

## **Basic Policy on Corporate Governance**

### **Section 1 General Provisions**

Article 1 (Basic approach to corporate governance)

1. Lacto Japan (“the Company”) believe that continuously improving corporate value through its corporate activities and to realize our purpose of “Bring health and happiness to people by connecting the world through food” will fulfill the expectations of all stakeholders, including shareholders, business partners and employees. For this reason, the Company regards continuous strengthening of corporate governance as the most important management issue, which also forms the basis for ensuring the soundness, transparency and efficiency of its management. Therefore, we will strive for timely disclosure to all stakeholders to ensure the transparency. Moreover, as Audit and Supervisory Committee members that are responsible for auditing business execution by the directors will be members of the Board of Directors, we will strengthen the supervisory function of the Board of Directors and further enhance corporate governance by further reinforcing the monitoring system. At the same time, as the Board of Directors will be able to broadly entrust business execution decisions to the directors, the supervisory function and business execution will be separated and management decision-making will be accelerated. As a result, corporate value will be further enhanced.
2. In line with the fundamental approach prescribed in the previous paragraph, we will work to enhance and strengthen corporate governance, starting with the matters prescribed in each of the following items.
  - (1) Strive to ensure the interests and equality of shareholders.
  - (2) Strive for appropriate cooperation with stakeholders other than shareholders.
  - (3) Strive to ensure appropriate information disclosure and transparency.
  - (4) Strive to ensure that the Board of Directors, etc. appropriately fulfill their roles and responsibilities.
  - (5) Strive to engage in constructive dialogue with shareholders in order to contribute to sustainable growth and the enhancement of medium- to long-term corporate value.

### **Section 2 Ensuring Interests and Equality of Shareholders**

Article 2 (Ensuring shareholders’ interests)

1. The Company will take appropriate action to effectively ensure the interests of shareholders, including their voting rights at general meetings of shareholders.

2. When a considerable number of opposing votes to an agenda item proposed by the Company at a general meeting of shareholders has been collected, the Board of Directors will analyze the reason for the opposition and the reasons why such opposing votes were collected, and consider the necessity of a subsequent response.

#### Article 3 (Exercising rights at general meetings of shareholders)

1. The Company recognizes that general meetings of shareholders are an occasion for constructive dialogue with shareholders and will establish an appropriate environment relating to the exercise of rights at general meetings of shareholders based on the viewpoint of shareholders.
2. The Company will strive to ensure sufficient time for shareholders to study proposals for general meetings of shareholders and to send out notices of convocation earlier than the legal deadline while ensuring the accuracy of information stated in notices of convocation. In addition, the Company will electronically disclose the information stated in notices of convocation on TDnet and the Company's website during the period from the resolution by the Board of Directors relating to the convocation of a general shareholders' meeting until the dispatch of notices of convocation.
3. The Company shall consider the necessity for the use of an electronic voting platform and translation into English of notices of convocation to a reasonable extent in light of the percentage of foreign shareholders and other factors.

#### Article 4 (Basic direction regarding capital policy)

1. The Company regards the return of profits to shareholders as one of the important management issues that the Company faces.
2. While the Company is in the process of growing, its basic direction regarding capital policy shall be to continue the payment of stable dividends while ensuring necessary internal reserves for future business expansion and the reinforcement of the management structure.

#### Article 5 (Policy on strategic shareholdings)

1. The Company will hold shares of business partners, etc. as strategic shareholdings from the viewpoint of establishing and strengthening relationships with business partners and promoting business alliances.
2. The Board of Directors shall make decisions to hold strategic shares after comprehensively determining that such shareholdings will enhance the Company's medium- to long-term corporate value.
3. Regarding the exercise of voting rights for strategic shareholdings, the Company will comprehensively decide whether to vote for or against proposals based on whether or

not this will lead to the sustainable growth and enhancement of the medium- to long-term corporate value of Lacto Japan and issuers, in light of such factors as the state of investee companies and trading relationships with those companies.

#### Article 6 (Transactions between related parties)

1. If directors conduct competitive transactions or transactions that conflict with the interests of the Company, they shall be required to obtain the approval of the Board of Directors. In addition, directors that conduct competitive transactions or transactions that conflict with the interests of the Company shall report important matters regarding those transactions to the Board of Directors without delay.
2. The Company will confirm with all directors in writing once a year whether or not there are transactions with related parties and the details of such transactions, and establish a system for managing transactions between related parties.

