



### A commitment to effective governance

The IDEC Group is further enhancing its governance system to ensure management transparency and effectiveness on behalf of its shareholders and other stakeholders.

#### Related material issue

**Business foundation**

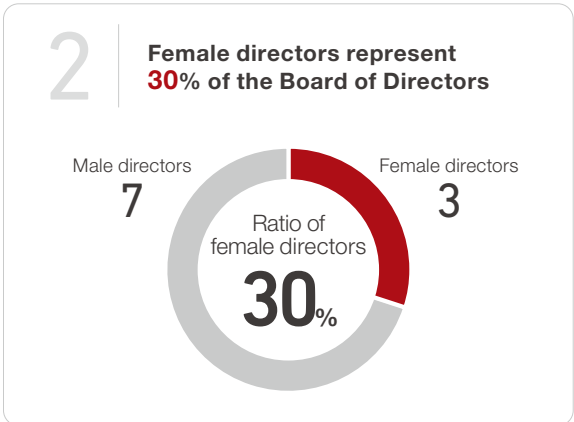
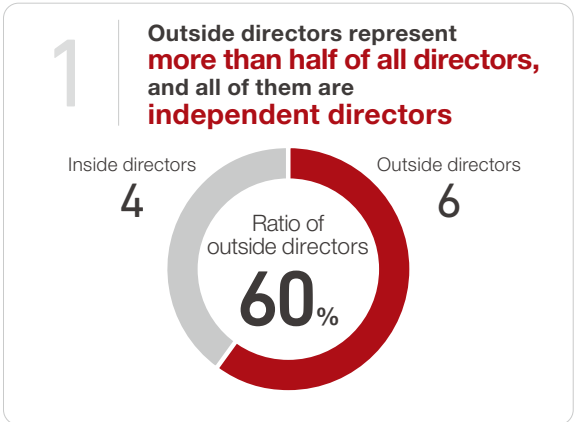
#### Major sustainability KPIs (FY2023-2025)

- Number of items with below average scores in the Board of Directors' effectiveness assessment **20% or less**
- Number of serious legal violations **0**

More information is available here.  
<https://us.idec.com/idec-us/en/USD/sustainability/governance>

### Features of IDEC's governance

(As of June 30, 2024)



