance initiatives related to the environment, social issues, and governance.

See ESG Initiatives on our website (<https://www.es-conjapan.co.jp/corp/esg/>) for more information on our sustainability initiatives.

(2) Investing in human capital and intellectual property

① Human resource development policies and methods

We are making progress on investments in and returns to human capital based on our conviction that human resources represent an irreplaceable cornerstone of sustainable management.

In 2023, we established a new Basic HR Development Policy (HR requirements applicable to all employees).

1	Passing along our DNA (values)	Working with a sense of gratitude at all times, keenly aware of our drive to be a company that builds projects and does business to contribute to society while putting customers first
2	Lofty ambitions and a sense of mission	Sensing our mission to contribute to society through our work
3	Integrity, intelligence, and mental and physical strength	Working with integrity, intelligence, and mental and physical strength to carry out diverse work on a daily basis
4	Outstanding leadership	Involving others as we move forward with our work and business initiatives with passion, consideration, and an awareness of numerical figures at all times
5	Foresight, strategy	Learning constantly while responding with keen sensitivity to changes in the external environment
6	Networking and communication skills	Building human networks based on trust through internal and external communications
7	Experience with innovation	Striving and taking on challenges to realize innovative businesses in the spirit of pursuing new business models for the industry

Based on this basic development policy, in addition to onboarding for all new employees joining the organization, we provide level-specific training for specific posts and roles, e-learning, and on-the-job training (OJT) within each section.

Given the nature of our businesses, which require specialized knowledge of real estate, construction, and other fields, we provide subsidies and support for acquiring various qualifications, including registered real estate transaction specialist, first-class registered architect, and real estate securitization master. We are strong supporters of employee self-improvement efforts.

We offer external off-the-job training and 360-degree evaluations at the managerial level as part of efforts to develop future management human resources. In addition to giving employees the opportunity to recognize their own management capabilities, these evaluations create opportunities to enhance management capabilities and strengthen awareness from managerial perspectives through means including coaching. We strive to grasp, comprehensively and objectively, what employees are thinking, through an external employee attitude survey. This survey has shown, despite high scores for self-efficacy and employee benefits, failings in organizational culture and human resource development. As described above, we strive to improve these scores by establishing a basic human resource development policy and various training programs. We resumed hiring new graduates nine years ago. We currently hire about 25 new graduates each year. We plan to continue hiring about 30 new graduates per year as we work toward stable hiring and training for the next generation of employees.

We are striving energetically to build rewarding working environments. We have set the targets of reducing overtime work, achieving a figure of 50% of men taking advantage of childcare leave and similar programs, and increasing the percentage of women as new hires to at least 35% as part of our General Employer Action Plans under the Act on Advancement of Measures to Support Raising Next-Generation Children and the Act on the Promotion of Women's Active Engagement in Professional Life.

We also undertake surveys of employee engagement and well-being. We are implementing various initiatives to establish conditions in which employees can do rewarding work, full of vitality, with enriched work, health, and personal lives, including through promotion of health management by the newly established Health & Culture Fostering Team. These efforts have been recognized by the 2023 Certified Health & Productivity Management Outstanding Organizations program (Large Enterprise Category).

② Intellectual property management

Since, in light of the nature of our businesses, managing intellectual property focuses on trademarks and similar rights, we strive to ensure thorough management with support from outside experts.

(3) Disclosure under the TCFD framework

Based on the goal of achieving a carbon neutral society by 2050, we are seeking to create new value for the environment through next-generation urban development efforts. As part of plans based on the key management strategy of countering climate change, we have selected staff from management and each department to create a department in charge of ESG promotion. This department works to disclose information based on the TCFD framework recommendations. Our Group of companies announced its endorsement of the TCFD in June 2022.

Please visit our website for more information disclosures based on the TCFD recommendations (related to climate change risks/opportunities under the themes of Governance, Strategy, Risk Management, and Metrics and Targets).

[https://www.es-conjapan.co.jp/english/about\\_us/environment.php](https://www.es-conjapan.co.jp/english/about_us/environment.php)

Risks and opportunities of the 1.5°C and 3°C scenarios, financial implications looking toward 2030, and counterstrategies based on each scenario are detailed below.

1) Risks and opportunities under the 1.5°C and 3°C scenarios and financial implications looking toward 2030

Category	Risks/Opportunities relating to the Company	Financial Impact	Assessment of Financial Impact	
			3°C Scenario	1.5°C Scenario
Transition Risks	Policy and Regulations Procurement prices for steel, cement, and other highly carbon-intensive construction materials rise; costs increase due to taxing of CO2 emissions from property construction and owned properties.	<ul style="list-style-type: none"> <li>Increase in procurement costs for materials</li> <li>Increase in costs related to CO2 emissions</li> </ul>	Low	Moderate
	Costs increase for low-carbon measures such as investments in energy-saving equipment. Operational and renovation costs for owned properties also rise.	<ul style="list-style-type: none"> <li>Increase in costs for capital investment and renovations, etc.</li> </ul>	Low	High
	Market Properties that do not comply with ZEH or ZEB standards are no longer chosen by customers, resulting in higher vacancy rates, lower closing rates, rents, and sales prices.	<ul style="list-style-type: none"> <li>Decrease in sales due to lower rents and sales prices</li> </ul>	Low	Moderate
	Reputation Lack of decarbonization efforts at real estate held and real estate for sale increases finance costs. Failure to meet investor expectations with regard to decarbonization activities affects Company's share prices.	<ul style="list-style-type: none"> <li>Increase in financing costs</li> </ul>	Low	High
Physical Risks	Urgent On-site construction of properties under development is disrupted; construction schedules are delayed.	<ul style="list-style-type: none"> <li>Increase in construction costs</li> </ul>	High	
	Owned properties located in disaster-prone areas may see property damage, equipment failure, and other functional issues resulting from disasters. This could lead to the need for repair costs and reduced property reputation that may result in increased vacancy rates. In addition, the Company may be held liable for human casualties attributable to disasters at commercial facilities.	<ul style="list-style-type: none"> <li>Repair costs required</li> <li>Decrease in sales due to higher vacancy rates</li> <li>Compensation obligations</li> </ul>	High	
Opportunities	Products/Services Competitiveness of properties with low CO2 emissions grows. The reputation of buildings with environmental certification increases.	<ul style="list-style-type: none"> <li>Increase in sales due to improved competitiveness of properties</li> </ul>	Low	Moderate
	Market Compact cities contribute to reduced travel distances and expand opportunities for mixed-use urban area development, allowing energy to be produced locally for local consumption and a wide range of generations to coexist and enjoy a high quality of life.	<ul style="list-style-type: none"> <li>Increase in sales due to increased opportunities for mixed-use development</li> </ul>	Low	High
	Decarbonization efforts are recognized by financial institutions; the acquisition of environmentally-friendly loans reduces financing costs. The improved reputation of the Company for decarbonization efforts boosts share prices.	<ul style="list-style-type: none"> <li>Lower financing costs</li> </ul>	Low	High
	Resilience Sales opportunities for disaster-resistant properties expand in disaster-prone areas. The ability to serve as a local recovery center in the event of disasters helps gain the support of local residents and customers, leading to lower tenant vacancy rates.	<ul style="list-style-type: none"> <li>Increase in sales due to expanded property sales opportunities and lower tenant vacancy rates</li> </ul>	Moderate	

2) Strategies based on scenario analysis

Additionally, we plan to consider measures related to commercially significant risks and opportunities related to climate change based on the results of scenario analysis and financial impact assessments.

▶ Examples of response measures

- Increase percentage of electricity use from renewable energy sources.
- Promote installation of LED lighting and other energy-saving equipment/devices among commercial facilities.
- Further promote ZEH-M development.

- Promote improvement of environmental performance evaluation by acquiring DBJ Green Building certification and CASBEE for Real Estate Certification.

#### [4-1. Roles and Responsibilities of the Board of Directors (1)]

##### Supplementary Principle 4-1-1

The Company's Articles of Association specify that decisions on important business execution may be delegated, in whole or in part, to directors. Directors to whom such authority has been delegated based on decisions by the board of directors are tasked with making decisions on individual matters of business execution, thereby accelerating the decision-making process and enhancing the oversight functions of the board of directors.

The board of directors formulates management strategies and objectives and oversees the status of their execution.

In addition, the status of the execution of individual business matters is reported to the board of directors without delay. A system is maintained whereby the board of directors can monitor related progress.

Rules on internal authority and other provisions specify standard amounts of money for respective duties used to determine the matters submitted to the board of directors for deliberations and the scope of delegation to directors. Management proceeds in strict compliance with these rules.

