

[TRANSLATION]

May 22, 2023

To whom it may concern:

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### **Notice Regarding the Opinion of the Company's Board of Directors on the Shareholder Proposals**

SECOM CO., LTD. (the "Company") has received a document (the "Document") from LONGCHAMP SICAV (Dalton Investments, Inc. as a proxy, the "Proposing Shareholder"), the Company's shareholder, stating that the Proposing Shareholder intends to make shareholder proposals (the "Shareholder Proposals" or the "Shareholder Proposal") at the 62nd Ordinary General Meeting of Shareholders (the "Ordinary General Meeting of Shareholders") to be held on June 27, 2023. The Company hereby announces that the Board of Directors' meeting held today resolved to oppose the Shareholder Proposals after careful consideration and deliberation.

#### Details

#### I. Description of and Reason for the Shareholder Proposals

##### 1. Agenda

- (1) Repurchase of the company's own shares
- (2) Amendments to the Articles of Incorporation regarding the handling of shares held by directors
- (3) Amendments to the Articles of Incorporation regarding the composition of outside directors

##### 2. Summary of the agenda and the reasons for the Shareholder Proposals

The details of the Shareholder Proposals are described in the attached Appendix "Details of the Shareholder Proposals."

The relevant descriptions of the Shareholder Proposals submitted by the Proposing Shareholder set forth are English translation of the document released in Japanese. If there are any discrepancies between the translation and the original Japanese text, the latter shall prevail.

#### II. Opinion of the Board of Directors on the Shareholder Proposals

##### 1. (1) Repurchase of the company's own shares

##### (1) Opinion of the Board of Directors

#### **The Board of Directors opposes this Shareholder Proposal**

##### (2) Reasons for the Opposition

In May 2017, the Company formulated the "SECOM Group's Vision for 2030" and announced that it would continue to achieve sustainable growth by striving to resolve social issues and enhance corporate value at the same time through the creation of the "ANSHIN Platform," which continues to provide an unwavering peace of mind in changing society.

In order to realize the "SECOM Group's Vision for 2030," the Company has newly formulated the "SECOM Group Road Map 2027," to clarify the direction of the SECOM Group toward 2027 that it will provide safe and secure, comfortable and convenient services one after another by further evolving and developing the existing

priority strategies while placing further emphasis on stakeholder returns, in order to continue to provide safety and peace of mind to customers in changing society.

As per the priority strategies set forth in the “SECOM Group Road Map 2027,” we have identified (a) providing innovative security-focused services and solutions, (b) strengthening overseas operations, aiming to boost revenue generated overseas to 10% of the consolidated total in the future, (c) building business infrastructures to support the customers’ business operations in BPO and ICT services, to be firmly implemented, and at the same time, (d) enhancing productivity by maximizing service value and improving operational efficiency. In addition, we have clearly stated that we would (e) invest in securing and developing human resources on an ongoing basis and accelerate the integration of management and sustainability strategies in order to promote structuring the Company that continues to be selected and trusted by all stakeholders.

In order to implement these priority strategies and realize them, the Company believes that it is extremely important to allocate cash flow from operating activities to growth investments, funds for business operation and shareholder returns, while considering the balance among them.

As a result of social changes and the rapid evolution of technology, our businesses including security services are approaching a period of major transformation. The Company believes that all of the priority strategies outlined in “SECOM Group Road Map 2027” will yield appropriate returns as growth investments to enhance corporate value by expanding earnings and improving productivity. The Company also intends to actively pursue domestic and overseas M&A opportunities necessary to realize the “SECOM Group’s Vision for 2030” as one of growth investments, while carefully monitoring investment efficiency.

In addition, as the Company is responsible for providing safety and peace of mind, we must properly maintain the necessary funds for business operation to provide uninterrupted services and continue our businesses regardless of changes in the external environment.