**3 The effectiveness of the Board of Directors has been continuously evaluated since FY2016**

**4 Outside directors actively participate in outside directors' exchange sessions and other events**

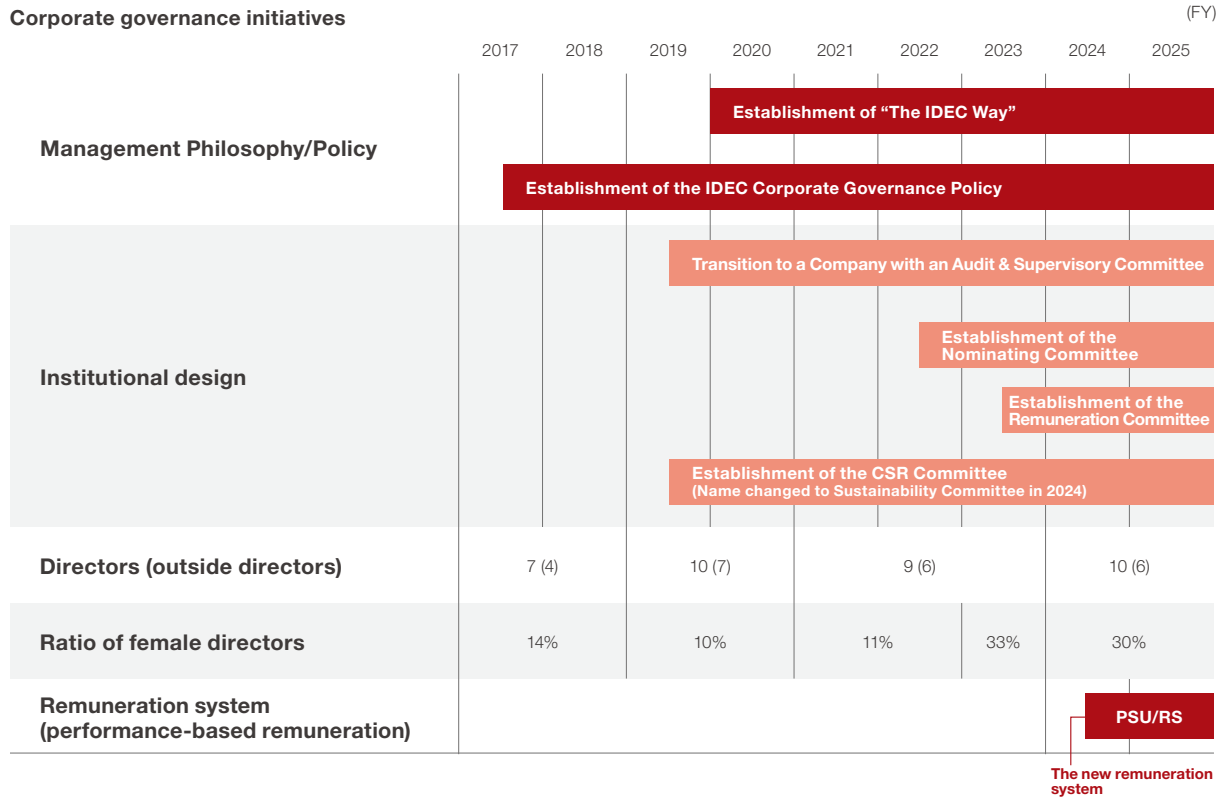
### Evolution of governance

The IDEC Group has separated the business executive function and the supervisory function of the management in order to realize efficient corporate management, and has proactively appointed outside directors since early on. The IDEC Corporate Governance Policy was established to set forth and communicate our views on governance and our operating policy in FY2017. We transformed into a Company with an Audit & Supervisory Committee in FY2019, established a voluntary Nominating Committee in FY2022, and a Remuneration Committee in FY2023.

We have ensured that outside directors constitute the majority of all directors since FY2017. The Board of Directors is a diverse body made up of men and women with different backgrounds and areas of expertise.

Additionally, we introduced a performance-based stock-based compensation (performance share units) and restricted stock (restricted stocks) executive compensation in an effort to review the compensation scheme in FY2024.