##### Supplementary Principle 4-1-3

To train the next generation of corporate management, we are striving to develop Executive Officers as candidates for future successors to senior management. The Company has delegated Executive Officers and employee Executive Officers and specifies terms of office for Executive Officers. Through everyday business execution, the Representative Director and directors strive to communicate and to pass on to managerial candidates the management philosophy and corporate values based on the management philosophy. The Company provides support for self-improvement by providing opportunities for external training. Efforts seek to train future managerial candidates in on-the-job training by assigning missions on important topics related to Company growth and missions leading to the acquisition of the Company's human resource requirements (skills and abilities needed by the Company). The state of their understanding of, implementation of, and succession to the ES-CON JAPAN DNA and their mastery of the Company's human resource requirements for management are confirmed through annual evaluations by the Nomination and Remuneration Advisory Committee and the results of external evaluations. These, in turn, are applied in the selection of candidate directors and in on-the-job training in the next fiscal year.

#### [4-8. Effective Use of Independent External Directors]

Five of the Company's ten directors are independent external directors. We plan to continue to appoint independent external directors who possess qualities that will contribute to sustained growth in the Company's corporate value.

#### [4-9. Criteria for Evaluating Independence and Qualification for Independent External Directors]

As criteria for evaluating the independence of independent external directors, based on the requirements for the independence of external directors as specified by the Tokyo Stock Exchange and other domestic financial instruments exchanges, we evaluate the independence of individual directors by checking to ensure that they currently and in all of the past three fiscal years satisfy the following requirements:

- (1) Not an important trading partner (\*1) of the Company or person who executes business thereof (\*2)
- (2) Not an important lender (\*3) of the Company or a person who executes business thereof
- (3) Not a consultant, accounting specialist, or legal specialist receiving significant sums of money or other property from the Company other than executive compensation (However, if the recipient of such property is a corporation, association, or other organization, this shall refer to a person affiliated with such organization.)
- (4) Not a major shareholder (\*5) of the Company or a person who executes business thereof
- (5) Not a recipient of a large sum (\*4) of donations from the Company (However, if the recipient of such donations is a corporation, association, or other organization, this shall refer to a person affiliated with such organization.)
- (6) None of the following is true for the individual's spouse and relatives within the second degree of consanguinity:
  - ① Those under (1)-(5) above
  - ② Person who executes business or non-executive director or auditor of the Company or Company subsidiary
  - ③ A representative employee or other employee of the Company's accounting auditor

\*1 An "important trading partner" refers to a trading partner with whom annual trade exceeds 2% of its consolidated net sales in the most recent fiscal year if paid by the Company or 2% of the Company's consolidated net sales in the most recent fiscal year if paid to the Company.

\*2 A "person who executes business" refers to a person who executes business as stipulated in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act.

\*3 An "important lender" refers to a lender of more than 2% of the Company's consolidated total assets.

\*4 A "large sum" refers to a sum of more than 10 million yen per year for an individual or more than 2% of the organization's annual gross income in the most recent fiscal year for a person affiliated with a corporation, association, or other organization.

\*5 A "major shareholder" refers to a holder of at least 10% of voting rights, whether directly or indirectly.

#### [4-10. Use of Optional Approach]

##### Supplementary Principle 4-10-1

As described under Principle 3-1 [Full Disclosure], 3 and 4 above, the Company has established the Nomination and Remuneration Advisory Committee as an advisory body to the board of directors to strengthen the independence, objectivity, and accountability of board functions related to matters such as nomination and remuneration of directors. This Committee consists of three or more members, a majority of whom must be external directors. Its membership is appointed by resolution of the board of directors. Members of the Committee are listed below.

Takatoshi Ito (President and Representative Director, Chairperson of the Committee)

Atsushi Kawashima (independent external director)

Keiko Otsuki (independent external director)

Hiroaki Hattori (independent external director)

The Management Department assists in the duties of the Nomination and Remuneration Advisory Committee as its secretariat.

[4-11. Preconditions for Ensuring Effectiveness of Board of Directors and Auditors Committee]  
Supplementary Principle 4-11-1

The Company board of directors consists of directors who are not members of the Auditors Committee, selected based on factors such as past experience and track record, and directors who are members of the Auditors Committee, appointed based on qualifications and experience as specialists in law, accounting, or taxation as well as auditing experience. As shown in the officers' skills matrix below, this structure ensures a well-balanced and diverse board in terms of knowledge, experience, and ability. The Articles of Association call for the board of directors to include no more than 10 directors who are not members of the Auditors Committee and no more than five directors who are members of the Auditors Committee. The Company considers the current size of the board of directors to be appropriate.

Officer Skills Matrix (◎: outstanding skills; ○: high skills)

Name		Takatoshi Ito	Minoru Nakanishi	Kenji Fujita	Atsushi Kawashima *1	Keiko Otsuki *1	Hiroaki Hattori *1	Masayoshi Nishitake	Hiroto Mizobata *1	Tadashi Fukuda *1	Tomohiko Wakayama	Tomohiko Egashira *2	
Position		President and Representative Director	Senior Managing Director Head of Management Planning Division	Director Head of Management Division	External director (Independent officer)	External director (Independent officer)	External director (Independent officer)	External director Auditors Committee member	External director Auditors Committee member (Independent officer)	External director Auditors Committee member (Independent officer)	Director Auditors Committee member	Managing Executive Officer Head of Development Division	
Duties		General management	Management planning, affiliate company management, finance, accounting, HR strategy	HR, PR, IT systems, general affairs, legal affairs, matters specifically assigned by the President, ESG	Supervision and oversight of management and management execution, Nomination and Remuneration Advisory Committee	Supervision and oversight of management and management execution, Nomination and Remuneration Advisory Committee	Supervision and oversight of management and management execution, Nomination and Remuneration Advisory Committee	Audits, internal audits			Development operations in general		
Skills	Corporate management	Discernment of top management	◎		◎		◎						
		Discernment of executive management	◎	◎	◎	○		○				◎	
		Management auditing skills							◎	◎	◎	◎	
	Related to real estate business	Business skills	◎	○		◎		○					◎
		Industry knowledge	◎	○		◎		○					◎
	Finance, securities			○		○	◎	○	○			○	
	Financial accounting		○	○				○	◎			○	
	Accounting							○	◎			◎	
	Legal affairs	General legal affairs	○	○				○		◎			
		Risk management	○	○	○			○	○		○	○	
	ESG		○	○	◎			○					
	HR, labor		○	○	○			○	○				
	IT				○								
<Notes>													
*1 The Tokyo Stock Exchange has been notified that this director serves as an independent external officer.													
*2 Delegated Executive Officer													
Both Hiroaki Hattori and Tomohiko Wakayama were newly appointed directors on March 24, 2023.													

Supplementary Principle 4-11-2

The state of concurrent duties of directors is reported in the Securities Report and announcements of regular general meetings of shareholders.

Two of the Company's external directors who are members of the Auditors Committee are full-time directors. This structure enables effective utilization of external directors.

Supplementary Principle 4-11-3

Each year, to evaluate the efficacy of the board of directors, the Company undertakes a survey in which respondents grade, on a five-point scale, the following eight items: the composition of the board of directors; the management of the board of directors; risk management; efficacy improvements; evaluation and remuneration of senior management; stakeholder engagement; officer training; and the overall efficacy of the board of directors.

With respect to the efficacy of the board of directors, the results of this survey in 2022 showed that the board is regarded to be generally effective. Nevertheless, improvements are underway on the following points identified as issues based on survey results:

- Composition of the board of directors: Ensuring diversity (promoting women directors, promoting directors with management experience)

In response to this issue, we appointed as new external directors the following individuals: in March 2021, a woman (Keiko Otsuki) and a candidate with management experience (Atsushi Kawashima); in March 2023, a candidate with management experience (Hiroaki Hattori). Keiko Otsuki possesses strong insights into securities and finance. External directors Atsushi Kawashima and Hiroaki Hattori bring a wealth of experience with and knowledge of corporate management. We believe their appointments enhance the diversity of the board of directors.

In addition, the seven currently appointed Executive Officers (employees) include one woman.  
(See the Securities Report for career histories of directors.)(Japanese Only)

[4-14. Director and Auditor Training]

Supplementary Principle 4-14-2

While the Company strives to create training opportunities to enable directors to effectively fulfill their roles and responsibilities, including provision of information on various seminars and distribution of training materials, we intend to focus even more efforts on this area to enhance training methods still further and to increase training opportunities.

[5-1. Policy for Constructive Dialogue with Shareholders]

The Company promotes constructive dialogue with shareholders through proactive IR activities.

The practice of IR activities is overseen by the Representative Director and the director in charge of IR.

The Company employs an approach open to reasonable requests for interviews from shareholders.

The Company has established departments in charge of finance and accounting within the Management Planning Division and departments in charge of public relations, general affairs, and legal affairs within the Management Division, maintaining an organizational structure that ensures the organic coordination of functions to help promote dialogue and make it possible to



ascertain the composition of shareholders. Feedback is provided to the board of directors as appropriate regarding matters such as shareholder opinions ascertained through dialogue.

