

Corporate Governance Report

SHO-BOND Holdings Co., Ltd.

Last Update: September 27, 2024

SHO-BOND Holdings Co., Ltd.

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Securities Code: 1414

<https://www.sho-bondhd.jp/english/>

This report explains the corporate governance of SHO-BOND Holdings Co., Ltd. (“SHO-BOND”).

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

1. Basic Views

The SHO-BOND Group (the “Group”) is engaged in comprehensive maintenance of infrastructure under its corporate philosophy of “With a sense of mission of ‘inheriting and passing on social infrastructure to the next generation in good condition’ we will contribute to the realization of a safe and affluent society by utilizing our advanced technological development capability as a leading company in the structure maintenance business.”

As a leader in the maintenance industry, corporate governance is one of the most important management issues to earn the trust of stakeholders, including shareholders, investors, and employees, and to achieve sustainable growth and increase corporate value over the medium to long term. We will continue sound management by enhancing corporate governance that enables transparent, fair, prompt, and decisive decision-making.

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

SHO-BOND has complied with all principles of the Corporate Governance Code revised in June 2021.

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

[Principle 1.4 Cross-shareholdings]

As a rule, SHO-BOND does not purchase or hold the stock of suppliers and other business partners with the exception of cases where purchasing and holding stock helps conduct business operations efficiently and maintain and strengthen business relationships, thereby contributing to the medium to long-term growth of its corporate value. Stock holdings of other companies are examined individually by taking into consideration qualitative and quantitative benefits and risk factors, including holding purposes, the number of transactions with these companies, their operating environment, results of operations and financial position, dividend yields as a return of investments and stock price fluctuation risks. Stock holdings are reduced when there is little need to continue owning the stock. SHO-BOND will reduce the ratio of cross-shareholdings to net assets by selling about 30% of its stock holdings, worth approximately 3 billion yen based on the market value at the end of June 2024, as part of the Medium-term Business Plan 2027 (FY2025–FY2027). Voting decisions concerning the stock of other companies are based on the goals of increasing shareholder value for SHO-BOND and contributing to the medium to long-term growth of the corporate value of the other companies.

[Principle 1.7 Related Party Transactions]

Directors must not neglect the interests of shareholders by taking actions aimed at earning profits for themselves or third parties. Even when there is no intent to take such actions, the consent of the Board of Directors is required for transactions involving a conflict of interest or transactions involving competitive information. When determining whether or not to grant this consent, the highest priority is the interests of

SHO-BOND and the common interest of shareholders. A decision is made only after a thorough discussion. SHO-BOND examines related party transactions involving directors once every year. The results of these transactions are disclosed in a timely and proper manner in accordance with associated laws and regulations.

[Supplementary Principle 2.4.1 Ensuring Diversity in the Promotion of Human Resources]

(1) Approach to ensure diversity

To maintain diversity in our workforce, SHO-BOND makes efforts to recruit diverse new employees as well as conduct the selection process in a fair and non-discriminatory manner. In addition, SHO-BOND selects management personnel based solely on each individual's capabilities and performance.

(2) Status of ensuring diversity and its voluntary and measurable goals

1) Promoting female employees into management

As of the end of June 2024, the ratio of female managers to all managers is 2.0%. In order to increase the ratio of female managers over the medium to long term, we consider it important to increase the number of female employees and have set the ratio of female employees in regular recruiting as a KPI, with a target of 15% every year.

2) Promoting foreign employees into management

As of the end of June 2024, the ratio of foreign managers to all managers is 0.7%. As we expand our overseas business, we will aim to achieve a higher ratio of foreign managers than at present.

3) Promoting mid-career employees into management

As of the end of June 2024, the ratio of managers who were mid-career recruits to all managers is 31.8%. We have long been selected management personnel based on each individual's capabilities and performance regardless of graduate/mid-career recruits.

(3) Policies of human resource development and workplace environmental improvement

1) Human resource development policy

Employees are the most valuable asset of the Group. To play a role in the creation of a sustainable society, we must have a workforce with highly advanced skills along with environments that allow these people to fully utilize this knowledge.

Experience is a critical component of repair and reinforcement construction activities. For this reason, on-the-job training is a key element of measures to develop employees' skills. Young people are assigned responsible tasks. This process gives these people the ability to solve problems on their own in business activities.

Employees are given the opportunity to acquire know-how and technologies that match each stage of their advancement in the Group. People progress to the next level in a well-planned and effective manner. We develop the skills of everyone in the Group from a long-term perspective.

We also believe that making the most of our diverse human resources by providing opportunities for them to demonstrate their abilities is important for improving our corporate value over the medium to long term. To maintain diversity in our workforce, we make efforts to recruit diverse new employees as well as conduct the selection process in a fair and non-discriminatory manner. In addition, we select management personnel based solely on each individual's capabilities and performance.

2) Workplace environmental improvement policy

Group companies exercise care to ensure that their people can stay in the company for a long time, doing their jobs with confidence and good health. Workplaces are structured to enable people to develop and take full advantage of their skills.

We started to maintain proper working hours earlier than most companies. Thanks to this effort, our employees' awareness has improved significantly and their working hours have accordingly become proper around the time when work style reforms have progressed at other companies. Our turnover remains low at present.

We keep a high employee retention rate by continuing to improve workplace environments based on employees' needs regarding child-rearing, nursing care, transfers to different locations, and other employment matters.

SHO-BOND discloses our approach to human resource development and workplace environmental improvement on its website and the integrated report. In addition, SHO-BOND conducts the incorporation of HR management into business strategy and retention management through the new personnel system while investing more in human capital, under our Medium-term Business Plan 2027.

<Medium-term Business Plan>

(<https://www.sho-bondhd.jp/english/ir/library/plan/>)

<Website>

(<https://www.sho-bondhd.jp/english/csr/environment/>)

<Integrated Report>

(<https://www.sho-bondhd.jp/english/ir/library/integrated-report/>)

[Principle 2.6 Roles of Corporate Pension Funds as Asset Owners]

SHO-BOND understands that the management of assets in the corporate pension fund is important for the consistent accumulation of wealth for employees and that the management of these assets also has an effect on SHO-BOND's financial condition. SHO-BOND is dedicated to managing these assets properly, such as by reexamining the weighting of pension fund assets using medium to long-term perspectives. The Asset Management Committee holds regular meetings for the purpose of monitoring the performance (including stewardship activities) of the company(ies) that manage the pension fund assets. SHO-BOND assigns to the Asset Management Committee individuals who have expertise involving human resources, accounting, finance, or other fields and has programs to give these people further training.