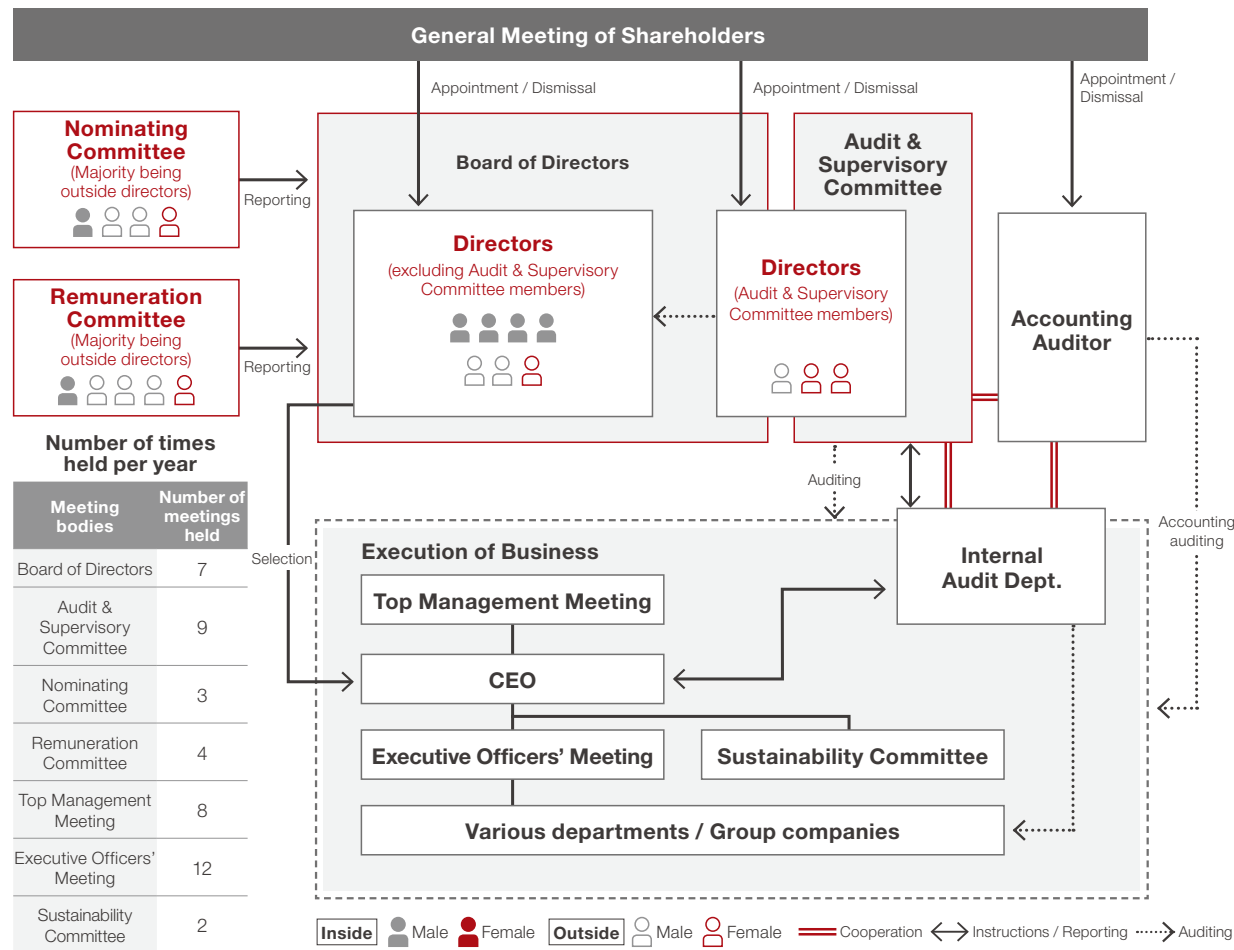
#### Corporate governance initiatives



### IDEC Corporate Governance Policy

The basis of the IDEC Group's corporate governance is to ensure management transparency and effectiveness for the sake of shareholders and other stakeholders. For this reason, we assign outside directors and separate the management supervisory function from the executive function so as to always maintain a high priority on transparency and effectiveness.

Guided by these principles, we formulated and issued the IDEC Corporate Governance Policy to improve our corporate value in line with "The IDEC Way." We are taking action under this policy to further strengthen our governance practices so that we can govern our company more effectively.



### Policy for cross-shareholding

In the interest of maintaining its financial health, the IDEC Group does not, in principle, hold shares in other companies except when there is a rationale for doing so.

A rationale for cross-shareholding exists when the Board of Directors has decided that a particular case of cross-shareholding promises to increase the IDEC Group's corporate value by realizing synergies and improving both sides' competitive advantages in the market. Such decisions must be based on a validation of the profitability of the cross-shareholding relationship that duly examines the risks, costs, and returns involved from a medium to long-term perspective, and must comprehensively consider the intended aims, such as maintaining and strengthening a business relationship or establishing a capital or business alliance.

Furthermore, the company regularly validates the significance of existing cross-shareholdings in light of various criteria, including the purpose of holding those shares. If a particular case of cross-shareholding is determined to be inappropriate, the shares are sold off after taking into account diverse considerations such as the impact on the company and the market, and the issuer's financial strategy.

We do not engage in inappropriate practices with cross-shareholders such as continuing or reducing transactions, or impeding the sale of stocks based on the fact that we maintain those cross-shareholdings.

Moreover in the exercise of voting rights in relation to cross-shareholdings, the company makes comprehensive decisions to vote in favor or opposition, taking into account various factors including whether the company in question has established an appropriate governance structure and is making decisions leading to the medium to long-term enhancement of corporate value, and whether a matter will contribute to the improved corporate value of the IDEC Group.

