

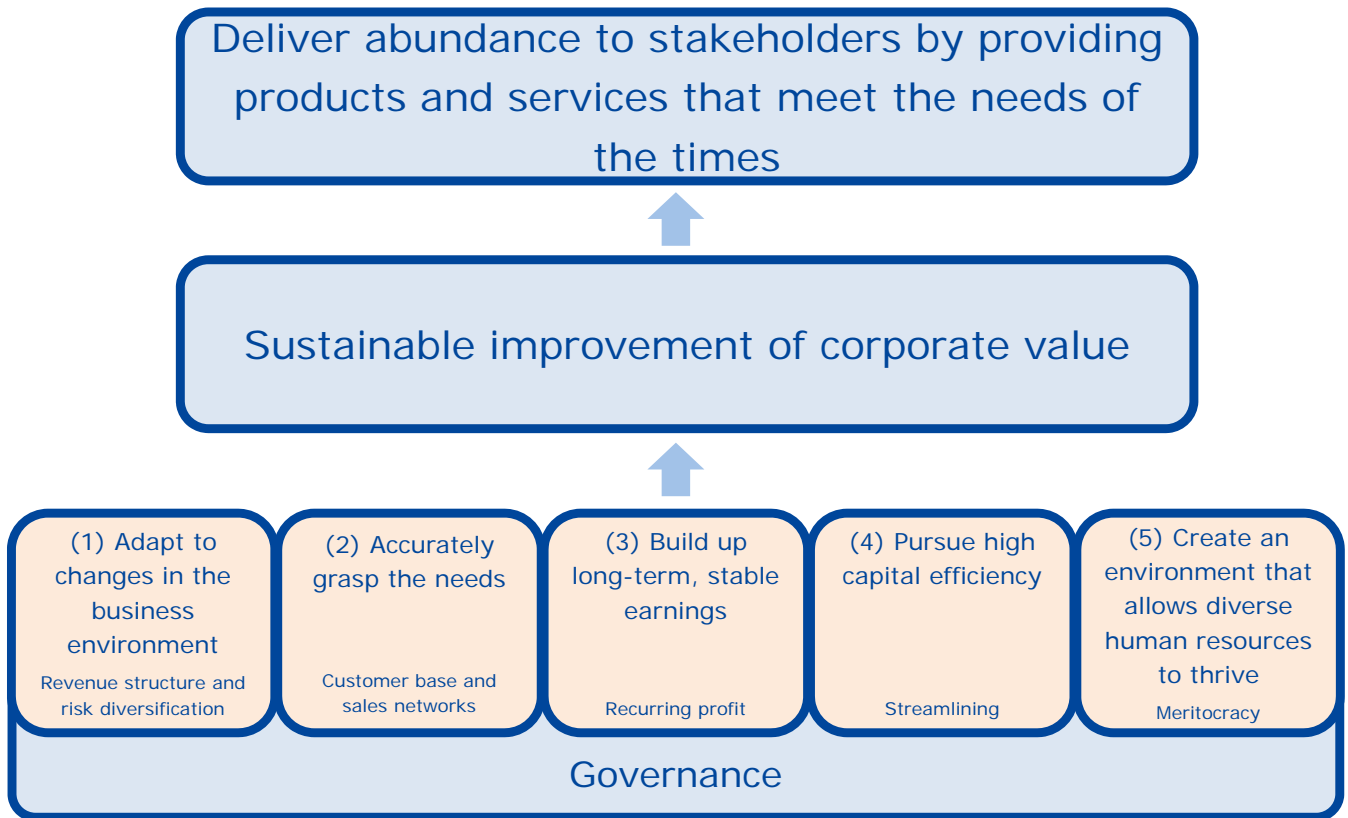
Our Sustainability

June 1, 2020

1. Our Sustainability

2. Environment, Society, Governance

Our Sustainability



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(1) Preparedness to adapt to changes in business environment

- Business model centered on recurring profit, which is long-term, stable earnings
- Swift decision-making enabled by a flatter organizational hierarchy and delegation to departments
- Risk-diversified business portfolio
- Improving capital efficiency by continual cost reduction and cash flow improvement regardless of business performance

[Reference] Revenue structure

$$\text{Operating income} = \text{Recurring profit} + \text{Acquisition cost}$$

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Long-term, stable earnings
Mainly variable costs

Recurring profit is long-term, stable earnings, and unlikely to see a large deterioration in the short run. Acquisition costs are variable costs, over which the company has control on its own. Accordingly, the revenue structure is adaptable to changes in the business environment.