We have been always placing the provision of shareholder returns as a crucial management task. The Company returns profits that continue to expand through growth investments to shareholders stably and continuously as dividends, in line with a certain level of the consolidated dividend payout ratio.

Following the repurchase of the Company’s own shares totaling approximately 30 billion yen from February to June 2022, the Board of Directors approved a resolution on February 9, 2023, to repurchase its own shares up to 25 billion yen, and the Company has continued to conduct share repurchases, amounting to some 18 billion yen by the end of April and further in May.

In the aforementioned “SECOM Group Road Map 2027”, we have set ROE of 10% as one of the expected numerical targets by expanding revenues through the implementation of the priority strategies and by achieving improvement of productivity. As a means to achieve the target, we will naturally promote measures to increase net income, and we have also announced that we will repurchase its own shares in a timely manner. This, together with a dividend payout ratio of around 45%, which we have also set as a target, will enhance the Company's shareholder returns more than ever.

On the other hand, the size of the repurchase of the Company’s own shares as per the Shareholder Proposal would be excessive as it would be nearly twice the consolidated net income of 96.1 billion yen for the fiscal year ended March 31, 2023 and exceed 80% of non-consolidated cash and deposits of 214.3 billion yen of the Company, which is the entity to carry out repurchases, and, besides that, the Shareholder Proposal requires implementation within a short period of one year from the conclusion of the Ordinary General Meeting of Shareholders. If such a proposal is adopted, the balance among growth investments, funds for business operation, and shareholder returns will be distorted significantly, and medium- to long-term growth and sustainable enhancement of corporate value of the Company may be jeopardized. Consequently, we judge that such a proposal will not be beneficial to shareholders.

Therefore, the Board of Directors of the Company opposes the Shareholder Proposal.

(Reference) Shareholder returns to date

	FY2020	FY2021	FY2022	FY2023
Annual dividend per share (Yen)	170	180	185	190
Total repurchase amount (Billions of yen)	-	11.23	29.78	6.99 (as at the end of April)

(Note) 1. The annual dividend per share for FY2022 is subject to approval of the Ordinary General Meeting of Shareholders.

2. The annual dividend per share for FY2023 shown above is an estimate.

2. (2) Amendments to the Articles of Incorporation regarding the handling of shares held by directors

(1) Opinion of the Board of Directors

**The Board of Directors opposes this Shareholder Proposal**

(2) Reasons for the Opposition

The Company has established a policy for determining the contents of remuneration of individual Directors by resolution of the Board of Directors, and the remuneration of Directors shall consist of pecuniary remuneration (fixed monthly remuneration and bonus) and share-based remuneration.

Share-based remuneration is to be paid to Directors excluding Outside Directors (the “Subject Directors”), and it was resolved at the 60th Ordinary General Meeting of Shareholders held on June 25, 2021 that (a) the total amount of monetary claims to be provided to grant restricted stock shall not exceed 100 million yen per year, which is separate from pecuniary remuneration, and that the number of common stock shares to be issued or disposed as restricted stock shall not exceed 20,000 shares per year (the number of Subject Directors pertaining to this resolution was seven (7)); (b) the Non-transferable period shall be the period from the date on which the Subject Director receives the issuance or disposition of the common stock shares of the Company until the day on which the Subject Director resigns or retires from the office and ceases to be any of Director, Executive Officer, Audit & Supervisory Board Member, and employee of the Company (“Directors, etc.”) (including resignation or retirement due to death, the “Retirement, etc.”); (c) upon the expiration of the Non-transferable Period, the Company shall acquire all such common stock shares held by such Subject Director free of charge as a matter of course unless the Retirement, etc. of a Subject Director from the office of Director, etc. is determined by the Board of Directors of the Company to be due to a reasonable cause, such as expiration of the term of office, mandatory retirement due to age, or death. Based on this resolution of the general meeting of shareholders, the Board of Directors, based on the result of deliberation by the Nomination and Compensation Committee, shall determine the share-based remuneration of each director within the limit of the maximum amount and number mentioned in (a) above.