### Internal control system

To ensure the credibility of our Group's financial reporting, we have established the Internal Control Policy on Financial Reporting and clearly defined our Group-wide system for

implementing that policy, in line with standards for assessing internal controls on financial reporting. We have also created a framework for continuous self-auditing by divisions and Group companies and independent monitoring by the Internal Audit Department.

### Constructive dialogue with shareholders, investors, and analysts

To gain their confidence in and fairly evaluate our management, the CEO, senior executive officers and head of the Strategic Planning Division play active roles in IR and SR activities. This includes diligently responding to requests for interviews from shareholders and institutional investors. The information acquired from those interactions, including appraisals and opinions concerning markets, is regularly reported to the Board of Directors, and six such reports were made in FY2024.

By sharing the opinions received as feedback with the Board of Directors, we can take concrete action to address them. We also work to enhance investor relations tools such as our Shareholder Newsletter and website to better help shareholders and investors make informed investment decisions, and proactively disclose our financial results and management strategies, as well as sustainability information, news and other topics.

The Strategic Planning Division, which is responsible for these activities, coordinates with related departments to collect and analysis various management information. While ensuring thorough control over insider information, the division provides information internally and publicly in a timely and appropriate manner.

#### Main details of dialogue and matters of interest

- Business results and progress of the medium-term management plan
- Activities of the Nominating Committee and Remuneration Committee
- The new remuneration system
- Succession plans
- Status of action and initiatives to address climate change
- Response to human rights issues
- Diversity & inclusion efforts
- Approach to shareholder returns

## Nominating Committee and Remuneration Committee

The Company established the Nominating Committee and Remuneration Committee in 2021 and 2022 respectively, and operates them as non-statutory advisory bodies to the Board of Directors. The Nominating Committee considers and deliberates over the nomination of candidates for director, plans to cultivate candidates for the next-generation of top management and succession plans, while the Remuneration Committee considers and deliberates matters related to the remuneration system and regulations, and makes remuneration decisions in accordance with the system. Both committees report to the Board of Directors. The members of each committee comprise directors selected by the Board of Directors, a majority of whom are outside directors, and include the Chairman of the Board of Directors as an inside director.



### Status of committee meetings and major matters for deliberation (FY2024)

#### Nominating Committee members

Chairman	
<b>Toshi K. Funaki</b>	Representative Director Chairman
Members	
<b>Hiroshi Kobayashi</b>	Outside Director
<b>Yasuo Himeiwa</b>	Outside Director, Certified Accountant
<b>Michiko Kanai</b>	Outside Director, Lawyer

#### Remuneration Committee members

Chairman	
<b>Toshi K. Funaki</b>	Representative Director Chairman
Members	
<b>Hiroshi Kobayashi</b>	Outside Director
<b>Hideyuki Ohkubo</b>	Outside Director
<b>Yasuo Himeiwa</b>	Outside Director, Certified Accountant
<b>Michiko Kanai</b>	Outside Director, Lawyer

Date	Key details
<b>November 8, 2023</b>	Proposed re-elections for the next fiscal year Report on the progress of next-generation executive development
<b>November 28, 2023</b>	Selection of a candidate for substitute director and Audit & Supervisory Committee member
<b>March 21, 2024</b>	Report on candidates for director for the next fiscal year Report on the progress of next-generation executive officer development

Date	Key details
<b>April 27, 2023</b>	Deliberations over the remuneration regulations
<b>June 13, 2023</b>	Explanation of remuneration under the new system
<b>November 8, 2023</b>	Schedule for determining remuneration Deliberation over the handling of PSU and RS when an officer steps down mid-way through their term
<b>March 21, 2024</b>	Outlook regarding the achievement of remuneration KPIs Deliberations over performance-based remuneration levels

## Succession plan

The voluntary Nominating Committee established in 2021 discussed the selection of next-generation executive candidates and how to train them, and then developed and launched a succession plan for cultivating next-generation executive leadership.