In addition, the Company appropriately manages insider information through rigorous control of material facts not yet announced publicly based on insider trading control rules.

## 2. Capital structure

Percentage of foreign shareholders	Less than 10%
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### [Major Shareholders]

Name	Number of shares owned	Ownership ratio (%)
Chubu Electric Power Co., Inc.	49,599,000	51.28
The Master Trust Bank of Japan, Ltd. (account in trust)	4,578,300	4.73
Tenma Seiryu Co., Ltd.	3,610,000	3.73
Custody Bank of Japan, Ltd. (account in trust)	2,468,900	2.55
Kouryu Oh	2,100,000	2.17
BNYM SA/NV FOR BNYM FOR BNYM GCM CLI ENT ACCTS M ILM FE	1,476,816	1.53
Takatoshi Ito	1,285,400	1.33
JP MORGAN CHASE BANK 385781	556,565	0.58
Keiko Akashi	531,000	0.55
Yutaka Tonami	433,000	0.45

Controlling shareholder (other than parent company)

—

Parent company

Chubu Electric Power Co., Inc. (listed on Tokyo Stock Exchange and Nagoya Stock Exchange) (Securities code) 9502

### Supplemental explanation

- (1) The above table of major shareholders presents ownership ratios based on shares owned as of September 30, 2023. .
- (2) Of the shares held by Custody Bank of Japan, Ltd. (account in trust), 1,394,200 shares consist of shares of Company stock owned by the share-based payment benefits trust for officers and shares of Company stock owned by the share-based payment benefits type employee-stock ownership plan (ESOP) trust adopted by the Company. These shares of Company stock are recorded on the consolidated and nonconsolidated financial statements as treasury stock.
- (3) In addition to the above, the Company owns 1,861,450 shares of treasury stock.
- (4) Ownership ratios of major shareholders exclude treasury stock (1,861,450 shares).

## 3. Corporate attributes

Listed exchange and market category	Prime Market, Tokyo Stock Exchange
Fiscal year ends	March
Category of industry	Real estate
(Consolidated) number of employees at the end of the most recent fiscal year	100 or more but less than 500
(Consolidated) net sales at the end of the most recent fiscal year	10 billion or more but less than 100 billion yen
Number of consolidated subsidiaries at the end of the most recent fiscal year	10 or more companies

## 4. Guidelines on policies for the protection of minority shareholders in cases such as transactions with controlling shareholders

- (1) Chubu Electric Power qualifies as a parent company holding 51.30% of voting rights in the Company. The Company has concluded an agreement on a capital and business tie-up with Chubu Electric Power, under which we consult with or report to Chubu Electric Power in advance concerning important Company policies, such as those concerning capital increases or decreases, mergers, dissolution, transfer of businesses to or from the Company, stock swaps, stock transfers, and corporate splits. The agreement also includes provisions on matters such as the priority selection of Chubu Electric Power for energy supply and utilities construction in connection with our development projects. However, it stipulates that Company business activities and management decisions must be based on the Company's independent management judgments. We believe the provisions of this agreement provide us with a degree of independence from the parent company.
- (2) Matters related to transactions with parent company
  - ① Matters borne in mind to avoid harming the interests of the Company in conducting said transactions  
As in cases in which we engage in transactions with other companies, our policy is to determine the transaction conditions with the parent company on a rational basis while examining contractual terms and market prices and to engage in said

transactions only after fully examining the pros and cons of the transactions, their conditions, and other factors to ensure that they are not unfairly detrimental to the interests of minority shareholders.

- ② Judgment of board of directors on whether or not said transactions will harm the Company interests and reasons therefor  
With respect to the transactions with the parent company under ① above, the board of directors of the Company, bearing in mind the need for said transactions, has determined that they will not harm the interests of the Company because fair and appropriate conditions have been determined in accordance with rational assessments.
- ③ The judgment of the board of directors accords with the opinions of external directors in all cases assessed.

## **5. Other specific conditions that could have significant impact on corporate governance**

[5-2. Establishing and Disclosing Management Strategies and Management Plans]

The Company has published "IDEAL to REAL 2023", its fourth medium-term management plan covering the three-year period of FY2021-2023. The fourth medium-term management plan is described in the Securities Report and on the Company website ([https://www.es-conjapan.co.jp/english/about\\_us/plan.php](https://www.es-conjapan.co.jp/english/about_us/plan.php)).

## II. Status of corporate governance structure of management control organizations related to managerial decision-making, execution, and oversight and other related matters

### 1. Matters related to institutional structure, organizational management, etc.

Organizational form	Company with an audit and supervisory committee
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#### [Directors]

Number of directors specified in the Articles of Association	15
Term of office of director specified in the Articles of Association	1 year
Chairperson of the board of directors	President
Number of directors	10
External directors appointed?	Y
Number of external directors	6
Number of external directors designated as independent officers	5

#### Relationship to the Company (1)

Name	Attribute	Relationship to the Company*												
		a	b	c	d	e	f	g	h	i	j	k		
Masayoshi Nishitake	From another company													
Hiroto Mizobata	Certified public accountant													
Tadashi Fukuda	Attorney at law													
Atsushi Kawashima	From another company													
Keiko Otsuki	From another company													
Hiroaki Hattori	From another company													

#### \* Categories of relationships to the Company

\* ○: the individual currently has or recently had such a relationship; △: the individual had such a relationship in the past.

\* ●: a close relative of the individual currently has or recently had such a relationship; ▲: a close relative of the individual had such a relationship in the past.

- Person who executes business of a listed company or subsidiary thereof
- Person who executes business of a parent company of a listed company or non-executive director thereof
- Person who executes business of a sister company of a listed company
- Person for whom a listed company is an important trading partner or person who executes business thereof
- Important trading partner of a listed company or person who executes business thereof
- Consultant, accounting specialist, or legal specialist receiving a large sum of money or other property from a listed company, other than executive compensation
- Major shareholder of a listed company (or person who executes business of the shareholder if said major shareholder is a corporate person)
- Person who executes business of a trading partner (not falling under d, e, or f) of a listed company (the individual concerned only)
- Person who executes business of a company that shares external directors with the Company (the individual concerned only)
- Person who executes business of a recipient of donations from a listed company (the individual concerned only)
- Other

#### Relations to the Company (2)

Name	Auditors Committee member	Independent officer	Supplemental explanation related to applicable item	Reasons for appointment
Masayoshi Nishitake	○		—	Mr. Nishitake has been appointed as an external director. He is judged fit for the post in light of his remarkable discernment, his abundant experience, and his strong track record at financial institutions.
Hiroto Mizobata	○	○	Mr. Mizobata satisfies the Company's criteria for evaluating the independence of its independent external directors.	Mr. Mizobata possesses a wealth of experience and a wide range of knowledge as certified public accountant, certified tax accountant, and manager. He has been appointed external director to take advantage of his experience and knowledge in Company management. He has been named an independent officer because he satisfies the requirements for independence and neutrality and because his appointment poses

				no risk of conflicts of interest between him and ordinary shareholders.
Tadashi Fukuda	○	○	Mr. Fukuda satisfies the Company's criteria for evaluating the independence of its independent external directors.	Mr. Fukuda possesses a wealth of corporate legal experience and a wide range of knowledge as attorney at law. He has been appointed external director to take advantage of his experience and knowledge in Company management. He has been named an independent officer because he satisfies the requirements for independence and neutrality and because his appointment poses no risk of conflicts of interest between him and ordinary shareholders.
Atsushi Kawashima		○	Mr. Kawashima satisfies the Company's criteria for evaluating the independence of its independent external directors.	Mr. Kawashima possesses a wealth of experience and a strong track record of achievements over many years as a leading manager at Kenedix, Inc. He has been appointed external director to allow the Company to draw fully on his experience and knowledge. He has been named an independent officer because he satisfies the requirements for independence and neutrality and because his appointment poses no risk of conflicts of interest between him and ordinary shareholders.
Keiko Otsuki		○	Ms. Otsuki satisfies the Company's criteria for evaluating the independence of its independent external directors.	Ms. Otsuki possesses a wealth of experience and a strong track record of achievements, including work as a securities analyst overseas. She has been appointed an external director to apply her deep insights, gained through this experience and knowledge, to Company management. She has been named an independent officer because she satisfies the requirements for independence and neutrality and her appointment poses no risk of conflict of interest between her and ordinary shareholders.
Hiroaki Hattori		○	Mr. Hattori satisfies the Company's criteria for evaluating the independence of its independent external directors.	Mr. Hattori possesses a wealth of experience and a strong track record of achievements over many years as a leading manager at Minato Bank, Ltd. He has been appointed external director to allow the Company to draw on the resulting high level of knowledge that he possesses. He has been named an independent officer because he satisfies the requirements for independence and neutrality and because his appointment poses no risk of conflicts of interest between him and ordinary shareholders.