### **Section 3 Appropriate Cooperation with Stakeholders other than Shareholders**

#### Article 7 (Management Philosophy)

The Company has established the following management philosophy in order to increase its medium- to long-term corporate value while conducting management based on consideration of value creation for various stakeholders.

##### Management Philosophy

###### Our Purpose

Bring health and happiness to people by connecting the world through food

###### Our Mission

Contribute to the future of the primary food industries

Create new demand for dairy products

Enrich the lives of all stakeholders

###### Our Value

Fairness

#### Article 8 (Corporate Code of Conduct and Code of Conduct for Officers and Employees)

The Company has prescribed the Corporate Code of Conduct and the Code of Conduct for Officers and Employees. The Board of Directors will ensure that they are widely disseminated and observed as far as the front line of business activities.

#### Article 9 (Ensuring diversity)

We recognize that the existence of diverse viewpoints and values that reflect varied experience, skills and attributes within the Company can be a strength in terms of ensuring the Company's sustainable growth. Based on this recognition, we will promote diversity including the encouragement of active roles for women in the Company.

#### Article 10 (Whistleblowing)

The Company has established the Whistleblowing Regulations and will endeavor to comply with them.

### **Section 4 Ensuring Appropriate Information Disclosure and Transparency**

#### Article 11 (Enhancement of information disclosure)

1. The Company will carry out disclosure appropriately based on laws and regulations and actively endeavor to provide information other than disclosure based on laws and regulations.
2. The Board of Directors will strive to ensure that information is accurate, easy to understand and highly useful.

#### Article 12 (Outside accounting auditor)

1. The Audit and Supervisory Committee has formulated standards to appropriately select candidates for the role of outside accounting auditor and appropriately evaluate the outside accounting auditor. Moreover, by confirming whether or not the outside accounting auditor has the independence and expertise required of it, the Audit and Supervisory Committee will take appropriate action aimed at ensuring appropriate audits.
2. The Board of Directors and the Audit and Supervisory Committee will endeavor to establish a system to ensure sufficient auditing time to enable high-quality audits, ensure access by the outside accounting auditor to the Managing Director and other management executives, ensure sufficient cooperation between the outside accounting auditor and the Audit and Supervisory Committee, the Internal Audit Office and outside directors, and provide responses if the outside accounting auditor discovers improper behavior and a suitable response is required or if deficiencies and problems are pointed out.

## **Section 5 Responsibilities of Board of Directors**

### Article 13 (Responsibilities of the Board of Directors)

1. The Board of Directors will appropriately fulfill its role and responsibilities by implementing each of the following items, based on its fiduciary responsibility and accountability to shareholders.
  - (1) Prescribe the corporate philosophy and establish the targets the Company will aim for, and provide strategic direction by formulating management strategy and management plans.
  - (2) Ensure the fairness and transparency of management by exerting a supervisory function in relation to overall management.
  - (3) Evaluate the Company's business performance, etc. and reflect this in the appointment and personnel evaluation of the Managing Director and other management executives.
  - (4) Provide supervision to ensure timely and accurate information disclosure.
  - (5) Develop the internal control and risk management systems.
  - (6) Manage conflicts of interest that may arise between the Company and related parties such as management executives and controlling shareholders.
2. The Board of Directors will entrust to the representative director matters other than matters that should be determined by the Board of Directors in accordance with laws and regulations, the Articles of Incorporation, and the Regulations of the Board of Directors.
3. The Board of Directors will supervise succession planning for the Managing Director.

### Article 14 (Criteria to determine independence of independent outside directors)

When selecting candidates for independent outside directors, the Board of Directors shall determine their independence after confirming that they have fulfilled the independence criteria prescribed by financial instruments exchanges and whether or not the candidates concerned fall under items (1) to (14) below at present and during the past three fiscal years. Furthermore, the Board of Directors shall select as candidates for independent outside directors persons who can be expected to fulfill their roles and responsibilities from an independent and objective standpoint, in view of their character, judgment, abilities, relationship with the Company and other circumstances.

- (1) Counterparties that have transactions principally with Lacto Japan or persons that execute business at these counterparties.