The committee promoted the development program among the selected next-generation executive candidates, arranged outside training, 1-on-1 action learning provided by outside directors, lectures on specialized topics and other activities, and provided opportunities for candidates to deepen their contact with current directors and executive officers while gaining hands-on experience with actual management issues through attendance at each Top Management Meeting and Board of Directors. While candidate directors for the next fiscal year were chosen from among the next-generation executive candidates in June 2023, the newly appointed directors will continue with the development program including executive coaching following their appointment, and the Nominating Committee will request appropriate reports on the status of their development, which it will use to offer opinions on the development plan.

### Succession plan program

		Aims of the development activity	FY2022	FY2023	FY2024	FY2025 onward
In-house training	<b>Lectures delivered by outside directors</b>	Gain deeper insight into each area of expertise to be prepared as a director	Held 8 times in total			
	<b>Action learning</b>	Carry out actions based on themes set to reflect the actual work	Conducted in alternate months			
	<b>Weakness analysis</b>	Individual training for each field and competency based on one's own strengths and weaknesses	Conducted in alternate months			
Outside training	<b>Outside management training</b>	Taking part in management training programs provided by outside organizations	Training location dependent on trainee (2 weeks to 4 months)			
	<b>Executive coaching</b>	Transform one's mindset and behavior as an excellent leader in a 1-on-1 format	Coaching depending on trainee (8 to 10 months)			
	<b>Liberal arts</b>	Hone insight into the nature of things through lectures and dialogue with experts	Conducted depending on the trainee			

## Policy and procedure for director appointment and dismissal

The process of selecting candidates for directorships is based on a skills matrix outlining the expected skills and other requirements. The Nominating Committee recommends candidates to the Board of Directors on the basis of the skills matrix review, and the nominations are made part of the agenda of the General Meeting of Shareholders through voting at a Board of Directors attended by a majority of independent outside directors.

Directors who are deemed to no longer possess the expected skills and qualities of their position are considered for dismissal. Also, if a director is found to have violated laws, regulations, the articles of incorporation, or otherwise be unfit for the discharge of their duties, the Board of Directors, acting on a report by the Nominating Committee, votes on whether to include a proposal for the director's dismissal in the General Meeting of Shareholders agenda. This vote must be made at a meeting attended by a majority of independent outside directors.

## Director remuneration

### Basic Policies

To ensure that the remuneration of directors (other than outside directors and directors who are Audit & Supervisory Committee members) adequately functions as an incentive for directors to pursue the sustainable enhancement of corporate value, the individual remuneration of directors is paid as basic remuneration as a fixed amount based on position in light of the scope and size of responsibility for management, etc., performance-based remuneration (bonuses) and non-monetary (share-based remuneration) remuneration. Remuneration for outside directors and directors who are Audit & Supervisory Committee members is limited to fixed basic remuneration, in the interest of preserving the independence of their management oversight role.

### Policy for determining remuneration, etc. for individual directors

When determining the remuneration for each individual, the Remuneration Committee conducts deliberations that take into account their position, performance, expertise and other qualities and reports those details to the Board of Directors. The Board of Directors, which comprises a majority of independent outside directors, entrusts the CEO with making the determinations. The CEO shall respect the reports made by the Remuneration Committee when determining the details of individual compensation.

### Malus and clawback of remuneration

When serious misconduct or violations involving a director have occurred, based on a report from the Remuneration Committee the company may demand the forfeiture or return of all of part of bonuses and share-based remuneration.

## Overview of the remuneration system

### Composition of remuneration

Remuneration comprises basic remuneration as a basic compensation, performance-based remuneration (bonuses) and non-monetary remuneration (share-based remuneration) at a ratio of 60:25:15.

		Short-term remuneration Incentive to achieve the plans of the fiscal year	Medium-term remuneration Incentive to achieve the medium-term management plan	Long-term remuneration Incentive to enhance corporate value	Basic ratio
Performance-based remuneration	Share-based remuneration		PSU 10%	RS 5%	40%
	Cash remuneration	Bonus 25%			
Fixed remuneration		Base compensation 60%			60%

### Base compensation

Basic remuneration is a fixed monthly payment and determined in a comprehensive manner in consideration of the position, responsibilities and IDEC's financial status.