The relative proportion of fixed monthly remuneration, bonus, and share-based remuneration in the total amount of remuneration of the Subject Directors shall be roughly 80:15:5.

To strengthen the independence and objectivity of the functions of the Board of Directors and its accountability concerning the nomination and remuneration of Directors, the Company has established the Nomination and Compensation Committee. The Committee submits a proposal on the election and removal of Directors to the Board of Directors and determines and reports on the remuneration of Directors.

We believe that the remuneration system of the Company outlined above supports the recruitment and retention of competent human resources who can put management philosophy into practice and meet the expectations of shareholders and a broad range of other stakeholders and has led to sustainable enhancement of its corporate value.

On the other hand, the Shareholder Proposal only proposes to add the following provision to the Articles of Incorporation without prescribing specific contents: “The handling of shares held by Directors shall be governed

by the Share Ownership Guidelines established by the Board of Directors.” In our opinion, under the current system of the Company in which remuneration of each director is determined by the resolution of the Board of Directors, both pecuniary remuneration and share-based remuneration are approved by the General Meeting of Shareholders, and remuneration of Directors is determined and reported by the Nomination and Compensation Committee in order to strengthen the independence and objectivity of the functions of the Board of Directors and its accountability, there is no need to prescribe in the Articles of Incorporation the establishment of the guidelines that only provides for share-based remuneration in particular.

Therefore, the Board of Directors of the Company opposes the Shareholder Proposal.

3. (3) Amendments to the Articles of Incorporation regarding the composition of outside directors

(1) Opinion of the Board of Directors

**The Board of Directors opposes this Shareholder Proposal**

(2) Reasons for the Opposition

The independence of the Board of Directors of the Company has been sufficiently ascertained by the current membership consisting of the candidates proposed by the Company and its composition is optimal as it has sufficient qualifications and diversity to decide overall management policies and monitor the execution of duties of Directors toward the achievement of the “SECOM Group’s Vision for 2030” and the “SECOM Group Road Map 2027”. Therefore, we believe that the current composition will lead to the sustainable enhancement of the corporate value of the Company and the furtherance of the interest of shareholders.

The Company’s current corporate governance system is based on a company with an Audit & Supervisory Board. The Board of Directors determines overall management and business execution policies. Executive officers, led by the President and Representative Director, are responsible for business execution. The Audit & Supervisory Board, which includes three (3) Outside Members, and the Board of Directors coordinate with the Internal Audit Department to audit and supervise execution of duties of Directors and Executive Officers. Under this system, the Company proposes three (3) candidates for Outside Directors out of eight (8) candidates at the Ordinary General Meeting of Shareholders to incorporate a broad range of external perspectives not constrained by the internal circumstances and to ensure the legality and objectivity of management. We believe that the composition of the Board of Directors consisting of the internal Directors with deep understanding of SECOM’s businesses and diverse insights, and of several Outside Directors with extensive knowledge about corporate management and other areas, is appropriate to ensure diversity in terms of gender and international experience, and to facilitate substantive discussions and resolutions. We will continue to consider further diversity and the appropriate size of the Board.

The Company has established the Nomination and Compensation Committee as a discretionary committee of the Board of Directors with a majority of Outside Directors, and believes that it has an appropriate process for presenting candidates for the position of Director to the Board of Directors.

On the other hand, establishing such a provision as proposed by the Shareholder Proposal may limit the scope for choice of candidates for Directors, the flexibility in the operation of the Board of Directors, and the effectiveness of the Board of Directors, and as a result may prevent the Board of Directors from forming a structure that can appropriately represent the opinions of stakeholders including minority shareholders.

Therefore, the Board of Directors of the Company opposes the Shareholder Proposal.