### [Auditors Committee]

#### Auditors Committee membership and attributes of chairperson

	Total membership (persons)	Full-time member(s) (person[s])	Internal director(s) (person[s])	External director(s) (person[s])	Chairperson
Auditors Committee	4	2	1	3	External director
Director(s) and employees assigned to assist in the duties of the Auditors Committee?	Y				

#### Matters related to independence of such director(s) and employees from executive directors

While these director(s) and employees are assigned to assist in the duties of the Auditors Committee in the form of concurrent assignment of personnel in charge of internal auditing, since the department in charge of internal auditing is an organization under the Auditors Committee, decisions by and the consent of the Auditors Committee are required for the transfer and personnel evaluations of such employees. As such, their independence is secured through a structure whereby the command and control authority of executive directors does not extend to duties related to the Auditors Committee.

## State of cooperation among the Auditors Committee, accounting auditor, and internal auditing department

<Cooperation between the Auditors Committee and the accounting auditor>

In principle, the Auditors Committee quarterly receives an explanation of matters such as the state of accounting auditing and internal control auditing from the accounting auditor and exchanges information with the accounting auditor.

<Cooperation between the Auditors Committee and the internal auditing department>

In principle, the internal auditing department attends each meeting of the Auditors Committee, reporting on the formulation of internal auditing plans, the state of their implementation, and their results.

### [Optional Committee]

Optional committee corresponding to a nomination committee or a remuneration committee established?

Y

## State of establishment of optional committee, its membership, and attributes of its chairperson

	Name of committee	Total membership (persons)	Full-time member(s) (person[s])	Internal director(s) (person[s])	External director(s) (person[s])	Outside expert(s) (person[s])	Other (person[s])	Chairperson
Optional committee corresponding to a nomination committee	Nomination and Remuneration Advisory Committee	4	0	1	3	0	0	Internal director
Optional committee corresponding to a remuneration committee	Nomination and Remuneration Advisory Committee	4	0	1	3	0	0	Internal director

## Supplemental explanation

Remuneration and nomination procedures

The Company has established the Nomination and Remuneration Advisory Committee as an advisory body to the board of directors for the purpose of strengthening the independence, objectivity, and accountability of board functions with regard to matters such as the nomination and remuneration of directors. This Committee consists of three or more members, a majority of whom must be external directors. Its membership is appointed by resolution of the board of directors.

In the nomination process, the Nomination and Remuneration Advisory Committee makes decisions on draft resolutions for regular general meetings of shareholders regarding the appointment and dismissal of directors who are not members of the Auditors Committee and directors who are members of the Auditors Committee; proposals for the appointment and dismissal of the Representative Director, managing directors, and Executive Officers; the proposed assignment of duties of executive directors; and proposed related basic policies. It also deliberates on matters such as those related to succession plans. Members of senior management, including the CEO, are subject to annual performance evaluations regarding matters such as the status of achievement of business performance objectives and deliberations on reappointment by the Nomination and Remuneration Advisory Committee.

With regard to remuneration, the Nomination and Remuneration Advisory Committee makes decisions on proposed remuneration amounts for individual directors who are not members of the Auditors Committee and deliberates on policies governing remuneration decisions, including the establishment of and revisions to officers' remuneration systems, remuneration levels, and evaluation systems, and makes decisions on related proposals.

The current membership of the Committee is as described under 4-10 [Use of Optional Approach], Supplementary Principle 4-10-1.

### [Independent External Directors]

Number of independent external directors

5

## Other matters related to independent external directors

[Criteria for evaluating the independence of its independent external directors]

Section / 1. Basic thinking: [Disclosure Based on the Principles of the Corporate Governance Code]: [4-9. Criteria for Evaluating Independence and Qualification for Independent External Directors] of this Report describes the criteria established by the Company for evaluating the independence of external directors.

### [Incentives]

Status of implementation of measures related to providing incentives to directors

Adoption of performance-based reward system and stock option system

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**Supplemental explanation related to this item**

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In December 2017, we issued stock options to Company directors and employees and to employees of subsidiaries. The purpose in doing so was to strengthen morale and motivation of Company directors and employees to improve Company business performance into the future, to further improve profitability and corporate value over the long term, and to enhance solidarity within the Company.

In addition, under a resolution of the regular general meeting of shareholders held March 20, 2015, as part of revisions of the remuneration system for directors, we abolished the existing retirement benefits system for directors and adopted a performance-based stock award system for directors (excluding directors who are members of the Auditors Committee, external directors, and non-executive directors) for the purpose of strengthening the awareness of directors of the responsibility to contribute to medium- to long-term business performance and corporate value. Performance-based rewards are determined based on degree of contribution to accounting results and business performance in the fiscal year, with consideration for degree of responsibility according to job title.

On January 30, 2020, we established an optional Nomination and Remuneration Advisory Committee as an advisory body to the board of directors to strengthen independence, objectivity, and accountability in decisions concerning director remuneration. The remuneration system for officers consists of a base remuneration component in the form of fixed monthly remuneration; an annual incentive remuneration component based on yearly business performance; and a medium-term incentive remuneration component based on business performance during the period of the medium-term management plan. This system is intended to contribute to continuing progress toward performance targets and increases in corporate value.

Recipients of stock options

Internal directors, external directors, Company employees, and employees of subsidiaries

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**Supplemental explanation related to this item**

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Sixth stock options

Date of resolution on issue: December 1, 2017

Number of stock options: 6,701 (as of September 30, 2023)

Class of shares subject to stock options: common stock

Pay-in amount on stock options: 1 yen per stock option

Pay-in amount on exercise of stock options: 627 yen per share

Period for exercise of stock options: April 1, 2021 through December 26, 2025

Holdings as of September 30, 2023

Internal directors: Zero (0) stock options held by zero (0) persons

External directors (including former external directors):

Zero (0) stock options held by zero (0) persons

Company employees: 6,636 stock options held by 68 persons

Employees of Company subsidiaries: 65 stock options held by three persons

**[Director Remuneration]**

State of disclosure (of individual director remuneration)

Individually disclosed for only some directors

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**Supplemental explanation related to this item**

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Directors whose total remuneration exceeds 100 million yen

Takatoshi Ito

Shown below is director remuneration in the 28th term (January 1 – December 31, 2022).

Directors (excluding external directors)	205 million yen	3 persons
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External directors	37 million yen	5 persons
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In addition to the above amounts paid, performance-based stock awards for officers have been paid to four directors and (delegated) Executive Officers (excluding directors who are members of the Auditors Committee, external directors, and non-executive directors). The 21st regular general meeting of shareholders held on March 25, 2016, the 25th general meeting of shareholders held on March 25, 2020, and the 26th regular general meeting of shareholders held on March 26, 2021 resolved to establish this performance-based stock award system for officers as a framework apart from the system of remuneration described above.

Policies established for decision-making on remuneration amounts or their calculation method?

Y

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**Disclosure of policies for decision-making on remuneration amounts or their calculation method**

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<<Policies and procedures for board of directors decision-making on remuneration for senior management and directors>>

The Company applies the following policies and procedures to determine amounts of remuneration for directors who are or are not members of the Auditors Committee:

<<Basic policies for decision-making on remuneration for directors who are not members of the Auditors Committee>>

1. Basic policies for decision-making on officers' remuneration

(1) Basic policies for decision-making on remuneration

The basic policies call for appropriate remuneration for directors who are not members of the Auditors Committee to be determined by confirmation of business results and comparisons to other firms within the same industry by the Nomination and Remuneration Advisory Committee. This structure is also intended to increase the rate of annual and medium-term incentive remuneration and maintain and increase management motivation in light of the inherent volatility of the Company's businesses. In addition, a stock allocation system has been established as a system of nonmonetary remuneration for medium-term incentive remuneration. Remuneration decisions under this system are based on the perspective of considering total shareholder return (TSR) as an indicator that reflects shareholder perspectives and sets as clear objectives returns to shareholders and increased corporate value.

(2) Content and structure of remuneration and constituent ratios, timing, etc.

Three types of remuneration are available for directors who are not member of the Auditors Committee (excluding external directors): fixed monthly base remuneration; annual incentive remuneration based on annual performance; and medium-term incentive remuneration based on performance during the period of the medium-term management plan. The ratios of these constituent elements are determined based on each director's post and responsibilities.

Remuneration for external directors consists only of base remuneration in fixed monthly amounts.

The fixed monthly base remuneration is paid each month; annual incentive remuneration is paid after the end of each business year; and medium-term incentive remuneration is paid by awarding points after the end of the business year. The number of points awarded is finalized in the final business year of the medium-term management plan using TSR (total shareholder return) as the basis for calculations. Shares are paid in accordance with the total number of points when the director retires.

Provided below is an overview of a case of payment of target amounts of incentive remuneration.