## Performance-based remuneration

### Bonus

To raise awareness of the need to improve business performance in each fiscal year and clarify the commitment to stakeholders with respect to such matters, performance-based monetary compensation reflecting key performance indicators (KPIs) is divided into 12 and paid monthly together with monthly basic remuneration.

Bonus amounts are calculated by multiplying a standard amount for bonus calculate set for each officer by a payment coefficient (0-200%) corresponding to the business results for the fiscal year. KPIs used for calculation are the consolidated operating profit margin in each fiscal year and human resource evaluations (excluding titled directors) concerning business results, etc. from the division for which the director is responsible.

### Share-based remuneration

Share-based remuneration comprises PSU as a medium-term incentive and RS as a long-term incentive.

PSUs are issued as shares in the common stock of the company with transfer restrictions, based on the number of share units issued for each position multiplied by a payment coefficient linked to the attainment rate of financial indicators emphasized in the medium-term management plan and non-financial indicators such as CO<sub>2</sub> reduction rates. The KPIs used for calculating PSUs are the degree of attainment of targets stated in the medium-term management plan as financial indicators, the degree of attainment of ESG-related targets as non-financial indicators, and human resource evaluations (excluding titled directors) regarding business performance in the division for which the director is responsible.

RS is issued as shares in the common stock of the company with transfer restrictions. The number of shares is determined based on a number equivalent to a base monetary amount determined in light of the company's business performance, the scope of responsibilities of each director and various circumstances.

Note that if a director is a non-resident of Japan when share-based remuneration is issued, they shall be granted phantom stock in lieu of PSU and RS.

### Medium-term KPIs and weighting reflected in evaluation

Category	Medium-term KPIs	Weighting
Corporate performance	Operating profit margin	35%
	ROIC	35%
ESG	CO <sub>2</sub> reduction rate	15%
	External ESG assessment	15%

## Formula for calculation of performance-based remuneration and method of performance linking

- When bonuses and PSUs are issued, the payment amounts and number of shares issued are determined in proportion to corporate performance and individual evaluations.
- When PSU and RS-based shares vest, their assets values are linked to the share price.

Factors causing variation	Performance-based remuneration		
	Cash remuneration	Share-based remuneration	
	Short-term incentives Bonus	Medium-term incentives PSU	Long-term incentives RS
Formula	Based calculated amount × operating profit margin × individual evaluation coefficient	Total number of issued share units over three years for each position × medium-term KPIs × individual evaluation coefficient	Number of RS-based shares to be issued as set for each position

\* PSU: Performance Share Units; RS: Restricted Stock Units



### Efforts to evaluate effectiveness

In order to improve the effectiveness of the Board of Directors, an evaluation of all directors except the CEO has been conducted using a questionnaire method every year since FY2016.

A third-party organization has conducted the questionnaire survey and analyzed the responses since FY2022. The results of their evaluation are reported to the Board of Directors, whose members share the issues identified and continuously strive to make improvements.

#### Outline of the effectiveness evaluation in FY2024

<b>Target members</b>	All directors except the CEO
<b>Evaluation method</b>	Anonymous 5-point questionnaire
<b>Number of questions</b>	40
<b>Survey period</b>	February 2024
<b>Response status</b>	All targets answered

#### Questionnaire evaluation items

- Roles and responsibilities of the Board of Directors
- Size and composition of the Board of Directors
- Deliberation and management at the Board of Directors
- Succession plan
- Design and operation of organizations such as the Board of Directors
- Relationship and dialogue with shareholders

