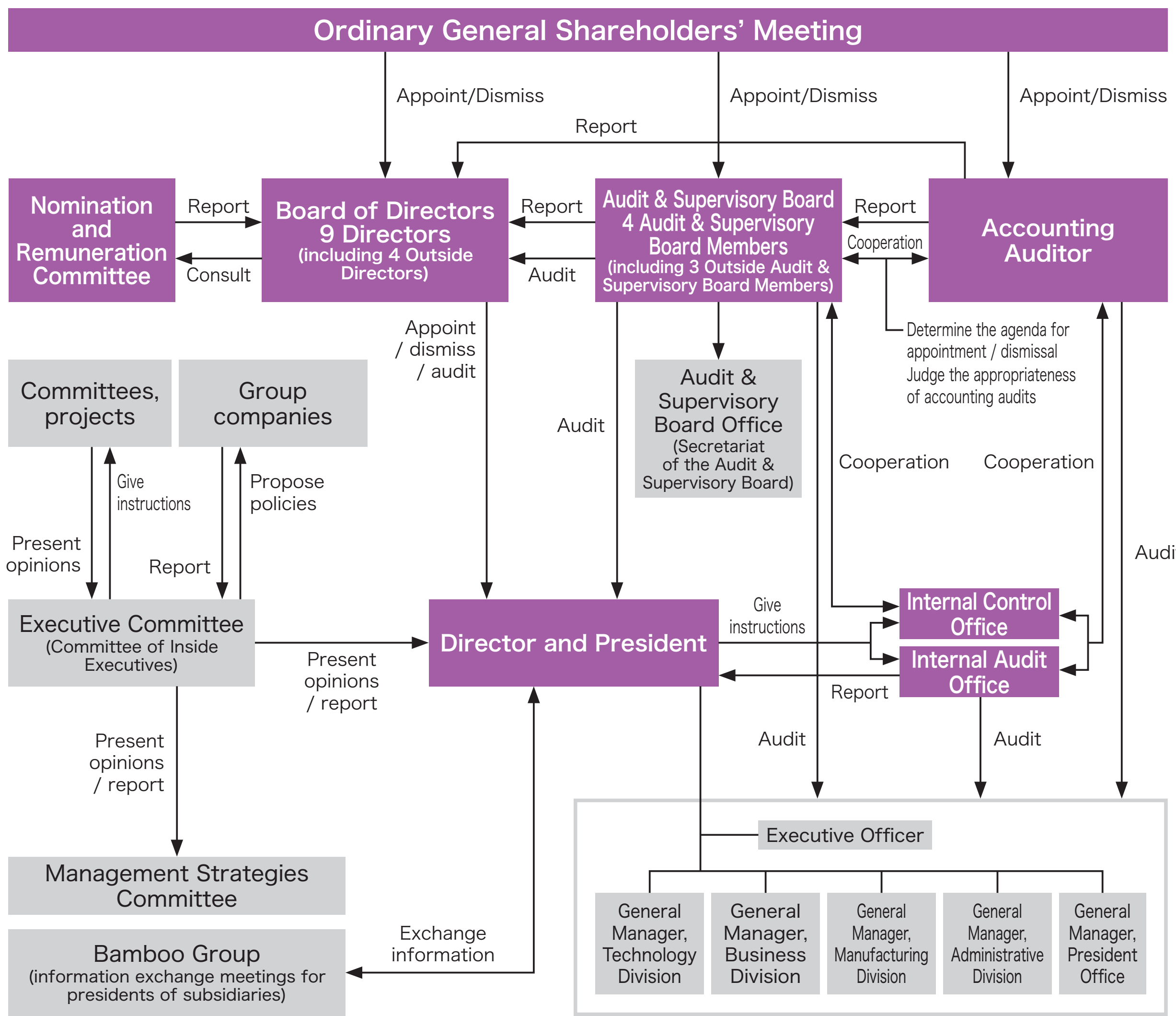
Roles of the Board of Directors and Audit & Supervisory Board

Basic approach

Nikko positions corporate governance as "the management governance function for maximizing corporate value for our shareholders and other stakeholders." Under the Executive Officer system built upon the Board of Directors and the Audit & Supervisory Board, we endeavor to clarify management accountability, speed up business execution, increase the transparency of management decision-making, and strengthen compliance in order to ensure sound business management.
The Company's decisions based on the on-site situation are made in an appropriate manner by human resources who understand and are capable of putting into practice the Nikko Group's Management Philosophy. The term of Directors is set as one year to clarify management responsibility, and we have introduced the executive officer system to separate the execution and supervision of duties. Nikko appoints four Outside Directors and three Outside Audit & Supervisory Board Members as independent officers to enhance corporate governance and ensure the objectivity and neutrality of management and supervision functions.

Overview of corporate governance

Nikko is a company with the Audit & Supervisory Board. To smoothly execute business, we have a committee of internal executives and other various committees as consultative organs for the President. Full-time Audit & Supervisory Board Members and relevant staff members in the Internal Control Office and Internal Audit Office attend the meetings of these committees.