In the above, "Counterparties that have transactions principally with Lacto Japan" means counterparties where the amount paid by Lacto Japan in the case of transactions with Lacto Japan during any of the last three fiscal years accounts for

2% or more of the consolidated sales of the applicable company during the applicable fiscal year.

- (2) Counterparties that are major business partners of Lacto Japan or persons that execute business at these business partners.

In the above, “Counterparties that are major business partners of Lacto Japan” means counterparties where sales of Lacto Japan to the applicable company during any of the last three fiscal years account for 2% or more of the consolidated sales of Lacto Japan during the applicable fiscal year.

- (3) A consultant, accounting specialist or legal specialist who has obtained a large amount of money or other properties apart from officers’ compensation (if the party that has obtained such properties is an organization such as a corporation or union, this means the person that belongs to the applicable organization)

In the above, “a large amount of money” means; in the case of an individual that has obtained such money, ¥10 million a year or more on average during the past three years; and in the case of an organization, whichever is the highest amount of money in the following: ¥10 million in payment by Lacto Japan on average during the past three fiscal years (of the applicable organization) or 2% of the consolidated sales of the applicable organization.

- (4) Representative employees or employees of Lacto Japan’s accounting auditor, or other accounting specialists that are responsible for audits of Lacto Japan or its subsidiaries.

- (5) Major shareholders of Lacto Japan or persons that execute business at these shareholders in the above, “major shareholders” means counterparties that hold 10% or more of the voting rights of Lacto Japan either directly or indirectly.

- (6) Directors of organizations to which the Company has made a large donation (only persons who execute business) and other persons that execute business at these organizations.

In the above, “a large donation” means donations exceeding ¥20 million a year on average during the last three fiscal years.

- (7) Counterparties that are major lenders to Lacto Japan, or their parent companies, or persons that execute business at these companies. In the above, “major lenders to Lacto Japan” means lenders where the amount borrowed is more than 2% of Lacto Japan’s total consolidated assets.

- (8) Persons who executed business at Lacto Japan or its subsidiaries at any time during the ten years before assuming office.

- (9) Persons that execute business at companies that have received directors from Lacto Japan.

- (10) If organizations that fall under (1), (2) or (3) above exist at the time of assuming office, persons that belonged to these organizations at any time during the three years before assuming office.

- (11) Persons who fell under the preceding item (4) at any time during the three years before assuming office.
- (12) If organizations that fall under (6) above exist at the time of assuming office, persons that belonged to these organizations at any time during the three years before assuming office.
- (13) Persons who fell under (5) or (7) above at any time during the three years before assuming office.
- (14) Close relatives of persons listed in any of items (i) to (iii) below (excluding insignificant persons)
- (i) Persons described in any of (1) to (3) above, or persons described in (10) or (11) above (but as regards (1) and (2), executive directors, executive officers and corporate officers are regarded as important persons; in addition, as regards (10) as well, in the case of persons that belong to organizations, employees and partners of the applicable organization are regarded as important persons, while as regards (11), the same applies to employees, partners and other accounting specialists that are directly responsible for audits of the Lacto Japan Group); however, this provision shall not apply if the independence of the persons concerned is recognized as being effectively guaranteed, after comprehensively taking into account the relationship between the persons concerned and their applicable relatives, as well as the eligibility, qualifications, experience, etc. of the applicable relatives.
  - (ii) Persons that execute business at subsidiaries of the Company.
  - (iii) Persons who fall under the preceding item (ii) or persons who executed business at the Company at any time during the one year before assuming office.

\*1. A “person that executes business” means a person prescribed in Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act.

\*2. “Close relative” means a relative within the second degree of kinship.

#### Article 15 (Roles and responsibilities of independent outside directors)

Independent outside directors will appropriately fulfill their roles and responsibilities to contribute to the sustainable growth of the Company and the enhancement of medium- to long-term corporate value by implementing each of the following items.

- (1) In regard to management policy and improving management, provide advice from the viewpoint of aiming to promote the sustainable growth of the Company and enhance medium- to long-term corporate value, based on their own expertise.
- (2) Supervise management through the appointment and dismissal of the management team and other important decision-making at Board of Directors’ meetings.

- (3) Supervise conflicts of interest between the Company and management executives and controlling shareholders, etc.
- (4) Appropriately reflect at Board of Directors' meetings the opinions of stakeholders, including minority shareholders, from a standpoint that is independent from the management team and controlling shareholders.