### Results of effectiveness evaluation in FY2024

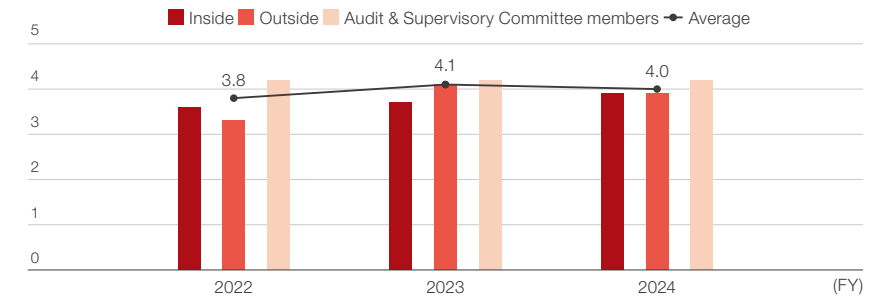
In terms of items such as strengthening ESG initiatives, the remuneration system, and succession planning, evaluations improved since FY2023. The overall evaluation was generally positive, and the Board of Directors was evaluated as functioning effectively.

Based on the evaluation results, we recognized the following issues, and are engaged in efforts to improve upon them.

#### Issues and initiatives based on evaluation of effectiveness of the Board of Directors

FY2023	
Issues identified	Initiatives (actual)
<b>Further enhancement of Board of Directors discussions</b>	<ul style="list-style-type: none"> <li>■ Set up and disclosure of weighted average cost of capital (WACC) and indicators (ROE and ROIC) to be targeted as part of the medium-term management plan based on capital efficiency</li> </ul>
<b>Promote diversity Strengthen and involvement in ESG initiatives</b>	<ul style="list-style-type: none"> <li>■ Exchange of opinions on the theme of human capital at outside directors' exchange sessions</li> </ul>
<b>Discussions based on dialogues with shareholders and investors</b>	<ul style="list-style-type: none"> <li>■ Financial results briefings, reporting IR and SR activities to the Board of Directors</li> </ul>
<b>Establish operation of the new remuneration system</b>	<ul style="list-style-type: none"> <li>■ Pay remuneration based on the new remuneration system</li> <li>■ Check operational issues and procedures</li> </ul>
<b>Operation of successor planning</b>	<ul style="list-style-type: none"> <li>■ HR development in line with a curriculum</li> <li>■ Election of one executive candidate to the Board of Directors</li> </ul>
<b>Committee operation</b>	<ul style="list-style-type: none"> <li>■ Periodic meetings of the Remuneration Committee and Nominating Committee</li> </ul>

Change in average effectiveness evaluation score



FY2024	
Issues identified	Initiatives (plan)
<b>Set period for provision of documents and secure time for deliberations</b>	<ul style="list-style-type: none"> <li>■ Provide materials at an early stage, set agenda items to secure time for deliberation, and implement effective time management of the Board of Directors</li> </ul>
<b>Revise business portfolio based on capital efficiency</b>	<ul style="list-style-type: none"> <li>■ Set up opportunities for discussions on analysis and response relating to capital efficiency in the progress report for the medium-term management plan</li> </ul>
<b>Promote diversity Strengthen and involvement in ESG initiatives</b>	<ul style="list-style-type: none"> <li>■ Continue diversity and ESG initiatives</li> <li>■ Establish opportunities for discussion by the Board of Directors</li> </ul>
<b>Discuss the shift to DX</b>	<ul style="list-style-type: none"> <li>■ Set up opportunities to discuss strategies based on DX, such as the introduction of ERP systems</li> </ul>
<b>Discussions based on dialogues with shareholders and investors</b>	<ul style="list-style-type: none"> <li>■ Financial results briefings, reporting IR and SR activities to the Board of Directors</li> <li>■ Set up opportunities for discussion by the Board of Directors</li> </ul>
<b>Establish operation of the new remuneration system</b>	<ul style="list-style-type: none"> <li>■ Establish operation of new remuneration system through the Remuneration Committee</li> </ul>
<b>Operation of successor planning</b>	<ul style="list-style-type: none"> <li>■ Update top-management succession plan</li> <li>■ Implement a HR development program</li> </ul>
<b>Committee operation</b>	<ul style="list-style-type: none"> <li>■ Report on the materials and state of implementation / progress of each committee to the Board of Directors</li> </ul>