[Principle 3.1 Full Disclosure]

The Board of Directors properly discloses information in accordance with laws and regulations. In addition, the directors provide information about the corporate philosophy and other important policies. The purpose is to ensure the transparency and fairness of decisions made by the directors and maintain the effectiveness of corporate governance. Information is disclosed on the SHO-BOND website, in the notice of the general meeting of shareholders, and in other ways. Additionally, SHO-BOND discloses materials required to be explained in English.

(1) Corporate Goals (Corporate Philosophy, Etc.), Business Strategies, and Business Plans

<Corporate Philosophy> (<https://www.sho-bondhd.jp/english/company/philosophy/>)

<Medium-term Business Plan>

(<https://www.sho-bondhd.jp/english/ir/library/plan/>)

(2) Basic View and Basic Policy on Corporate Governance

The basic view is explained in "I. 1. Basic Views" of this report. The basic policy regarding items that are disclosed is explained in this report.

(3) Policies and Procedures in Determining the Remuneration of the Senior Management and Directors by the Board of Directors

These policies and procedures are explained in "II. 1. Organizational Composition and Operation [Director Remuneration]" in this report.

(4) Policies and Procedures in Appointing and Dismissing the Senior Management and Nominating Candidates for Directors by the Board of Directors

These policies and procedures are explained in “II. 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)” in this report.

(5) Explanations of Individual Appointments and Dismissal and Nominations with Respect to Appointments and Dismissal of Senior Management and Nominations of Candidates for Directors by the Board of Directors

The reasons for nominating candidates for directors, along with personal histories and other information, are provided in the notice of the general meeting of shareholders.

(https://ssl4.eir-parts.net/doc/1414/ir_material3/236231/00.pdf)

[Supplementary Principle 3.1.3 Sustainability Initiatives]

With its Corporate Philosophy at the core of management, the Group has designated material issues (Materialities) to get close to its vision. Four designated Materialities involve internal activities and how business activities affect society. We believe that all of these activities are sustainability management that contributes to accomplishing the SDGs and achieving our Corporate Philosophy. We have established a Sustainability Policy and ESG-related policies to provide guidelines for constant activities in accordance with materiality priorities. In August 2022, we set KPIs for each of the priorities to measure their progress and disclosed targets and results.

We will enhance our corporate value over the medium to long term and contribute to creating a sustainable society by continuing to upgrade sustainability initiatives with the input of our internal and external stakeholders. Specifically, we will improve our promotion framework, consider measures, and regularly review them to upgrade the initiatives.

For the main items of the Sustainability Policy, we have set up action plans and KPIs (key performance indicators), and disclose their progress and results on our website.

(<https://www.sho-bondhd.jp/english/csr/materiality/>)

Investment in human resources and intellectual property is described in the Medium-term Business Plan 2027.

(<https://www.sho-bondhd.jp/english/ir/library/plan/>)

SHO-BOND expressed its support for the TCFD recommendations in July 2022 and discloses the risks and opportunities related to climate change and its financial/non-financial impact on business activities on our website.

(<https://www.sho-bondhd.jp/english/csr/tcf/>)

Please refer to our Annual Securities Report, Integrated Report, and Medium-term Business Plan for other information on our sustainability initiatives.

<Annual Securities Report> (Japanese version only)

(<https://www.sho-bondhd.jp/ir/library/security/>)

<Integrated Report>

(<https://www.sho-bondhd.jp/english/ir/library/integrated-report/>)

<Medium-term Business Plan>

(<https://www.sho-bondhd.jp/english/ir/library/plan/>)

[Supplementary Principle 4.1.1 Roles and Responsibilities of the Board of Directors]

The regulations of the Board of Directors, in compliance with laws and regulations, clearly define matters that must be approved by the directors. Also, the authority that is granted to Presidents, Regional Officers, General Managers, and other managers of important subsidiaries is clearly defined by the SHO-BOND Group's standards for delegating authority for making decisions. The goals of these measures are to ensure that decisions are made with no problems and that business operations are conducted efficiently.

[Principle 4.9 Independence Standards and Qualifications for Independent Outside Directors]

These independence standards and qualifications are explained in “II. 1. Organizational Composition and Operation [Independent Directors]” in this report.

[Supplementary Principle 4.10.1 Use of Optional Approach]

These approaches are explained in “II. 1. Organizational Composition and Operation [Voluntary Establishment of Committee]” in this report.

[Supplementary Principle 4.11.1 Preconditions to Ensure the Effectiveness of the Board of Directors]

These preconditions are explained in “II. 2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)” in this report.

[Supplementary Principle 4.11.2 Preconditions to Ensure the Effectiveness of the Board of Directors]

Directors must have sufficient time to prepare for Board of Directors meetings. As a result, SHO-BOND prefers individuals who are not concurrently a director, audit and supervisory board member, or executive officer of another listed company. The chairperson of the Board of Directors is notified promptly when a SHO-BOND director receives the request to become a director of another listed company. Information about significant concurrent positions of directors is provided in the notice of the general meeting of shareholders. (https://ssl4.eir-parts.net/doc/1414/ir_material3/236231/00.pdf)

[Supplementary Principle 4.11.3 Preconditions to Ensure the Effectiveness of the Board of Directors]

This section is a summary of the analysis and evaluation of the effectiveness of the Board of Directors that was conducted in June 2024.

(1) Method of evaluating effectiveness

To evaluate the effectiveness of the Board of Directors, a third-party external adviser is invited every other year for objectivity considerations. The evaluation is performed by asking all directors, including members of the Audit and Supervisory Committee, to complete questionnaires, which will be analyzed and reviewed by the Board of Directors. The issues recognized here will be approached and reviewed with self-analysis and evaluation in the next year.