[Reference] Business portfolio

	Office automation (OA) equipment	Mobile phones	Insurance	Land lines	Systems	Water	Electric power
1988~2000	○	○	-	-	-	-	-
2001~2010	○	○	○	○	-	-	-
2011~2020	○	○	○	○	○	○	○

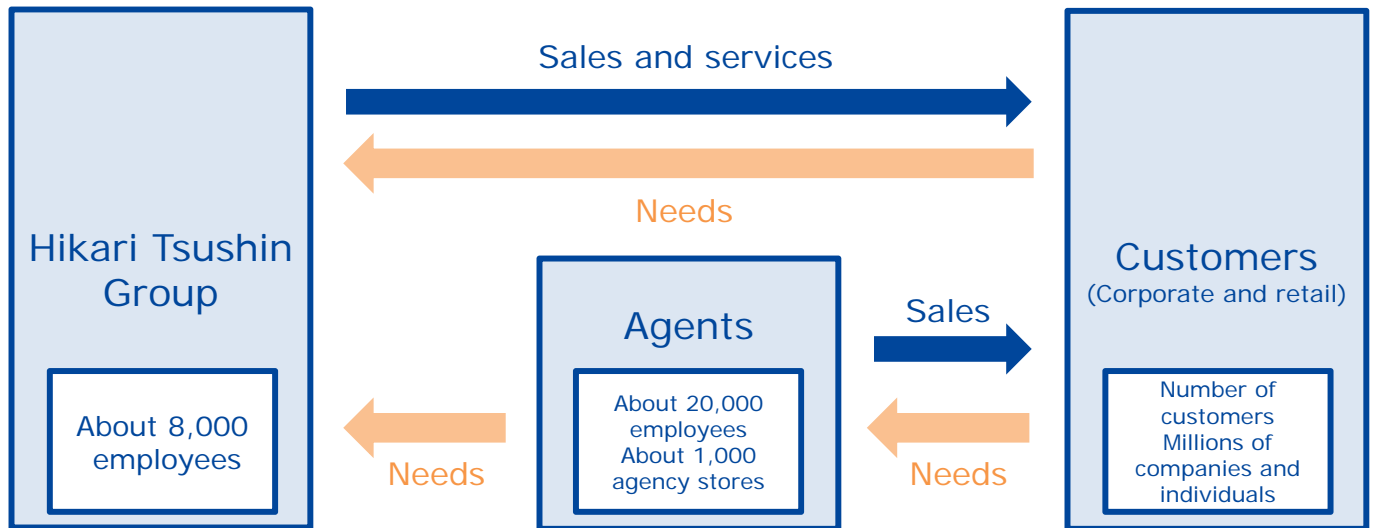
Since the business launch in 1988, the number of businesses has been increasing; thus, risks are diversified.