Remuneration item	Representative director	Vice president and director	Senior managing director	Managing director	Director	Purposes and overview of payment
Base remuneration	55%	54%	52%	55%	55%	Remuneration reflecting differences in roles in management oversight and business execution and differences in scope of responsibilities for each post. Amounts are determined based on officer category and post.
Annual incentive remuneration	30%	29%	29%	30%	27%	Annual incentive remuneration is paid in amounts corresponding to each period's performance, using consolidated net income and consolidated operating income as indicators, to incentivize business execution to achieve the goals set in business plans; determined based on evaluations of progress with business measures over the course of the fiscal year and progress toward goals set in business plans.
Medium-term incentive remuneration	15%	17%	19%	15%	18%	Medium-term incentive remuneration is paid in the form of Company shares based on evaluations of progress toward goals set in the medium-term management plan and fluctuations in corporate value, using consolidated operating income and total returns to shareholders as stipulated in the medium-term management plan as indicators. This remuneration seeks to incentivize business execution with sustained growth in mind. Rights to receive Company shares obtained in accordance with performance in each year of the medium-term management plan are evaluated, from an external perspective, for each period of the medium-term management plan. Rights are finalized based on the results thereof.

2. Method for calculating annual incentive remuneration

Annual incentive remuneration is funded from a fixed percentage of profits. Funds are allocated based on the specific post and progress toward goals set in business plans.

Remuneration funds = consolidated net income × coefficient A × coefficient B based on achievement of consolidated operating income targets

Remuneration amount = remuneration funds × (individual points ÷ total points)

Coefficient A: The coefficient is set to realize the target remuneration amount upon achievement of goals set in business plans for the initial fiscal year of the medium-term management plan. This value is revised for each period of the medium-term management plan.

Coefficient B: Set to zero if less than 80% of the consolidated operating income target is achieved. The maximum is a multiple of 1.5 (i.e., +50%).

Individual points: Post-specific points + performance points (achievement of consolidated operating income target and President's commitment evaluation)

3. Method for calculating medium-term incentive remuneration

The base number of shares for each post is determined in the initial fiscal year of the medium-term management plan. These shares are tentatively awarded after conversion to points, based on the extent of progress toward each year's consolidated operating income target. The number of shares awarded is based on the rate of divergence between the Company's TSR and that of TOPIX real estate shares on the Tokyo Stock Exchange Prime Market.

Shares awarded = tentatively awarded points for the medium-term management plan period coefficient based on TSR divergence rate

Tentatively awarded points = base points for each post × coefficient based on achievement of consolidated operating income target

[Coefficient based on performance]

Consolidated operating income target achievement rate	Coefficient
Less than 100%	0
100% or more but less than 110%	1.0
110% or more but less than 120%	1.2
120% or more	1.5

[Coefficient based on rate of divergence between TSR and that of TOPIX real estate shares on the TSE Prime Market]

Coefficient Rate of divergence from TOPIX real estate shares on the TSE Prime Market	Final coefficient for determining number of shares awarded
Less than 0.6	0.5
0.6 or more but less than 0.8	0.7
0.8 or more but less than 0.9	0.9
0.9 or more	1.0

4. Resolutions of the regular general meeting of shareholders concerning officers' remuneration

The 21st regular general meeting of shareholders held March 25, 2016 passed a resolution capping remuneration for directors who are not members of the Auditors Committee to no more than 400 million yen annually (excluding the employee salary portion for directors concurrently serving in employee positions). On November 29, 2023, when the Securities Report was submitted, this resolution applied to six officers.

The extraordinary general meeting of shareholders held November 29, 2023 passed a resolution capping remuneration for directors who are members of the Auditors Committee at no more than 100 million yen annually. As of November 29, 2023, this resolution applied to four officers.

5. Decisions on amounts of individual remuneration for directors who are not members of the Auditors Committee

(1) Decision-making policy

We strive to ensure transparency with regard to officer remuneration through Nomination and Remuneration Advisory Committee deliberations. The Committee consists of one internal director and three external directors (three of whom are independent external directors). As an advisory body to the board of directors, the Nomination and Remuneration Advisory Committee decides on proposed individual remuneration amounts for directors who are not members of the Auditors Committee; deliberates on policies for decision-making on remuneration-related matters, such as the establishment of and revisions to officers' remuneration systems, remuneration levels, and evaluation systems; and decides on related proposals.

(2) Remuneration decision-making process

The secretariat of the Nomination and Remuneration Advisory Committee prepares materials related to revisions to remuneration. The Representative Director prepares a rough draft of individual remuneration reflecting evaluations of each director's commitment. Based on the decision-making policies, the Nomination and Remuneration Advisory Committee evaluates business results and key performance indicators (KPIs) as well as procedures and evaluation results, then makes decisions on the proposed individual remuneration amounts. The final decision is made by the board of directors.

(3) Results of activities of the Nomination and Remuneration Advisory Committee (January 2022 – October 2023)

The Committee met ten times from January 2022 through October 2023 and deliberated on the following matters:

Meeting Date	Matters Considered
January 27, 2022	Appointment of directors
	FY2022 officers' remuneration
	Amounts of annual incentive remuneration for officers
	Annual schedule of the Committee for FY2022
April 27, 2022	Plan for this fiscal year under the succession plan
July 26, 2022	Progress of the succession plan
	Officer report on results for First Half of 28th Term
September 27, 2022	Progress of the succession plan
December 26, 2022	Confirmation of annual performance of executive directors and Executive Officers
	Payment of annual incentives to executive directors and Executive Officers
	Formulation of and decisions on proposals for the nomination and appointment of directors who are not members of the Auditors Committee and responsible Executive Officers
	Formulation of and decisions on proposals for the appointment of directors who are members of the Auditors Committee
January 27, 2023	Formulation of and decisions on proposals for the nomination of Executive Officers
	Appointment of directors as alternate members of the Auditors Committee
	Proposals for the individual base remuneration of directors who are not members of the Auditors Committee and Executive Officers in FY2023
	Proposals for the individual base remuneration of directors who are members of the Auditors Committee and Executive Officers in FY2023
	Management of the annual incentive program in FY2023
April 27, 2023	Annual schedule of the Nomination and Remuneration Advisory Committee for FY2023
	Plan for this fiscal year under the succession plan
July 25, 2023	Annual schedule of the Nomination and Remuneration Advisory Committee for FY2023
	Progress of the succession plan
August 29, 2023	Executive Officer report on results for the First Half of the 29th Term.
	Deliberation of proposals for the appointment of directors who are not members of the Auditors Committee
	Deliberation of proposals for the appointment of directors who are members of the Auditors Committee
	Deliberation of proposals for the appointment of the Representative Director and responsible directors
	Revision of remuneration for directors who are members of the Auditors Committee
September 29, 2023	Partial change to stock remuneration scheme
	Progress of the succession plan



- (4) Stock options and performance-based stock award system  
Under a resolution passed by the board of directors at its meeting held December 1, 2017, stock options are issued to directors at fair prices to those eligible to receive them. These stock options are issued and allocated to eligible directors within the scope of conditions that would not be unduly advantageous.  
The board of directors determines the numbers of shares to be allocated through comprehensive consideration of matters such as the post of each director and his or her performance and contributions. (This decision is entrusted by the board to the President and Representative Director.)

<<Remuneration for directors who are members of the Auditors Committee>>

- (1) This consists of fixed based remuneration in amounts determined within the range of the total amount approved by the resolution of the general meeting of shareholders held November 29, 2023.
- (2) The policy on base remuneration calls for base remuneration to be determined in light of the results of audits of legality and propriety in business execution contributing to sustained increases in corporate value and in light of job responsibilities.
- (3) Draft policies governing remuneration and related issues for individual directors who are members of the Auditors Committee are determined by the Nomination and Remuneration Advisory Committee. Decisions on base remuneration are made through consultation among directors who are members of the Auditors Committee.
- (4) In its December 1, 2017 meeting, the board of directors resolved to award stock options to directors who are members of the Auditors Committee at a premium. These premium stock options are issued to recipients at fair value in a manner that accords no undue advantages to the eligible directors who are members of the Auditors Committee.  
Decisions on numbers of stock options to be allocated are made through consultation among directors who are members of the Auditors Committee, based on comprehensive consideration of matters such as individual posts and individual contributions.

### [Support Structure for External Directors]

To make it possible to share management-related information with executive directors and to enable dynamic management, full-time external directors attend important meetings held periodically with executive directors and core personnel of business, financial, and management departments.

Other activities include exchange of perspectives between external directors and the Representative Director and interviews with executive directors and core personnel of business departments. This structure enables information sharing on matters such as the state of business execution and issues within each section.

Documents related to board of directors meetings are distributed by the secretariat in advance to ensure sufficient time for thorough deliberations on and study of proposals and reports.

[Presidents and Representative Directors and other officers who have left office]

Names of former Presidents and Representative Directors and other officers serving as consultants, advisors, etc.