(2) Summary of evaluation results

For the fiscal year ended June 2024, a third-party external advisor was appointed to conduct a questionnaire survey of all directors (including Audit and Supervisory Committee Members). The Board of Directors analyzed and evaluated the responses and confirmed that the Company’s Board of Directors is properly operated and generally secures its effectiveness. In the fiscal year ending June 2025, we will strive to improve the effectiveness of the Board of Directors by continuously conducting executive seminars and lunch meetings, as well as reviewing the criteria for submitting proposals in the Board of Directors Regulations to develop human resources for executive management and strengthen their business promotion capabilities.

[Supplementary Principle 4.14.2 Training Policy for Directors including members of the Audit and Supervisory Committee]

When individuals first become a director and afterward, they receive opportunities for training and other forms of education that match each person’s knowledge, experience, capabilities, and other characteristics.

[Principle 5.1 Policy for Constructive Dialogue with Shareholders]

(1) Action to implement management that is conscious of cost of capital and stock price

The Group conducts management with PBR in mind as an indicator of corporate value. To maintain PBR, it is important to secure an equity spread by keeping ROE exceeding the cost of equity. In terms of ROE, we

achieved the target of "12% or more" set in the Medium-term Business Plan 2024 over the three years of the plan. In the following Medium-term Business Plan 2027, we have set a target of "around 14.5% for the final year" after examining various factors, including the return to shareholders, investment for growth, the equity ratio, and the operating profit margin, an indicator of earning power.

In addition to maintaining a high level of ROE, we aim to reduce the cost of equity and thereby enhance corporate value by improving management foreseeability and conveying the social nature of our business, such as the effect of reducing the environmental impact of maintenance work, through enhanced information disclosure and communication with shareholders and investors.

For details, please refer to our Integrated Report and Medium-term Business Plan.

<Integrated Report>

(<https://www.sho-bondhd.jp/english/ir/library/integrated-report/>)

<Medium-term Business Plan>

(<https://www.sho-bondhd.jp/english/ir/library/plan/>)

(2) Dialogue with shareholders

The Corporate Planning Department and General Affairs Department are primarily responsible for dialogues with shareholders and other investors. As a rule, the Chief Financial Officer and the Corporate Planning Department handle dialogues with institutional investors. Directors and executives with knowledge about specific business activities also provide assistance as needed in order to ensure that investors receive adequate explanations.

The Group places importance on information disclosure and dialogue with shareholders, institutional investors, analysts, and other interested parties. For institutional investors, we hold an information meeting about financial results twice a year as well as one-to-one meetings held every quarter. In addition to such one-to-one meetings, we hold a small meeting attended by the President after announcing the full-year financial results. For individual shareholders, we hold information meetings in Tokyo and Osaka in March every year after transitioning to the holding company system in 2008.

Dialogues are consistent with the spirit of fair disclosure and care is exercised to prevent the disclosure of insider information. The Executive Committee and Board of Directors receive feedback periodically concerning the opinions and concerns of shareholders, which help achieve sustainable growth.

[Frequency (FY2024)]

Information meetings for individual shareholders 2 times

Information meeting for institutional investors (attended by President and Chief Financial Officer) 2 times

One-to-one meetings 96 times

2. Capital Structure

Foreign Shareholding Ratio	From 20% to less than 30%
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[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	5,947,200	11.43
General Incorporated Foundation Ueda Memorial Foundation	5,408,000	10.40
SSBTC CLIENT OMNIBUS ACCOUNT	5,057,294	9.72
Custody Bank of Japan, Ltd. (Trust account)	4,235,100	8.14
MUFG Bank, Ltd.	2,592,000	4.98
The Dai-ichi Life Insurance Company, Limited	2,420,000	4.65

NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	1,874,100	3.60
Meiji Yasuda Life Insurance Company	1,425,800	2.74
Custody Bank of Japan, Ltd. (Trust account 4)	885,000	1.70
JP MORGAN CHASE BANK 385781	627,895	1.20

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

Supplementary Explanation

1. The above major shareholders are as of June 30, 2024.
2. The percentages in the table above are based on the total number of issued shares after deducting treasury stock.

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange Prime
Fiscal Year-End	June
Business Sector	Construction
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End of the Previous Fiscal Year	From ¥10 billion to less than ¥100 billion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

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

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

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

1. Organizational Composition and Operation

Corporate Governance System	Company with Audit and Supervisory Committee
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[Directors]

Number of Directors Stipulated in Articles of Incorporation	11
Directors' Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	8
Election of Outside Directors	Elected
Number of Outside Directors	3
Number of Independent Directors	3

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Satoru Miura	Certified Public Accountant											
Akira Hongo	Attorney											
Reiko Kuwano	Academic											

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

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

Outside Directors' Relationship with the Company (2)

Name	Audit and Supervisory Committee	Designation as Independent Director	Supplementary Explanation of the Applicable Relationship	Reasons of Appointment
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Satoru Miura	○	○	-	Mr. Miura has knowledge and experience as a certified public accountant as well as considerable experience as a corporate accounting advisor. He was selected as a director who is an Audit and Supervisory Committee member (Outside Director) because he meets the independence standards stipulated by SHO-BOND, and SHO-BOND believes that he will help strengthen the management oversight functions from a fair and objective standpoint.
Akira Hongo	○	○	-	Mr. Hongo has knowledge and experience as an attorney as well as considerable experience as a corporate consulting attorney. He was selected as a director who is an Audit and Supervisory Committee member (Outside Director) because he meets the independence standards stipulated by SHO-BOND, and SHO-BOND believes that he will help strengthen the management oversight functions from a fair and objective standpoint.
Reiko Kuwano	○	○	-	Ms. Kuwano has considerable academic expertise and experience in the field of civil engineering as a professor at the University of Tokyo. She was selected as a director who is an Audit and Supervisory Committee member (Outside Director) because she meets the independence standards stipulated by SHO-BOND, and SHO-BOND believes that she will help strengthen the management oversight functions from a fair and objective standpoint.