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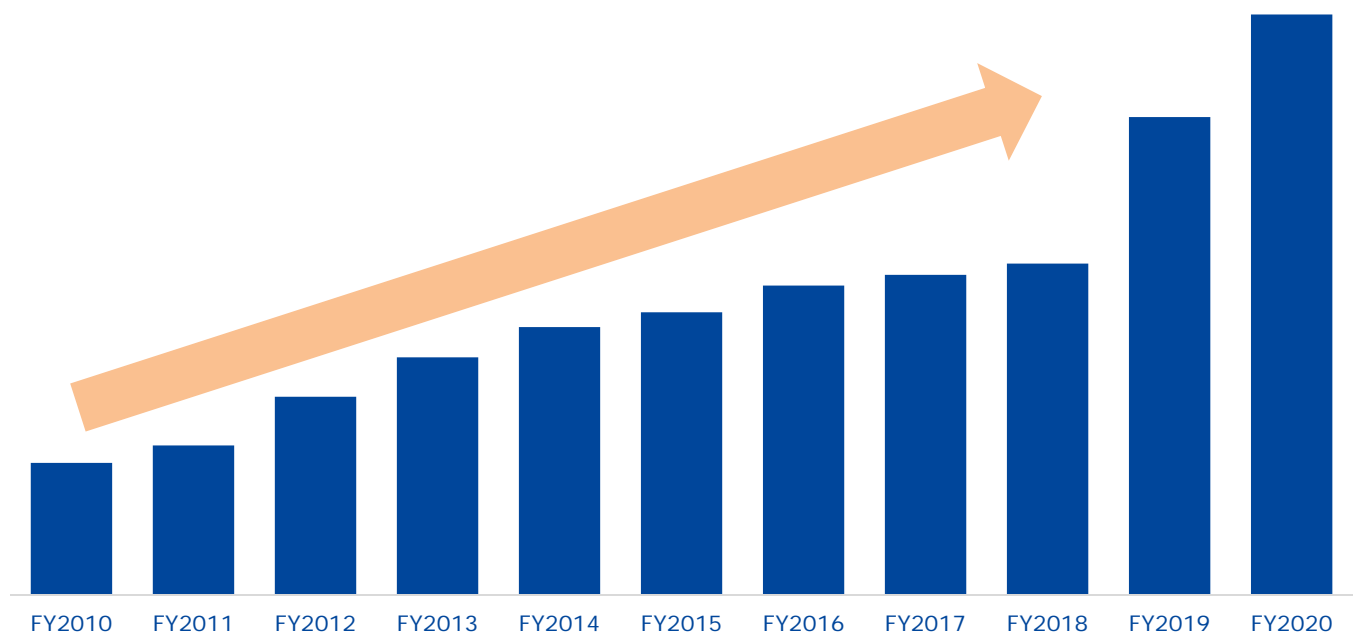
(2) System to accurately grasp needs

Built a system to accurately understand customer needs through expansion and improvement of customer base and sales networks