Not applicable

## 2. Matters related to functions such as business execution, auditing and oversight, nomination, and decision-making on remuneration (overview of current corporate governance structure)

<Overview of the Company's corporate governance structure>

The Company is a company with an audit and supervisory committee. Business execution is managed and supervised by the board of directors and the Auditors Committee.

- (1) Board of directors (ten directors, six of whom are external directors; includes five independent external directors; the chair assumed by the President and Representative Director)
- The board of directors in principle meets at least once a month to enhance management oversight functions through thorough deliberation and review of important matters.
  - To secure speed and dynamism in business execution, the Articles of Association require the delegation of decision-making on important matters of business execution to executive directors. The scope of such delegation is strictly managed in accordance with monetary and other standards established by the board of directors. The state of the execution of important delegated business matters is reported to the board of directors without delay.
- (2) Auditors Committee (three external directors; includes two independent external directors and two full-time members)
- The Auditors Committee in principle meets once a month. If required by Auditors Committee members, the accounting auditor and internal auditing staff, as well as members of senior management, including executive directors, attend these meetings to provide timely and appropriate reports.
  - Auditors Committee members engage in the periodic exchange of perspectives with the President and Representative Director and, if necessary, interviews with members of senior management, including executive directors, striving to ascertain the state of business execution and related issues in individual business departments.
  - The full-time Auditors Committee member attends important Company meetings, such as periodic meetings of the management committee, of which main members are executive directors, as well as head office meetings attended by executive directors and core personnel of individual business departments, to share information on the state of management and progress with business plans.
- (3) Internal auditing system  
The internal auditing office is a subsidiary organization of the Auditors Committee. In meetings of the Auditors Committee (held monthly in principle), the internal auditing office reports on the status of internal audits and audit results and exchanges information with Auditors Committee members. The office strives to ensure effective audits.
- (4) Nomination and Remuneration Advisory Committee  
As an advisory body to the board of directors, the Nomination and Remuneration Advisory Committee deliberates and makes decisions on matters such as director nomination and remuneration.  
A majority of its membership consists of external directors to enhance the independence and transparency of nomination and remuneration.

## 3. Reasons for selection of the current corporate governance structure

- (1) The supervision and effectiveness of the board of directors are strengthened by having directors who are members of the Auditors Committee possess voting rights at board of directors meetings.

- (2) Delegation of important business to executive directors ensures promptness, mobility, and flexibility in execution, preventing loss of business opportunities.
- (3) Directors who are members of the Auditors Committee are involved in decision-making regarding nomination and remuneration of other directors based on their right to state their opinions on the process, enhancing its transparency.
- (4) The Nomination and Remuneration Advisory Committee, an advisory body to the board of directors, deliberates and makes proposed decisions on matters related to the nomination and remuneration of directors who are not members of the Auditors Committee (decisions on individual proposed remuneration amounts, proposed remuneration policies, and proposed nominations and reappointments). A majority of its membership consists of external directors. This is intended to strengthen further independence and objectivity in matters such as director nomination and remuneration.
- (5) Close mutual cooperation is maintained among the Auditors Committee, the internal auditing department, and the accounting auditor to ensure the efficacy of audits.

For the above reasons, we believe that the Company's current system for contributing to sustained growth in corporate value is an optimal one.

### III.State of implementation of measures involving shareholders and other stakeholders

#### 1. State of initiatives to invigorate discussion at regular general meetings of shareholders and facilitate the exercise of voting rights

	Supplemental explanation
Exercise of voting rights through electromagnetic means	To make it easier for shareholders to exercise their voting rights, we have adopted an infrastructure to allow electronic voting via the Internet and the Electronic Voting Platform.
Use of the Electronic Voting Platform and other initiatives to improve the environment for exercise of voting rights by institutional investors	Same as above
Provision of English translations of announcements of regular general meetings of shareholders (summaries)	We prepare English translations of announcements of regular general meetings of shareholders (from which business reports are omitted) and post them to our website ( <a href="https://www.es-conjapan.co.jp/english/">https://www.es-conjapan.co.jp/english/</a> ).
Other	<ul style="list-style-type: none"> <li>• The regular general meeting of shareholders was held March 24, 2023. An extraordinary general meeting of shareholders was held November 29, 2023.</li> <li>• Announcements convening the 2023 regular general meeting of shareholders and extraordinary general meeting of shareholders were posted to the Company website on March 2, 2023 and November ●, 2023, respectively.</li> <li>• During the general meeting of shareholders, the chair presents a business report and explains the resolutions, in addition to engaging in a question-and-answer session with shareholders.</li> </ul>

#### 2. State of IR-related activities

	Supplemental explanation	Explanation provided by representative?
Preparation and publication of disclosure policy	It is posted on our website and included in the Securities Report.	
Holding periodic briefings for individual investors	Not held at present	N
Holding periodic briefings for analysts and institutional investors	<p>These meetings were held twice in FY2023: in mid-February after the announcement of financial results and in mid-August after the closing of the second quarter. Each briefing is approximately one hour and includes presentations of business specifics and an overview of financial results, business strategies, and other matters by a representative, followed by a Q&amp;A session for participants.</p> <p>Some 30 people participate in these events, including analysts and fund managers from Japan and overseas.</p>	Y
Holding periodic briefings for foreign investors	Each quarter, as requested, we engage in individual IR activities through face-to-face or web conferencing.	Y
Posting of IR materials to the website	<p>Information on financial results and other materials subject to timely disclosure, Securities Reports, company briefing materials, information on the state of corporate governance, announcements of regular general meetings of shareholders, the medium-term management plan, and other financial materials, materials describing projects, and videos and slides from semiannual briefings on financial results are posted to the Company website (<a href="https://www.es-conjapan.co.jp/">https://www.es-conjapan.co.jp/</a>)(Partially in Japanese only). In addition, IR staff accept questions concerning IR directly via the Internet (<a href="https://www.es-conjapan.co.jp/inquiry/ir/">https://www.es-conjapan.co.jp/inquiry/ir/</a>).</p> <p>To enhance disclosure and provision of information to overseas investors and other parties, we post to our English website translations of financial highlights (summaries), major press releases, and business information. (<a href="https://www.es-conjapan.co.jp/english/">https://www.es-conjapan.co.jp/english/</a>)</p>	
Establishing an IR section (person in charge)	The Management Department in the Management Division serves as the section in charge of IR. The CIO serves as the director in charge of IR. The head of the Management Department serves as the IR administration contact point.	
Other	The Company website includes an IR site for overseas investors. Here we publish English versions of summaries of accounts, announcements of regular general meetings of shareholders, and materials from briefings on financial results.	

### 3. State of efforts concerning respect for stakeholder position

	Supplemental explanation
<p>Provisions on respect for the position of stakeholders in internal rules, etc.</p>	<p>As stated in the Purpose, Vision, and Principles of Action set forth under our management philosophy system, our goal is to exercise management that leads to lasting and essential contributions to society. We seek to create new futures rooted in the community as a presence regarded as unique and essential by our shareholders. Based on this approach and through the following activities, we will strengthen value for each stakeholder:</p> <ol style="list-style-type: none"> <li>(1) Based on our Principles of Action and Conduct Charter, we pursue our business activities based on a keen awareness of all our stakeholders.</li> <li>(2) Based on the Employee Rulebook and Basic Policy on Human Capital Development (Basic Requirements for Human Capital), we train personnel to enable sustainable improvement of corporate value train personnel to impart the skills required to ensure sustainable improvements in corporate value.</li> <li>(3) Based on the Compliance Code of Conduct, we respond to all stakeholders fairly, impartially, and honestly.</li> <li>(4) We disclose management information including non-financial information in a timely manner, improve corporate value, and make proactive returns to shareholders.</li> </ol>
<p>Implementation of environmental protection activities, CSR activities, and related efforts</p>	<p>The Company identifies efforts to address social challenges by promoting ESG as a key management strategy. By promoting Companywide initiatives, directed largely by the department in charge of ESG promotion and the Health Management Team, which was established to strengthen promotion of health management, the Company focuses on increasing essential corporate value that cannot be measured by financial information alone.</p> <ol style="list-style-type: none"> <li>(1) GRESB Real Estate Developer Assessment            Since 2018, we have participated in Global ESG, an annual benchmark assessment that considers ESG considerations in the real estate sector, with the goal of continuously improving assessment results. In October 2023, we achieved a “2 Stars” GRESB Rating, a five-grade relative evaluation system, for efforts related to the environment consideration and sustainability in the developer benchmark. In addition, we acquired a “Green Star” (*) rating for the fifth consecutive year.            * The “Green Star” rating in the developer benchmark is awarded to participants scoring 50% or better in absolute evaluations for each of the two axes of the Management Component and Development Component.</li> <li>(2) DBJ Green Building certification            tonarie Yamato-Takada, tonarie Toga-Mikita, tonarie Minamisenri, tonarie Seiwadai and Asumigaoka Brand-New Mall, all community-based commercial facilities owned by ESCON JAPAN REIT Investment Corporation in whose development we were involved, achieved DBJ Green Building certification. This certification system was created by Development Bank of Japan Inc. to promote environmentally and socially conscious real estate (Green Building).</li> <li>(3) Rank S Certification for CASBEE for Real Estate            tonarie Fujimino, a commercial facility owned by the Company, obtained Rank S, the highest certification for CASBEE for Real Estate, from a CASBEE accreditation body authorized by the Institute for Building Environment and Energy Conservation.</li> <li>(4) EcoAction21 certification            Since May 2020, we have achieved Eco Action 21 certification for the fourth consecutive years from a Japanese environmental management system (EMS) certification program established by the Ministry of the Environment of Japan.</li> <li>(5) Continuous and proactive development of Eco-Friendly ZEH-compatible Housing            In August 2022, we obtained ZEH-M Oriented certification for Le JADE Honkawagoe Koedo Terrace. Featuring outstanding heat insulation performance, the property helps reduce annual primary energy consumption. This is our third ZEH condominium after Le JADE Okurayama, which won the Good Design Award for fiscal year 2021, and Le JADE Yao Sakuragaoka, for which sales contracts for all units were promptly concluded in June 2022. We will continue to actively develop ZEH condominiums, which have been well received by customers and reflect consideration for the environment, by putting to maximum use our development expertise as a comprehensive developer.            Additionally, ES-CON Home Ltd. and ES-CON Craft Ltd., which are consolidated Company subsidiaries, were registered for ZEH Builder Certification in November 2020.</li> </ol>