[Audit and Supervisory Committee]

Committee's Composition and Attributes of Chairperson

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

Appointment of Directors and Employees Who Assist the Audit and Supervisory Committee's Duties

Appointed

Matters Relating to Ensuring the Independence from Executives of the Directors and Employees Who Assist the Audit and Supervisory Committee's Duties

One employee is assigned to assist the Audit and Supervisory Committee. This employee's independence from executives is ensured by requiring that the opinion of this committee is respected with regard to personnel and organizational changes and other matters. In addition, this employee must be given a sufficient amount of time to perform the duties needed to provide this assistance.

Cooperation among Audit and Supervisory Committee, Accounting Auditor and Internal Audit Department

(Cooperation between the Audit and Supervisory Committee and Accounting Auditor)

Members of the Audit and Supervisory Committee hold meetings on a regular basis with the accounting auditor. An accounting auditor may be asked to attend committee meetings as needed and the committee receives reports whenever necessary in a timely manner regarding audits by this auditor. These activities facilitate the extensive exchange of opinions and information.

(Cooperation between the Audit and Supervisory Committee and Internal Audit Department)

The Audit and Supervisory Committee receives reports about audits performed by the Internal Audit Department and other related sections. In addition, committee members can ask for examinations of specific items as needed, submit specific instructions to internal auditing sections, and take other actions. This ensures the existence of a framework for continuous and speedy communications with departments and personnel engaged in internal audits. Furthermore, as needed, the Audit and Supervisory Committee receives reports about the internal control system from the Risk Management Committee and Internal Control Committee and can ask for examinations of specific items.

[Voluntary Establishment of Committee]

Voluntary Establishment of Committee(s) equivalent to Nomination Committee or Remuneration Committee	Established
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Status of Voluntarily Established Committee(s), Attributes of Members Constituting the Committee and the Committee Chair (Chairperson)

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Nomination and Remuneration Advisory Committee	Nomination and Remuneration Advisory Committee
All Committee Members	4	4
Full-time Members	0	0
Inside Directors	1	1
Outside Directors	3	3
Outside Experts	0	0
Other	0	0
Chairperson	Outside Director	Outside Director

Supplementary Explanation

The Nomination and Remuneration Advisory Committee has four members: three Outside Directors and the President and Representative Director. This committee is actively involved in the formation and execution of the succession plan for the President, has adequate discussions about matters on directors' nomination and remuneration, and gives opinions and advice to the Board of Directors.

[Matters Concerning Independent Directors]

Number of Independent Directors	3
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Other Matters Concerning Independent Directors

The standards for confirming the independence of Independent Outside Directors comply with the independence standards of financial instruments exchanges. An Independent Outside Director shall be an attorney, consultant, or other professional who has not received an annual average of ¥5 million or more during the past three years in compensation in the form of cash or other financial benefits, other than remuneration as a director or executive officer, from the SHO-BOND Group. An Independent Outside Director must have the following qualifications that are suitable for this position.

- 1) The ability to contribute to frank, vigorous and constructive discussions at meetings of the Board of Directors
- 2) Extensive experience and knowledge involving management, legal affairs, accounting or some other professional field

SHO-BOND believes that all Outside Directors meet the requirements for independence from SHO-BOND and has submitted notices to the Tokyo Stock Exchange that all of these directors are independent.

[Incentives]

Implementation Status of Measures related to Incentives Granted to Directors	Other
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Supplementary Explanation for Applicable Items

All Directors (excluding Directors serving as Audit and Supervisory Committee Members) are member of the officers' stockholding association. Monthly compensation for directors is paid in cash after purchasing a certain amount of treasury stock. This compensation system gives directors an incentive for medium- to long-term performance. Directors are required to hold their own shares purchased at the officers' stockholding association until their retirement.

Persons Eligible for Stock Options	
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Supplementary Explanation for Applicable Items

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[Director Remuneration]

Status of Disclosure of Individual Directors' Remuneration	The remuneration of individual directors is not disclosed
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Supplementary Explanation for Applicable Items

Remuneration is disclosed separately for directors (except those who are not Audit and Supervisory Committee members) and directors who are Audit and Supervisory Committee members.

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

The upper limit of remuneration for directors is approved at the general meeting of shareholders. At the general meeting of shareholders held on September 25, 2015, the upper limit for annual remuneration for all directors (excluding Directors serving as Audit and Supervisory Committee Members; hereinafter “Directors”) was set at ¥350 million and the upper limit for all directors who are Audit and Supervisory Committee members was set at ¥50 million.

At the Board of Directors, the Company resolved the policy regarding the details of the compensation, etc. for each Director, and the details of such are as follows:

As the Company is a holding company that is in charge of supervising Group companies, the compensation for the Company’s Directors comprises basic compensation only. Furthermore, the payment of basic compensation shall be monthly fixed compensation in cash.

The Company’s Directors concurrently serve as Directors of subsidiaries. Compensation is determined by proportionately taking into consideration the weight of the business of both the Company and its subsidiaries, and multiplying it by the monthly compensation of subsidiaries.

Furthermore, bonuses, which are paid depending on financial results, are paid by the subsidiaries to which the Directors belong.

In determining compensation, etc., the President and Representative Director prepares a compensation proposal, including the portion to be paid by subsidiaries, that is determined at a Board of Directors meeting after consulting the Nomination and Remuneration Advisory Committee, which comprises the Company’s Outside Directors and the President and Representative Director.

In determining the details of individual compensation, etc. for Directors pertaining to the fiscal year ended June 30, 2024, the Company judged that it is in line with this policy as the Nomination and Remuneration Advisory Committee carried out a multifaceted investigation of the original proposal, and the Board of Directors made the determination after taking into consideration the report from the Nomination and Remuneration Advisory Committee.

[Support System for Outside Directors]

One employee is assigned to assist the Outside Directors who are members of the Audit and Supervisory Committee. The opinion of the members of this committee is respected regarding any reassignment, organizational change, or other action that affects this employee. In addition, this employee must be given a sufficient amount of time to perform the duties needed to provide this assistance.

Outside Directors receive materials and explanations before meetings of the Board of Directors. In addition, there is a system in place for Outside Directors to receive other applicable information as needed.