#### Article 16 (Composition of Board of Directors)

1. The number of directors (excluding directors that are Audit and Supervisory Committee members) shall be no more than seven and the number of directors that are Audit and Supervisory Committee members shall be no more than five.
2. The number of outside directors shall be at least one-third of the total number of directors.
3. The Company will take into account the diversity of the composition of the Board of Directors in terms of gender, age, background, skills and other attributes so that it has a good balance of knowledge, experience and ability overall in order to effectively fulfill its roles and responsibilities.
4. When deciding the compensation of and nominating directors and the management team, the Board of Directors will establish a Nomination and Compensation Advisory Committee as an advisory body to the Board of Directors. To ensure fairness, objectivity and transparency, it shall be chaired by an independent outside director while outside directors shall account for a majority of the committee's members. The committee will deliberate important matters and report the results to the Board of Directors.

#### Article 17 (Policy and procedures for determining directors' compensation)

1. Compensation for directors (excluding outside directors and directors who are Audit and Supervisory Committee members) shall comprise fixed compensation and variable compensation. Variable compensation shall be performance-linked compensation linked to business performance. In order to strengthen awareness of the need to increase corporate earnings from a medium- to long-term perspective, non-monetary stock compensation shall be included as part of the compensation. The ratio of fixed and variable compensation in the amount of compensation shall be determined by position and responsibility. Variable compensation shall be determined by the Nomination and Compensation Advisory Committee, and the compensation of individual directors shall be determined by a calculation formula based on indicators (KPIs) approved by the Board of Directors.
2. Compensation for directors (excluding outside directors and directors who are Audit and Supervisory Committee members) shall be determined by a resolution of the Board of Directors after deliberation by the Nomination and Compensation Advisory



Committee, which is chaired by an outside director and in which outside directors constitute a majority of the members. The maximum amount of compensation shall be 400 million yen per year for directors (including up to 30 million yen for outside directors, based on a resolution of the 23rd ordinary general meeting of shareholders held on February 25, 2021.)

3. Regarding stock compensation for directors (excluding outside directors and directors who are Audit and Supervisory Committee members), it was newly resolved to introduce a compensation system based on shares with restriction on transfer at the 23rd ordinary general meeting of shareholders held on February 25, 2021. Eligible directors (excluding directors who are Audit and Supervisory Committee members and outside directors) will deliver all of the monetary compensation claims provided by the Company based on this system as in-kind contributions to the Company, and in exchange the Company shall issue or dispose of the Company's shares of common stock once a year (April), in principle. The total amount of monetary compensation claims to be paid to applicable directors under this system shall be not more than 150 million yen per year (not including salaries paid to directors who are also serving as employees). In addition, the ratio of stock compensation shall be a uniform percentage of the standard amount of monetary compensation.
4. Compensation for outside directors (excluding directors who are Audit and Supervisory Committee members) shall consist only of fixed compensation, in view of their independence from business execution, and will be decided at meetings of the Board of Directors, in light of deliberation at meetings of the Nomination and Compensation Advisory Committee, within the range of the total amount determined at general shareholders' meetings.
5. Compensation for directors who are Audit and Supervisory Committee members shall consist only of fixed compensation, in view of their independence from business execution, and will be determined by consultation among directors who are Audit and Supervisory Committee members within the scope of the total amount determined at general shareholders' meetings (¥80 million per year. )

#### Article 18 (Policy and procedures for nominating directors)

1. When nominating directors (excluding directors who are Audit and Supervisory Committee members), the Managing Director shall formulate an original plan to consider as candidates persons who deeply understand the Company's Corporate Philosophy and are likely to contribute to the development of the Group. In addition, they shall have excellent character, judgment and abilities as well as extensive experience, and have a strong sense of ethics. Candidates shall be decided at meetings of the Board of Directors, in light of deliberation at meetings of the Nomination and Compensation Advisory Committee.

2. When nominating directors who are Audit and Supervisory Committee members, the Managing Director will formulate an original plan to consider as candidates persons who will strive to maintain and enhance the Group's sound management and social credibility, based on the Company's Corporate Philosophy, by auditing the duties of directors and preventing violations of laws and regulations and the Articles of Incorporation. In addition, candidates will be able to contribute to ensuring the soundness of management by conducting audits from neutral and objective perspectives, have excellent character, judgment and skills as well as extensive experience, and have a strong sense of ethics. Nominations will be determined at meetings of the Board of Directors, after receiving the approval of the Audit and Supervisory Committee, in light of deliberation at meetings of the Nomination and Compensation Advisory Committee.
3. Basically, at least one director who is an Audit and Supervisory Committee member shall have appropriate expertise regarding finance and accounting.
4. The number of other listed companies at which directors are concurrently serving as officers shall be within a reasonable range.