- (6) Techno Farm Fukuroi builds and operates a plant factory fully using artificial light  
 In cooperation with Chubu Electric Power and Spread Co., Ltd., we are proceeding with development of Techno Farm Fukuroi, a plant factory making full use of artificial light as one of the largest such facilities in the world, with a production capacity of 10 tons of lettuce per day. We and a further two companies involved in this project aim to contribute toward a society conducive to sustainable living and achieve the Sustainable Development Goals (SDGs) through promoting decarbonization initiatives such as proactive use of clean energy and effective utilization of CO2 in the cultivation process, while also realizing solutions to challenges in the areas of food and agriculture, through the plant factory business.
- (7) Efforts to promote use of lumber in a project at the former site of the Nagoya Racecourse  
 In this project, led by Chubu Electric Power, the business operator group of which we are a participating member, we concluded an agreement with Aichi Prefecture to promote the use of lumber building materials. We will strive to promote decarbonization through this project, through means including proactive use of lumber sourced from Aichi Prefecture.
- (8) Winning the Osaka Environmentally Friendly Architecture Awards in the residential section  
 In January 2022, Le JADE Senri Aoyamada became our first winner in the residential section of the 2021 Osaka Environmentally Friendly Architecture Awards, an awards program intended to promote construction with consideration for the environment by recognizing builders and designers serving as models for eco-friendly construction.
- (9) Formulation of a General Employer Action Plan  
 In December 2022, we formulated and published a General Employer Action Plan (for the period January 1, 2023 through December 31, 2024) pursuant to the Act on Advancement of Measures to Support Raising Next-Generation Children and the Act on the Promotion of Women's Active Engagement in Professional Life, under which we aim to develop workplaces in which all human resources, including women, can work and succeed, by helping employees who care for children and family members who require long-term care to balance work and family life.
- (10) Supporting the city of Kitahiroshima, Hokkaido, through the corporate hometown tax donation program  
 In March 2022, we donated 300 million yen to the city of Kitahiroshima, Hokkaido, through the corporate hometown tax donation program. This reflects our desire to contribute to the further progress of the city and to assist its future development through spillover effects in various fields, including transportation, tourism, sports, and education.
- (11) Supporting those with cognitive impairments  
 All tenants at the Group-operated tonarie Seiwadai undergo training to support people with cognitive impairments. The Hanshin Kita Branch Office of Hyogo Prefectural Government has recognized the facility as a business that supports those with cognitive impairments.
- (12) Contributions to Healthcare  
 We have contributed to the Kyoto University iPS Cell Research Fund since 2020. This fund supports early and inexpensive treatments based on iPS cells for those suffering from disease or injury.  
 Since 2019, we have donated to the Osaka University Graduate School of Medicine to support clinical trials for promising cancer vaccines. In May 2022, we contributed funding to help establish an endowed program in cancer immunology within the Graduate School of Medicine.
- (13) Contributing to Athletics  
 In April 2021, we invested in Ryukyu Football Club Co., Ltd., which operates FC Ryukyu, a professional soccer team. This investment contributes to sports and to the local community. It also secures a foothold for creating business opportunities in Okinawa and supports the team's regional revitalization activities in Okinawa Prefecture.

Formulation of policies related to the provision of information to stakeholders

The Corporate Ethics and Conduct Charter and Compliance Code of Conduct stipulate efforts toward transparency and openness to stakeholders.

## **IV. Matters related to internal control systems**

### **1. Basic outlook on internal control systems and their development status**

[Basic policies on development of internal control systems]

In accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act, the Company develops the following systems to ensure the propriety of its business operations (“internal control systems” hereinafter).

1. Systems for ensuring that the execution of duties by directors and employees complies with laws, regulations, and the Articles of Association

Based on our Corporate Ethics and Conduct Charter, which clearly express commitment to practicing corporate ethics and fulfilling corporate social responsibilities (CSR), the Company has established the Compliance Code of Conduct as a code of conduct under which officers and employees act in strict compliance with laws, regulations, the Articles of Association, and social norms, and the Compliance Manual. The Company has also stipulated systems in Compliance Rules to ensure thorough implementation of the Compliance Code of Conduct and the Compliance Manual. The Compliance Office promotes thorough compliance in cooperation with other Company sections, as instructed by the officer in charge of compliance.

The section in charge of internal auditing is responsible for auditing compliance. This section reports its findings regularly to the board of directors and to the Auditors Committee.

The Company has established and operates a hotline to allow officers and employees to directly report information concerning actions that may be in violation of laws and regulations and other concerns.

2. Systems related to retention and management of information related to the execution of duties of directors (information retention and management systems)

In accordance with the Document and Information Management Rules established by the board of directors, information related to the execution of duties of officers and employees is recorded in documents or electromagnetic media (“documents, etc.” hereinafter) and duly retained and managed.

3. Rules and other systems related to managing risk of loss (risk management systems)

The Company’s basic risk management policies are established in the Risk Management Rules. Procedures for responding to materialized risks are stipulated in the Crisis Management Rules.

For risks related to business projects, regular study meetings (e.g., head office meetings) held by directors, persons responsible in related departments, and others examine in detail risks related to all initiatives and determine policies for response.

The Risk Management Committee monitors cross-sectional risks and ensure Companywide sharing of related information.

Companywide response to matters posing the risk of serious impact on management are studied and implemented by convening crisis task forces headed by the President.

In addition, to secure the accuracy and reliability of financial reporting, Company identifies, assesses, and documents risks in operational processes and elsewhere based on the Internal Control Rules and periodically checks on the status of implementation of control activities.

4. Systems for ensuring efficient execution of the duties of directors (efficient job execution systems)

(1) The board of directors establishes Companywide targets shared by officers and employees based on management policies that reflect trends in business conditions. The board presents specific action guidelines for related departments as necessary to achieve these targets. Directors and individual departments carry out practical activities to realize these plans.

(2) In everyday business execution, an efficient execution structure that makes responsibilities clear is secured based on the Job Authority Rules. In addition, efforts to ascertain information in a timely manner and ensure effective controls are made, such as reporting on the state of execution in board of directors meetings as well as reporting on the state of business execution in regular study meetings (e.g., head office meetings) by directors and persons responsible in related departments.

(3) Budgets are controlled through monthly reporting to the board of directors by the section in charge of business administration on the status of budget execution and performance.

(4) The section in charge of internal auditing monitors to indicate whether business execution is effectively implemented.

5. Systems for ensuring appropriate operations in the Group consisting of the Company and its subsidiaries

(1) Systems for reporting to the Company on matters related to the execution of duties of subsidiary directors and others  
Important matters concerning Group member companies to be deliberated by or reported to the board of directors are stipulated in the Affiliate Management Rules, the ES-CON ASSET MANAGEMENT Ltd. Management Rules and the FUEL Inc. Management Rules. These rules also identify matters to be reported to the section in charge of business administration. Liaison councils are convened as necessary.

(2) Rules and other systems related to managing risk of loss at subsidiaries

The Risk Management Rules call for information sharing and consideration of countermeasures by the Risk Management Committee on risk of loss at Group member companies. In addition, the president of each Group member company serves as its chief risk officer and is responsible for checking on the progress of risk management, reporting to the board of directors, implementing risk management training, and promoting risk management awareness.