(Reference) Knowledge and experiences possessed by each candidate for Director to be presented to the Ordinary General Meeting of Shareholders (Skills Matrix)

Name	Current Position at the Company	Corporate Management	Finance and Accounting	Legal, Compliance and Risk	Sustainability and ESG	Security Services Industry	Global Business	ICT and Technology
Yasuo Nakayama	Chairman and Representative Director	●	●		●	●		
Ichiro Ozeki	President and Representative Director	●	●			●	●	
Yasuyuki Yoshida	Senior Executive Director	●	●	●		●		
Tatsuro Fuse	Executive Director	●			●	●	●	
Tatsushi Kurihara	Director	●	●		●	●		
Takaharu Hirose	Outside Director	●			●		●	●
Hajime Watanabe	Outside Director	●	●	●				
Miri Hara	Outside Director	●	●		●			

\*Up to four (4) knowledge and experiences possessed by each candidate for Director are marked.

\*The above list does not represent all the knowledge and experiences of each candidate for Director.

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## Appendix “Details of the Shareholder Proposals”

### 1. Repurchase of the company’s own shares

#### (1) Summary of the agenda

Pursuant to the provisions of Article 156, paragraph 1 of the Companies Act, the repurchase of the company’s common stock up to a total of 21,500,000 shares or up to the total amount of 180,000,000,000 yen, in cash, within one year from the conclusion of the Ordinary General Meeting of Shareholders, is proposed.

#### (2) Reasons for the proposal

We have held Secom’s shares for over ten years and we would like to pay our respects to the management team for their business operations that have enabled a high level of Return on Invested Capital (ROIC) as well as stable and sustained growth. However, in contrast to the high ROIC, Return on Equity (ROE) has continued to deteriorate as a result of the accumulation of cash assets in recent years and has become a factor in the lackluster stock price.

It is commendable that Secom resolved at a Board of Directors meeting held on February 9, 2023 to repurchase its own shares up to a total of 4,500,000 shares or 2.08% of total shares outstanding (excluding treasury shares) or up to the maximum amount of 25 billion yen during the period from February 10, 2023 to May 31, 2023, and is taking measures to enhance shareholder returns and improve capital efficiency. However, taking into consideration the current deterioration of ROE due to the accumulation of cash assets, even when we take into account future M&A’s, capital investments, R&D expenses, and business operation funds which are necessary to prepare for unforeseen risks, the current levels of cash assets are excessive. The accumulation of cash assets in excess of necessary funds will lead to a decline in capital efficiency and damage to corporate value. Given the fact that Secom is engaged in superior businesses with a high ROIC and that ROE is deteriorating due to the increase in cash assets, Secom should aim to improve ROE by further enhancing shareholder returns. Accordingly, we believe that to further enhance shareholder returns and improve capital efficiency Secom should adopt measures to repurchase approximately 10% of its shares outstanding (excluding treasury shares) as treasury shares.

### 2. Amendments to the Articles of Incorporation regarding the handling of shares held by directors

#### (1) Summary of the agenda

Article 10 of Secom’s Articles of Incorporation shall be amended to establish provisions for the handling of shares held by the Directors of Secom, as described below.

(The amended sections are underlined)

Current Articles of Incorporation	Amended Articles of Incorporation
<p>(Handling of Matters relating to Shares)</p> <p>Article 10 Matters concerning the handling of shares and charges therefor and procedure, etc. for exercise of rights of shareholders shall be governed by the Share Handling Regulations to be established by the Board of Directors, in addition to laws and regulations, or the Articles of Incorporation.</p> <p><u>2 (Newly established)</u></p>	<p>(Handling of Matters relating to Shares)</p> <p>Article 10 Matters concerning the handling of shares and charges therefor and procedure, etc. for exercise of rights of shareholders shall be governed by the Share Handling Regulations to be established by the Board of Directors, in addition to laws and regulations, or the Articles of Incorporation.</p> <p><u>2 The handling of shares held by Directors shall be governed by the Share Ownership Guidelines established by the Board of Directors.</u></p>

#### (2) Reasons for the proposal

We believe the greatest weakness of the Board of Directors in Japan is the limited holding of shares by each director and the lack of a shareholder perspective as a result. At Secom, also, with the exception of those executives who are related to the founding family, the greater part of the economic benefits bestowed upon the

directors are linked to basic compensation and short-term performance, and the correlation with medium- to long-term improvement of corporate value seems to be insufficient.