#### Article 19 (Roles and responsibilities of Audit and Supervisory Committee)

The Audit and Supervisory Committee shall make appropriate judgments from an independent and objective standpoint, in light of their fiduciary responsibility to shareholders, when fulfilling their roles and obligations, such as audits of business execution by the Board of Directors, the appointment and dismissal of the outside accounting auditor, and the exercise of authority relating to audit compensation.

#### Article 20 (Analysis and evaluation regarding effectiveness of entire Board of Directors)

The Board of Directors will analyze and evaluate the effectiveness of the entire Board of Directors, while also considering factors such as self-evaluation by each director, and disclose a summary of the results every year.

#### Article 21 (Fiduciary responsibility of directors, etc.)

Directors and the management team will recognize their fiduciary responsibility to shareholders and will act for the sake of the joint interests of the Company and shareholders while ensuring appropriate cooperation with stakeholders.

#### Article 22 (Acquisition of information and support system)

1. Directors should actively obtain information in order to effectively fulfill their roles and obligations, and request the Company to provide additional information as necessary.

2. The Company will develop a system to support directors, including the aspect of personnel.
3. The Board of Directors and the Audit and Supervisory Committee will confirm whether information requested by each director has been smoothly provided or not.

#### Article 23 (Training for directors)

1. In order to properly fulfill the roles and obligations expected of those who play a part in important governing institutions of a listed company, directors, including those newly appointed, should deepen their understanding regarding their roles and obligations and strive for self-improvement by acquiring and updating necessary knowledge.
2. The Company will provide directors with training by outside lecturers or responsible departments to enable them to acquire necessary knowledge regarding the obligations and responsibilities of directors. In addition, business department managers will provide training regarding business operations, including explanation of each business, the roles of offices and plants and factory inspections.

### **Section 6 Dialogue with Shareholders**

#### Article 24 (Dialogue with shareholders)

1. The Company will strive to engage in constructive dialogue with shareholders, on occasions other than general meetings of shareholders as well, in order to contribute to sustainable growth and the enhancement of medium- to long-term corporate value.
2. The Company will formulate the following policies regarding the establishment of a system and initiatives to promote constructive dialogue with shareholders. Policies to promote constructive dialogue with shareholders.
  - (1) Regarding dialogue with shareholders, basically, the Managing Director and the director in charge of investor relations (IR) and public relations will conduct interviews with shareholders to a reasonable extent in light of the desires of shareholders and the main matters of interest at interviews.
  - (2) The director in charge of IR and public relations will oversee dialogue with shareholders as a whole and attempt to realize constructive dialogue.
  - (3) The Investor Relations and Public Relations Department, Corporate Strategy & Planning Department, Human Resources and General Affairs Department, Accounting Department, and Finance Department will establish a coordinated cooperative system aimed at promoting dialogue, including exchanging information on a daily basis regarding matters related to constructive dialogue with shareholders.

- (4) The following actions will be conducted.
  - (i) Institutional investor briefings will be held appropriately.
  - (ii) The Company's website will be enhanced.
  - (iii) Shareholder newsletters will be published appropriately.
- (5) Shareholders' opinions and concerns grasped through dialogue will be shared appropriately in the Board of Directors and the relevant departments described in (3) above.
- (6) At the time of dialogue, the Company will comply with insider trading regulations prescribed in the Financial Instruments and Exchange Act.
- (7) The Company will ascertain the shareholder structure, as required.

### **Supplementary Provisions**

#### Article 1 (Alterations)

Any alterations to this Basic Policy shall be approved at meetings of the Board of Directors.

#### Article 2 (Enforcement)

1. This Basic Policy was enforced from July 12, 2016.
2. Changes to this Basic Policy were enforced from October 15, 2019.
3. Changes to this Basic Policy were enforced from February 25, 2021.
4. Changes to this Basic Policy were enforced from February 25, 2022.
5. Changes to this Basic Policy were enforced from February 14, 2023.