[Statutes of Persons who have Retired as Representative Director and President, Etc.]

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

Name	Job title/ Position	Responsibilities	Terms and Conditions of Employment (Full/part time, with/without remuneration, etc.)	Date when former role as president/ CEO ended	Term
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Number of Persons Holding Advisory Positions (<i>Sodanyaku, Komon</i> , etc.) After Retiring as Representative Director and President, etc.	0
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Other Related Matters

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

(1) Organizational structure and business execution system

SHO-BOND is a company with an Audit and Supervisory Committee. This system is used to strengthen the supervisory function of the Board of Directors and strengthen corporate governance. SHO-BOND aims to accomplish this by using the Audit and Supervisory Committee with Outside Directors accounting for the majority of members and giving the directors who are also members of this committee the right to vote on resolutions at the Board of Directors. In addition, SHO-BOND has established the Nomination and Remuneration Advisory Committee as a voluntary advisory body in order to strengthen the independence, objectivity, and accountability of the Board of Directors.

The Executive Committee meets twice every month as a rule to assist decision-making by the President and Representative Director and discusses and reaches decisions about important matters involving management. The Risk Management Committee and other internal committees are established as an advisory body for the President and Representative Director. Important matters are discussed at these committees, and submitted and reported to the Executive Committee.

(2) Board of Directors

The Board of Directors has eight members including four directors who are members of the Audit and Supervisory Committee. The directors discuss and reach decisions about important matters involving management as prescribed by laws and regulations and the rules for the Board of Directors. As a rule, the board meets once every month and meets at other times as needed in order to reach decisions quickly.

1) Appointment and dismissal of the President and Representative Director and succession plan

SHO-BOND believes that the appointment and dismissal of the President and Representative Director is the single most important strategic decision. This decision is made by the Board of Directors following discussions by the Nomination and Remuneration Advisory Committee, where Outside Directors account for the majority of the members. In addition, SHO-BOND believes that the establishment of a succession plan for the President and Representative Director is the most important issue in order to achieve sustained growth. With the Nomination and Remuneration Advisory Committee playing a significant role, the Board of Directors properly performs supervision to be certain that sufficient time and resources are being used in accordance with a plan for giving selected people the training and experience needed to be candidates to succeed the current President.

2) Director nominations and remuneration

SHO-BOND selects candidates for election as directors who have the knowledge and high ethical standards necessary for the growth of corporate value and the broad perspectives and experience needed to contribute to the company's growth. There are a suitable number of directors in order to provide balance and diversity regarding specialties and other characteristics as well as to enable the board to function effectively and efficiently. (See the skill matrix on the last page of this report) For a supervisory function with a high degree of transparency and objectivity, there are three Outside Directors. Personnel affairs and remuneration of directors are determined by the Board of Directors following discussions by the Nomination and Remuneration Advisory Committee. SHO-BOND has contracts with all Outside Directors that limit their liability prescribed in Article 423-1 of the Companies Act in accordance with Article 427-1 of this act. The contractual upper limit on liability is the smallest amount stipulated in Article 425-1 of the act.

(3) Audit and Supervisory Committee

The Audit and Supervisory Committee has four members, of whom three are Outside Directors. As a rule, the committee meets once every month and meets at other times as needed. The Audit and Supervisory Committee, as an independent body, audits and supervises the performance of directors who are not members of the Audit and Supervisory Committee. The committee also prepares audit reports and makes decisions on

other stipulated matters based on laws and regulations, the Articles of Incorporation, and Audit and Supervisory Committee rules and audit standards. The Audit and Supervisory Committee works with the accounting auditor and the Audit Office to perform audits efficiently.

(4) Nomination and Remuneration Advisory Committee

The Nomination and Remuneration Advisory Committee has four members: three Outside Directors and the President and Representative Director. This committee is actively involved in the formation and execution of the succession plan for the President and has adequate discussions on directors' nomination and remuneration while giving opinions and advice to the Board of Directors.

(5) Executive Committee

The President and Representative Director presides over the Executive Committee as a body to assist his decision-making in management. This committee consists of directors outside the Audit and Supervisory Committee and senior executives nominated by the President, including the executives of SHO-BOND subsidiaries. As a rule, the committee meets twice every month and meets at other times as needed in order to reach decisions quickly.

(6) Internal Committees

Major committees related to business execution include the Risk Management Committee, Sustainability Committee, Internal Control Committee, and Asset Management Committee. Important management issues are continuously discussed by theme at these committees and submitted and reported to the Executive Committee as needed.

3. Reasons for Adoption of Current Corporate Governance System

SHO-BOND positions corporate governance as one of the highest management priorities. The company with an Audit and Supervisory Committee structure is used by SHO-BOND for the purposes of making management more efficient and transparent and strengthening the business execution oversight function. In addition, SHO-BOND has established the Nomination and Remuneration Advisory Committee as a voluntary advisory body in order to strengthen the independence, objectivity, and accountability of the Board of Directors.

III. Implementation of Measures for Shareholders and Other Stakeholders

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

	Supplementary Explanations
Early Posting of Notice of the General Shareholders Meeting	The convocation notice for the general meeting of shareholders held on September 26, 2024, was sent on September 4, 2024. SHO-BOND posted this convocation notice on its website on September 2, 2024.
Scheduling of the General Shareholders Meeting During Non-Peak Days	The general meeting of shareholders was held on September 26, 2024.
Electronic Exercise of Voting Rights	Shareholders can use the voting website of Mitsubishi UFJ Trust and Banking Corporation, SHO-BOND's transfer agent, to submit votes electronically after shareholder meeting notices are sent and up to and including the day before the meeting.
Participation in a Platform for the Electronic Exercise of Voting Rights and Other Initiatives to Enhance Environment for Institutional Investors to Exercise Voting Rights	SHO-BOND uses the Electronic Voting Platform operated by ICJ, Inc.
Provision of Notice (or Summary of Notice) of the General Shareholders Meeting in English	An English-language translation of the notice of the general meeting of shareholders is posted on the SHO-BOND website.