At almost all of the major listed companies in Europe and the US, share ownership guidelines have been adopted that stipulate continuous holding of a certain volume of shares over a certain period of time, which are thought to be required to share common value with the shareholders. In the majority of cases, after a grace period of several years, senior management is required to hold shares equivalent to three to five times that of basic compensation, while even outside directors are required to hold the same amount of shares as compensation.

We propose that directors and other senior members of management of Secom, unconstrained by past norms, aim for stock ownership comparable to global levels, demonstrate their commitment through appropriate disclosures, and establish share ownership guidelines.

### 3. Amendments to the Articles of Incorporation regarding the composition of outside directors

#### (1) Summary of the agenda

Article 21 of Secom’s Articles of Incorporation shall be amended to ensure that outside directors make up the majority of directors, as described below.

(The amended sections are underlined)

Current Articles of Incorporation	Amended Article of Incorporation
(Number of Directors) Article 21 The Company shall have not more than twenty (20) Directors. <u>2 (Newly established)</u>	(Number of Directors) Article 21 The Company shall have not more than twenty (20) Directors. <u>2 As long as it remains a listed company, the majority of Directors of the Company shall be outside directors as stipulated in Article 2, Paragraph 1, Item 15 of the Companies Act.</u>

#### (2) Reasons for the proposal

We believe that the diversity and independence of the board are indispensable to the corporate management of today’s listed companies. A diverse board signifies a board capable of making management decisions from a wide-ranging perspective including skills, experience, age, nationality, gender, etc., while an independent board refers to a board comprising at least a majority of independent outside directors.

Principle 4.8 of the Corporate Governance Code stipulates, “Independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. Companies listed on the Prime Market should therefore appoint at least one-third of their directors as independent directors (two directors if listed on other markets) that sufficiently have such qualities. Irrespective of the above, if a company listed on the Prime Market believes it needs to appoint the majority of directors as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should appoint a sufficient number of independent directors.” Additionally, Principle 4.7 of the Corporate Governance Code lists, “Appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders,” as one of the roles and responsibilities of independent outside directors.

Three of Secom’s nine directors are outside directors and thus the company satisfies the requirements of the Corporate Governance Code but we believe that, by making the majority of the directors outside more aggressively, Secom will be able to put in place a governance structure that would improve capital efficiency, enhance shareholder returns, and contribute to its sustained growth and the medium- to long-term improvement of corporate value.

Moreover, in terms of not only the number of outside directors but also their credentials, Secom requires talent capable of contributing to its sustained growth and the medium- to long-term improvement of corporate value, and in this regard, Secom should consider appointment of woman and talent with abundant experience and

skills as analyst.

The appointment of “talent with abundant experience and skills as analyst” will bring in the perspective of outside investors and shareholders to the board, and at the same time it will be an effective means that will contribute to the improvement of corporate value through sound risk-taking. Intrinsically, the board of directors of listed companies and investors/shareholders share the common goal of improving corporate value in the long term. Unfortunately in Japan, however, the two parties are often understood to be in a confrontational relationship. The participation of directors equipped with the experience and skills described above into discussions and decision-making of the board will enable sound risk-taking and capital allocation, and better communications with the market, all of which elevate the relationship between the board and the stock market to the constructive level it ought to be. Companies often explain that former bankers and accountants are responsible for the finance portion of the skill matrix but expertise in accounting and the debt market is not enough from the standpoint of encouraging “sound risk-taking” and in such cases an expert on the equity market would have a significance.