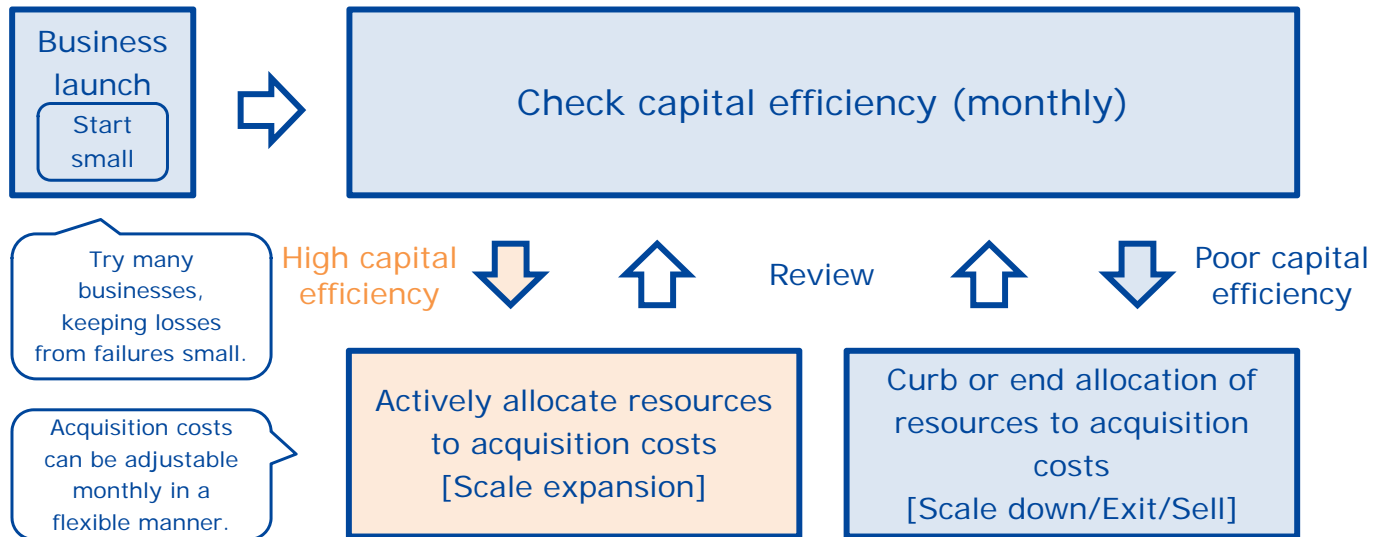
(3) Build up long-term, stable earnings

Focus on accumulating recurring profit, which is long-term, stable earnings



(4) Pursue high capital efficiency

Pursue high capital efficiency by avoiding focusing management resources on businesses with poor capital efficiency



(5) Environment that allows diverse human resources to thrive

Concept: Experience makes people grow.



Foundation: Work environment that allows employees to focus on their work

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Environmental protection

Non-possession

Tangible fixed assets accounted for 2% of the total assets as of the end of the fiscal year ended March 2020.

Reuse

- When purchasing furniture and fixtures, used items are selected in principle.
- Reuse shelves are available for employees to share stationery and office supplies, which reduces the number of new items purchased and waste.

Protection

- Hikari Tsushin Group (Group) recharges groundwater in mountain forests to conserve water sources and underground water.
- Other efforts include promoting paperless meetings including the meetings of the Board of Directors and installing LED lighting.

Social contribution activities

Economic contributions

The Group runs businesses all over Japan, and its continuous profit growth leads to economic growth of the entire society, job creation in a broad range of fields and revitalization of local communities.

Contribution to local government

- The Group donates to Toshima-ku (head office location) some of the shareholder benefit items given by companies in which the Group invests.
- The Group donates used stamps to Toshima-ku Residents Council of Social Welfare. (Used stamps are turned into money and used as funds for the welfare businesses.)
- The Group regularly cleans the vicinity of Ikebukuro Station in Toshima-ku.
- The Group supports the NPO Ecocap Promotion Association that collects plastic caps of PET (plastic) bottles to raise money for vaccinations.

Promotion of diversity

- Through a thorough performance-based evaluation, the Group practices fair performance evaluation that is free from bias based on race, gender, nationality, belief, age and disability.
- The Group respects human rights to eliminate any unjust discrimination or harassment so that everyone can work comfortably.
- The Group provides employees who want to become independent in pursuit of further growth with financial support based on their contribution to the companies that they currently serve in.

Pursuit of productivity

- Long work hours and working on holidays are prohibited in principle. For the fiscal year ended March 2020, the number of holidays was 124 days a year, and the average monthly overtime was 16 hours.
- The Group created a work environment that allows employees to work comfortably by developing systems including flextime, childcare leave and shortened work hours, and support systems for returning to work after childbirth.
- The Group has opinion boxes to allow employees to send messages directly to managers including the president under their own names or anonymously.
- The Group promotes health improvement activities including subsidizing vaccination through the Group's health insurance association.
- The Group focuses on allowing employees to perform activities in good mental and physical health by establishing a counseling desk for employees to talk about any troubles and worries that they may have.

Governance

The Group strives for fair and highly transparent group management that is in compliance with laws and regulations under a uniformed vision across the Group companies, in which the parent company Hikari Tsushin Inc., assuming the role of the holding company, takes the leadership in managing the subsidiaries. For details, please refer to the “Corporate Governance Report” and “Corporate Governance Basic Policy” on our website.

Remuneration of executive directors

Remuneration of executive directors is determined based on indices including prospective earnings and operating profits in order to incentivize executive directors to improve the intrinsic corporate value from a long-term perspective and to achieve performance targets from a short-term perspective. The fixed portion of the remuneration is set to be smaller than the variable portion; therefore, when the targets are achieved, the amount of total remuneration will increase while the percentage of the fixed portion will decrease. When the targets are underachieved, the total amount of remuneration will decrease while the percentage of the fixed portion will increase.