(3) Systems for ensuring that the duties of subsidiary directors and others are executed efficiently

Under the Affiliate Management Rules, the ES-CON ASSET MANAGEMENT Ltd. Management Rules and the FUEL Inc. Management Rules, medium- to long-term and annual management plans and reports on budgets, monthly management conditions, and financial results are submitted by Group member companies. Management analysis and guidance are implemented on that basis. In addition, basic policies are established on the guidance and development of Group member companies; efforts are made to strengthen ties between Group member companies; and liaison councils are convened as necessary.

- (4) Systems for ensuring that the execution of duties by directors and employees of subsidiaries complies with laws, regulations, and the Articles of Incorporation  
The Compliance Rules call for the presidents of Group member companies to participate as members in Group compliance systems as the individuals with ultimate responsibility for compliance within their companies. The section in charge of internal auditing implements internal audits of Group member companies under the Internal Audit Rules.
6. Matters related to directors and employees assigned to assist with the duties of the Auditors Committee  
The Company assigns employees in the Auditors Committee Office, a subsidiary organization of the Auditors Committee, to assist with the duties of the Auditors Committee.
7. Matters related to the independence of directors and employees assigned to assist with the duties of the Auditors Committee from other directors (excluding directors who are members of the Auditors Committee)  
Employees assisting with the duties of the Auditors Committee work under the direction and supervision of the Auditors Committee. Any organizational changes, human-resource evaluations, or personnel transfers of such employees require prior consultation with the Auditors Committee.
8. Matters related to ensuring the efficacy of instructions to directors and employees assigned to assist with the duties of the Auditors Committee  
To ensure the efficacy of instructions to employees assigned to assist with the duties the Auditors Committee, the full-time Auditors Committee member performs human resource evaluations of these employees.
9. Systems involving in reporting to the Auditors Committee
- (1) Systems for reporting by Company directors (excluding directors who are members of the Auditors Committee) and employees to the Auditors Committee  
The Company maintains a system whereby officers and employees report to the Auditors Committee not just the matters provided for in laws and regulations, but other matters with serious potential impact on the Company and Group member companies; status of internal audits; and the status of reports to the compliance hotline and the nature of these reports.
- (2) Systems for reporting to the Auditors Committee by officers and employees of subsidiaries and persons receiving reports from them  
Officers and employees of Group member companies are required to promptly provide appropriate reports when asked by the Auditors Committee to report on matters related to business execution.  
Officers and employees of Group member companies who discover matters posing serious potential harm to Group member companies, such as violations of laws and regulations, are required to report immediately to the section in charge of business administration or the whistleblowing hotline.  
The Company maintains systems to allow reporting to the Company Auditors Committee on the status of reports from officers and employees of Group member companies and the nature of these reports.
10. Systems for ensuring that persons who report information to the Auditors Committee are not treated disadvantageously due to their reports  
The Company prohibits unfavorable or disadvantageous treatment of officers and employees of Group member companies who report to the Auditors Committee due to their reports. Officers and employees of Group member companies are made thoroughly aware of this prohibition.
11. Procedures for prepayment or reimbursement of costs for execution of Auditors Committee duties and other matters related to policies on processing of costs or obligations arising from the execution of such duties  
Requests from the Auditors Committee for the prepayment or reimbursement of costs for execution of its duties shall be processed swiftly unless it can be demonstrated that such costs or obligations are not necessary to the execution of such duties. A fixed amount is budgeted each year for payment of costs arising from the execution of Auditors Committee duties.
12. Other systems for ensuring that auditing by the Auditors Committee is conducted effectively
- (1) The Auditors Committee holds periodic meetings to exchange perspectives with the President and Representative Director and with the accounting auditor.
- (2) The Company has established a system to make audits performed by the Auditors Committee more effective by placing the section in charge of internal auditing under the direction of the Auditors Committee as its subsidiary organization.

## 2. Basic thinking on exclusion of antisocial forces and state of initiatives therefor

- (1) Basic thinking on exclusion of antisocial forces

As part of our compliance initiatives related to antisocial forces, under the Corporate Ethics and Conduct Charter, we categorically renounce all ties to antisocial forces or groups. In addition, the Compliance Code of Conduct calls for a resolute attitude against antisocial forces, a policy of strict noninvolvement in illegal or antisocial actions, and refusal to provide or receive economic gains or any other benefits related to antisocial forces.

Furthermore, the Company's Manual on Responding to Antisocial Forces ensures thorough understanding of related matters within the Company and helps maintain a resolute stance on excluding antisocial forces across the organization.

To maintain the efficacy of these systems, before engaging in transactions, the Company has all new trade partners screened by an independent agency regarding their integrity and verifies that the potential trade partner is entirely free of ties to antisocial forces.

(2) State of initiatives toward exclusion of antisocial forces

We have completed the following initiatives for excluding antisocial forces:

- a. We have established sections responsible for response and officers responsible for guarding against inappropriate demands.
- b. We work with external specialists (attorneys, police departments with jurisdiction, Centers for Removal of Criminal Organizations, compliance consultants).
- c. We gather information on antisocial forces through external specialists and implement screening by independent agencies regarding integrity.
- d. We maintain manuals on responding to antisocial forces and manuals for staff in charge of such response.
- e. We implement compliance training.



## V. Other

### 1. Measures to defend against takeover bids

Measures adopted to defend against takeover bids?

N

Supplemental explanation related to this item

### 2. Other matters related to corporate governance structure, etc.

Status of internal controls related to the timely disclosure of Company information

#### (1) Handling of material facts

Material facts related to important decisions are submitted to the board of directors for approval. Material facts related to important decisions requiring approval are reported in advance by each department to the PR/IR section and legal section in the Management Division, which is in charge of disclosure. These reports are submitted to the officer in charge of disclosure and concurrently to the Risk Management Committee which monitors risks and related conditions across the organization and ensures Companywide information sharing.

The emergence of material facts is reported by the sections in charge to the directors and the officer in charge of disclosure and reported to the PR/IR section, legal section, and Risk Management Committee.

The PR/IR section considers and confirms whether disclosure is necessary. The findings are reported to the officer in charge of disclosure via the legal section for purposes related to checks, balances, and confirmation from the perspective of compliance with laws, regulations, and other requirements. The officer in charge of disclosure makes final decisions on whether to disclose the information. If he or she determines that such disclosure is necessary, the information is disclosed in a timely and appropriate matter.

#### (2) Handling of financial results information

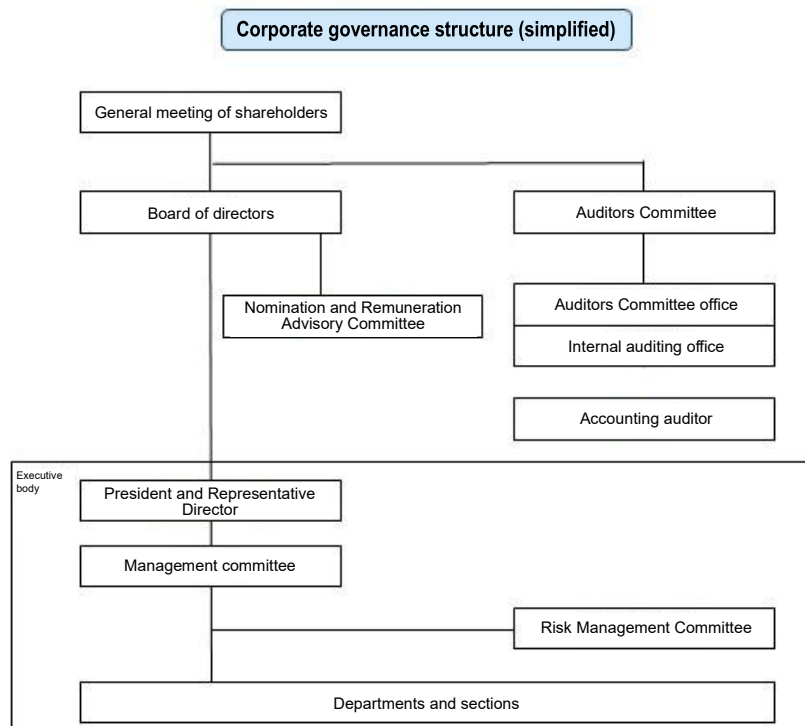
Financial results are disclosed swiftly following preparation of disclosure documents, such as summaries of accounts, by the section in charge of financial accounting; review of these documents by the PR/IR section; and approval by the board of directors for information on the status of financial results.

#### (3) Handling of subsidiary information

Facts related to decisions by and occurrences at subsidiaries and subsidiary financial results information are disclosed in a timely and appropriate manner if disclosure is deemed necessary by the procedures described above. Such disclosures are handled via the Company section in charge of the subsidiary.

#### (4) Handling of important information

To prevent insider trading and related purposes, the Insider Trading Control Rules specify the measures to prevent leakage of insider information and related notes or restrictions. In addition, persons responsible for handling of information are appointed. Such information is managed strictly in accordance with these rules.



Overview of system for timely disclosure (schematic)