2. Status of IR Activities

	Supplementary Explanations	Presentation by President
Formulation and Publication of Disclosure Policies	SHO-BOND is dedicated to disclosing information in an accurate, fair, and timely manner. In addition, SHO-BOND posts its disclosure policy (IR policy) on its website. The purpose is to use a variety of communication activities for building long-term relationships rooted in trust with all stakeholders and earning a proper evaluation from stakeholders. (https://www.sho-bondhd.jp/english/ir/policy/)	
Regular Investor Briefings held for Individual Investors	Briefings for individual shareholders are held in Tokyo and Osaka every March.	Held
Regular Investor Briefings held for Analysts and Institutional Investors	Briefings are held in August for fiscal year performance and in February for first half performance. There are also one-to-one meetings with analysts and institutional investors in response to requests.	Held
Online Disclosure of IR Information	SHO-BOND uses a <i>kessan tanshin</i> and other methods to disclose financial information for every quarter and fiscal year. Disclosure activities also include information that must be announced based on the timely disclosure rules.	

Establishment of Department and/or Placement of a Manager in Charge of IR	The Corporate Planning Department is responsible for IR.	
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3. Status of Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Establishment of Internal Rules Stipulating Respect for the Position of Stakeholders	Internal rules for respecting the position of stakeholders are incorporated in the Corporate Credo and the SHO-BOND Group Code of Conduct. SHO-BOND uses its entire organization to collect information about the needs and expectations of stakeholders and is dedicated to meeting these needs and expectations.
Implementation of Environmental Preservation Activities and CSR Activities, etc.	Information about the SHO-BOND Group's initiatives for sustainability management is on the SHO-BOND website. (https://www.sho-bondhd.jp/english/materiality/)
Formulation of Policies, etc. on Provision of Information to Stakeholders	The basic policy for investor relations is to provide accurate, fair and timely information about the Group's management strategies, business activities, financial conditions, and other items. The purpose is to build long-term relationships rooted in trust and receive a proper evaluation from shareholders, investors, and all other stakeholders by giving these stakeholders an understanding of SHO-BOND's corporate activities. This policy is posted on the SHO-BOND website. (https://www.sho-bondhd.jp/english/)

IV. Matters Concerning the Internal Control System

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

The Group has the following framework, which complies with the Companies Act and Companies Act Enforcement Regulations, to ensure that business operations are performed properly. The aim of this framework is to ensure the efficiency of business activities, the reliability of reports, and strict compliance with laws and regulations.

(1) System for ensuring that the performance of duties by directors and employees is in compliance with applicable laws, regulations, and the Articles of Incorporation

1) The Board of Directors makes decisions about important matters stipulated in applicable laws, regulations, and the Articles of Incorporation. In addition, the Board of Directors receives reports on the directors' business execution, and monitors and oversees their execution of business to ensure that they are in compliance with applicable laws, regulations, and the Articles of Incorporation.

2) The Board of Directors stipulates the Compliance Policy and ensures a thorough understanding thereof by all employees of the Group. The Compliance Office provides and updates rules and a handbook on compliance, arranges regular training, and ensures a thorough understanding of the Compliance Policy by all employees of the Group.

3) An internal whistle-blowing contact point serving as a venue for direct reporting/consultation by the officers and employees of the Group is set up regarding unlawful behavior or illegal acts, etc. If the responsible person of the whistle-blowing contact point believes that the case violates laws, regulations, or the Articles of Incorporation, he/she reports it to the Audit and Supervisory Committee immediately.

4) As an internal audit department, the Company has established the Audit Office, which audits the overall operations of the Group. The Audit Office conducts audits under internal audit rules and reports the results to the President and Representative Director, Audit and Supervisory Committee, etc.

5) To ensure the reliability of financial reporting, the Company develops and operates internal controls over financial reporting following the Financial Instruments and Exchange Act, etc.

6) The Group shall resolutely resist, on a cross-organizational basis, unlawful demands made by antisocial forces, and has internal systems in place ensuring that it has no business or other relations of any kind with such antisocial forces.

(2) System for storage and management of information relating to performance of duties by directors

SHO-BOND shall ensure appropriate and effective storage and management of information relating to the performance of duties by directors based on document management rules and information security management rules.

(3) Rules and other systems for managing the risk of losses

Regarding events that may cause significant losses to management, the Group establishes and operates a risk management framework and performs risk management education and guidance activities for all employees of the Group under risk management rules. As a rule, the Risk Management Committee meets once every quarter in order to confirm the status of responses for every risk category and discuss the Group's risk management policies. In the event of the manifestation of risks as provided in the risk management rules, the heads of all departments and subsidiaries shall promptly report to the officer in charge of risk management and the Risk Management Committee secretariat. The officer in charge of risk management shall relay the reported details of the risk event to the Board of Directors and the Audit and Supervisory Committee.

(4) System for ensuring efficient performance of duties by Directors

As a rule, the Board of Directors meets once every month and at other times as needed in order to reach decisions quickly. Business operations are executed properly in accordance with decisions made by the Board of Directors by clearly defining responsibilities and authority through organizational rules, rules for division

of responsibilities, rules for delegation of authority, and other rules. The Executive Committee meets twice every month as a rule to assist decision-making by the President and Representative Director. This provides a framework for efficient discussions and decisions concerning important matters involving management.

(5) System for ensuring the appropriateness of business operations in the corporate group comprising SHO-BOND and its subsidiaries

SHO-BOND has rules for supervising subsidiaries to make them stronger and perform administrative tasks efficiently. While respecting the autonomy of these companies, SHO-BOND asks for periodic reports on business activities and preliminary consultations regarding significant matters. Subsidiaries use the SHO-BOND risk management rules and compliance policy and every company has its administrative framework.

(6) Matters regarding directors and employees serving as assistants to the Audit and Supervisory Committee in the performance of its duties, the independence of such directors and employees from other directors (excluding directors serving as Audit and Supervisory Committee members), and ensuring the effectiveness of the instructions by the Audit and Supervisory Committee to such directors and employees

One employee is assigned to assist the Audit and Supervisory Committee. This employee's independence from executives is ensured by requiring that the opinion of this committee is respected with regard to personnel and organizational changes and other matters. In addition, this employee must be given a sufficient amount of time to perform the duties needed to provide this assistance.

(7) Systems for reporting by directors (excluding directors serving as Audit and Supervisory Committee members) and employees of SHO-BOND and its subsidiaries to the Audit and Supervisory Committee, other systems for reporting to the Audit and Supervisory Committee, and systems for ensuring that the persons who made such reports do not receive disadvantageous treatment on the grounds that they have made such report

- 1) In cases of incidence or suspected incidence of any event that causes significant harm to the Group, or on discovery of violation of applicable laws and regulations or unlawful behavior by officers or employees of the Group, or any other event that is deemed reportable to the Audit and Supervisory Committee, the directors and employees shall duly report such event to the Audit and Supervisory Committee. Regardless of the above, the Audit and Supervisory Committee members may at any time request a report from the directors or employees when necessary.
- 2) Procedures shall be created for information to be provided to the Audit and Supervisory Committee members in a timely manner as required, from directors, auditors, and employees of subsidiaries.
- 3) The Group prohibits disadvantageous treatment of officers and employees of the Group who have reported to the Audit and Supervisory Committee on the grounds that they have made such report and shall ensure thorough understanding thereof among all directors and employees of the Group.

(8) Matters regarding the policies for processing advance payment or reimbursement of expenses or handling other expenses or debts arising from the performance of duties by Audit and Supervisory Committee members (limited to those arising from the performance of duties by Audit and Supervisory Committee)

When demands are made by the Audit and Supervisory Committee members for advance payment, reimbursement of expenses, or other payments arising from the performance of their duties, the Audit and Supervisory Committee members shall have their expenses or debts owing to them processed promptly, except in cases where such payment is deemed to have been unnecessary for the execution of duties by the Audit and Supervisory Committee members.

(9) Systems for ensuring the effectiveness of audits by the Audit and Supervisory Committee

Audit and Supervisory Committee members shall attend the Executive Committee, Internal Control Committee, and other important meetings to fully understand the status of the execution of business operations. They shall also examine major approval documents ("*ringisho*") and other important documents

regarding business execution, and, where necessary, may seek explanations from directors or employees. In addition, they shall regularly exchange information with the Audit Office and the Accounting Auditor to discuss issues concerning business execution and financial affairs.

2. Basic Views on Measures for Eliminating Antisocial Forces and Status of Development

The Group has established "Eliminate antisocial forces" in the SHO-BOND Group Code of Conduct and stipulated that all unlawful demands by antisocial forces shall be eradicated and relationships shall be cut off.

We recognize that any relationship with antisocial forces, including unlawful demands from them, is a serious compliance risk. We manage risks following the policies and systems set forth in the risk management rules and strive to prevent damage by regular communication with the local police and companies to collect information on antisocial forces.

As compliance practices, we have prepared a compliance handbook and disseminated it throughout the Group. We also provide education on compliance through company-wide e-learning and rank-specific training to enhance knowledge and awareness.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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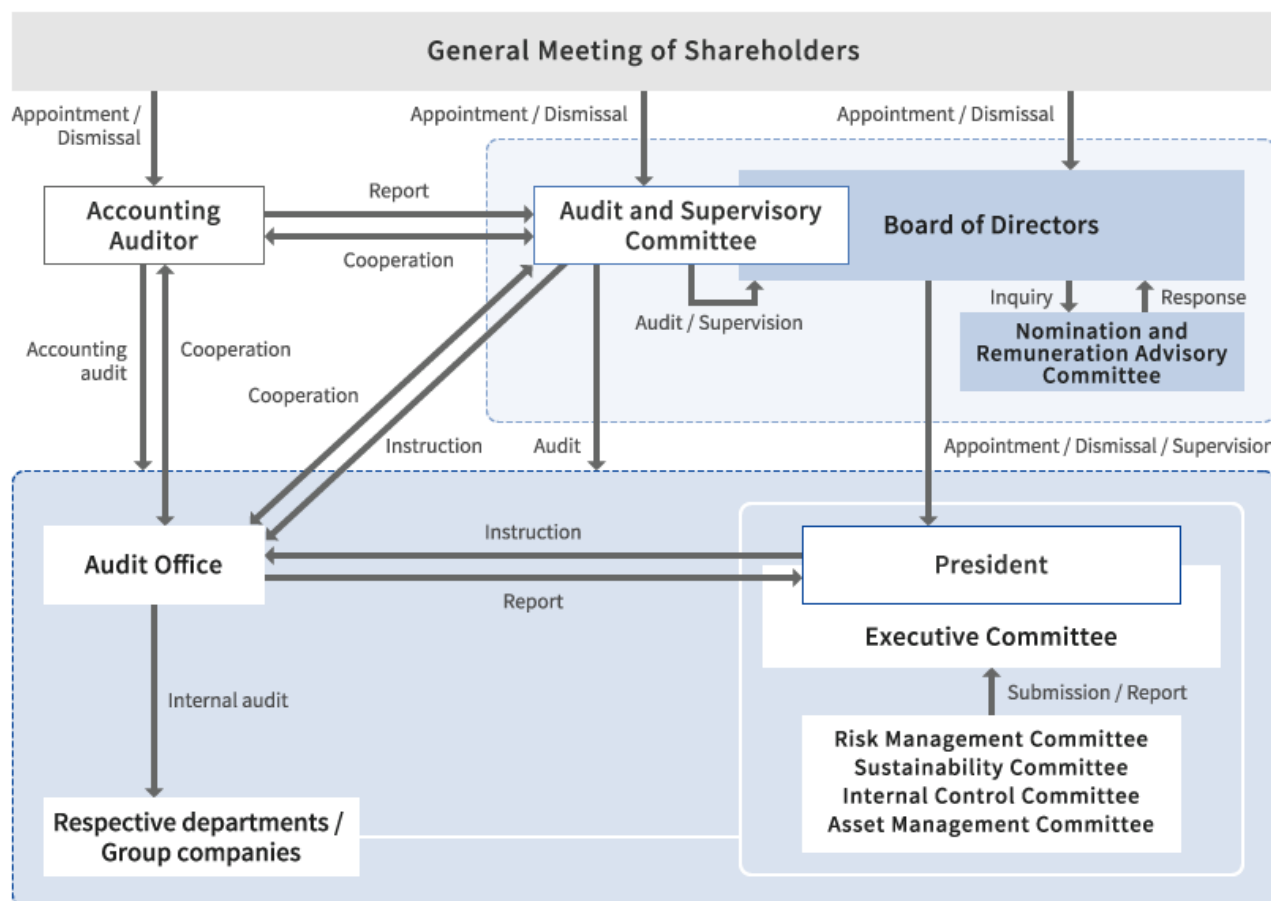
Supplementary Explanation for Applicable Items

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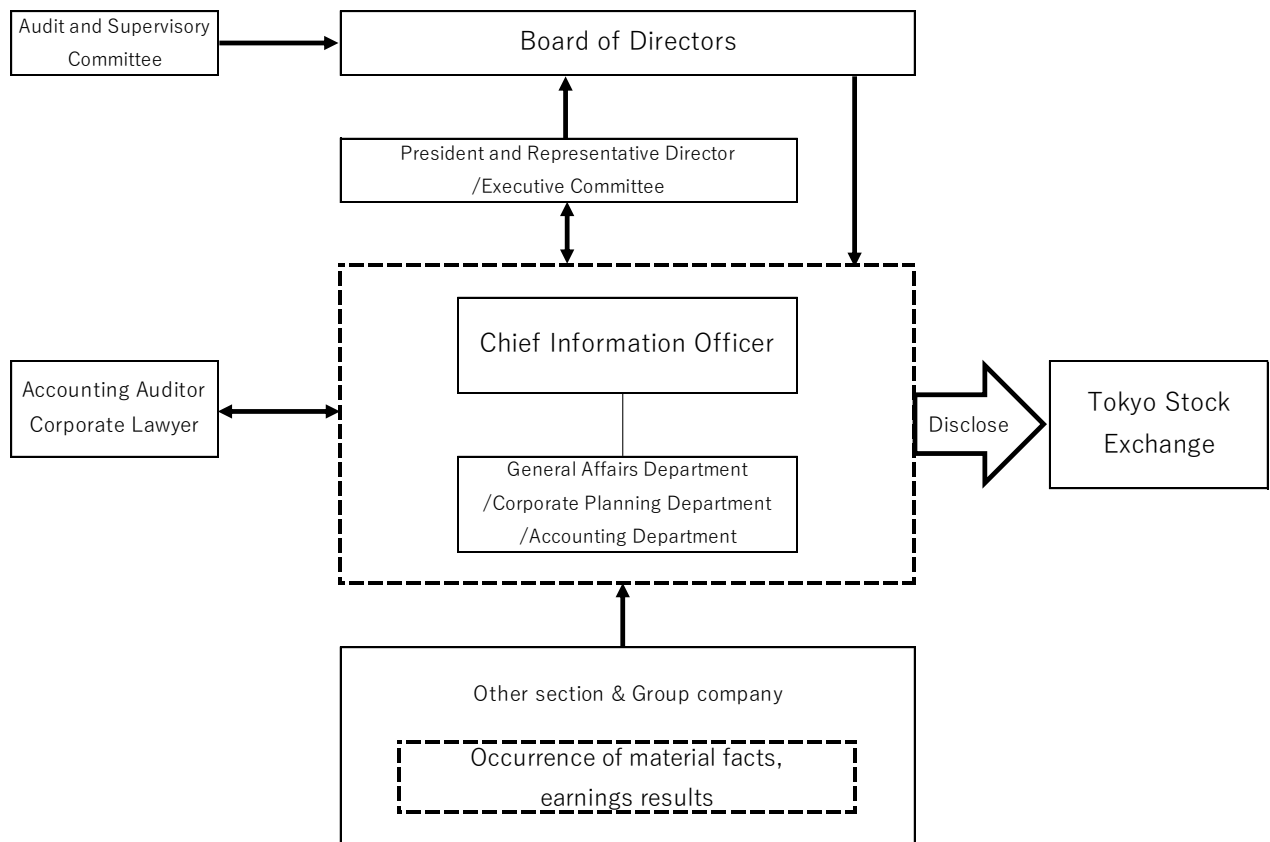
2. Other Matters Concerning Corporate Governance System

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【Corporate Governance Structure】



【Overview of Timely Disclosure System】



(1) Information on facts of regarding decisions shall be disclosed after each department prepares materials and receives approval from the Board of Directors via the department in charge of disclosure.

(2) Information on facts regarding events shall be disclosed after the department in charge of disclosure reports to and receives approval from the officer in charge and the representative director.

(3) Earnings results shall be disclosed after the Corporate Planning Department and the Accounting Department prepares materials and receives approval from the Board of Directors via the department in charge of disclosure.

[Knowledge, experience, capability, and other skills of directors (Skill Matrix)]

No.	Name	inside Outside	Corporate Management	Finance/ Accounting	Human Resources	Legal affairs/ Compliance, Risk management	Global	Technology/ Research and Development
1	Tatsuya Kishimoto	inside	○		○	○		○
2	Yasuhiro Sekiguchi	inside	○	○		○	○	
3	Takayasu Shimada	inside	○		○	○		
4	Setsu Arai	inside	○	○			○	
5	Noriyuki Hosaka	inside	○		○	○		○
6	Satoru Miura	Outside	○	○		○		
7	Akira Hongo	Outside			○	○		
8	Reiko Kuwano	Outside					○	○

Note: The above list does not represent all the expertise and experience possessed by directors.

Skills	Details
Corporate Management	Contribution to management based on experience in corporate management and important corporate decision-making.
Finance/Accounting	Contribution to management based on experience and expertise of finance and accounting.
Human Resources	Contribution to management based on knowledge and experience in formulation of human resource strategy, human resource development and training, diversity, and work style reform.
Legal affairs/Compliance, Risk management	Contribution to management based on knowledge and experience in legal, compliance, and risk management.
Global	Contribution to management based on knowledge and experience in overseas business development.
Technology/ Research and Development	Contribution to management based on knowledge and experience in technology and research and development.