Roles and composition of supervisory bodies

Organization	Board of Directors	Audit & Supervisory Board	Nomination and Remuneration Committee
Composition	Chair • 5 inside members + 4 outside members • Representative Director and President is the chair	Chair • 1 inside member + 3 outside members • Internal, full-time Audit & Supervisory Board Member is the chair	Head • 1 inside member + 2 outside members • Representative Director and President is the head
Purpose and authority	• Resolution of matters including determination of the basic management policies • Supervision of the execution of duties by Executive Officers, etc.	• Supervision of the duties of Directors and Executive Officers • Preparation of audit reports • Determination of the agenda details regarding the appointment and dismissal of an accounting auditor	• Determination of agenda details regarding appointment and dismissal of Directors to be submitted to Ordinary General Shareholders' Meeting • Appointment and evaluation of Executive Officers, etc. • Determination of policies regarding remuneration, etc. of Directors and Executive Officers • Determination of policies regarding performance evaluation of Directors and Executive Officers
Ratio of independent outside officers	44%	75%	67%
Number of meetings in 2021	13	14	4
Office	Corporate Planning Department	Assistant to Audit & Supervisory Board	Corporate Planning Department

Inside directors　Independent outside officers

Main decision-making bodies

<Meeting bodies on the monitoring side>

- **Board of Directors** 9 Directors (including 4 Outside Directors) + 4 Audit & Supervisory Board Members (including 3 Outside Audit & Supervisory Board Members)
  Chair: Masaru Tsuji (Representative Director and President)
- **Audit & Supervisory Board** 4 Audit & Supervisory Board Members (including 3 Outside Audit & Supervisory Board Members)
  Chair: Nobutaka Yasuda (Full-time Audit & Supervisory Board Member)
- **Nomination and Remuneration Committee** 3 Directors (including 2 Outside Directors)
  Head: Masaru Tsuji (Representative Director and President)
- **President and Outside Officers Meeting** (1 Inside Directors + 7 Outside Officers)
  Chair: Masaru Tsuji (Representative Director and President)

<Meeting bodies on business executive side>

- **Committee of Inside Executives** 5 Inside Directors + 1 Full-time Audit & Supervisory Board Member + 7 Executive Officers + General Managers of Internal Control Office + Internal Audit Office
  Chair: Masaru Tsuji (Representative Director and President)
- **Management Strategies Committee** Internal directors involved in strategic themes + Executive Officers + Divisional General Managers
  Chair: Masaru Tsuji (Representative Director and President)

- **Compliance and Risk Management Committee**
  Head: Hiroshi Fujii
- **M&A Examination Committee**
  Head: Hiroshi Fujii
- **Finance Committee**
  Head: Hiroshi Fujii
- **Development Technology Committee**
  Head: Katsuhiro Kawamura
- **Safety and Health Committee**
  Head: Masao Natori
- **Company-wide Promotion Selection Committee**
  Head: Masao Natori
- **Reward and Punishment Committee**
  Head: Masao Natori
- **Personnel System Committee**
  Head: Koichi Kawakami
- **Improvement Activity Committee**
  Head: Kazuhiro Yamada
- **Tombo-kai Vitalization Committee**
  Head: Morie Okaaki
- **Product Commercialization Committee of each business**
  Head: General Manager of each business division
- **Bamboo Group** (information exchange meetings for presidents of subsidiaries)
  Chair: Masaru Tsuji

Members of Board of Directors Meeting (as of July 2022)

Name	Title	Attendance (Board of Directors Meetings in 2021)	Appointed in	Number of Nikko shares held	Independence (outside officers alone)	Corporate management and business operation	Industrial knowledge	Financial accounting	Legal compliance	International experience	Sales experience	ICT*2	Technical experience	Administrative experience	Delegation of authority of chair and head
					Main expertise and experience	Insight and experience*1 expected									
 Takahisa Nishikawa	Director and Chairman	13/13	June 2008	117,100 shares		●	●						●		
 Masaru Tsuji	Representative Director and President	13/13	June 2008	103,100 shares		●	●				●	●	●		Chair of Board of Directors Head of Nomination and Remuneration Committee
 Hiroshi Fujii	Senior Managing Director (General Manager, Administrative Division)	13/13	June 2011	61,900 shares		●		●	●	●					
 Tomomi Nakayama	Managing Director (General Manager, Business Division)	13/13	June 2019	38,960 shares		●	●				●		●		
 Minoru Tanaka	Directors (Manager of Service Planning Department, Business Division)	13/13	June 2021	35,600 shares		●	●				●	●	●		
 Tsutomu Yuasa	Directors	13/13	June 2016	5,000 shares	●	●		●				●			Nomination and Remuneration Committee member
 Masafumi Ishii	Directors	10/10	June 2021	None	●				●	●				●	
 Rika Saeki	Directors	10/10	June 2021	None	●	●						●			
 Shigeru Sadakari	Directors	13/13 (attended as Outside Audit & Supervisory Board Member)	June 2022 (newly appointed)	None	●	●		●	●						Nomination and Remuneration Committee member

Members of Audit & Supervisory Board (as of July 2022)

Name	Title	Attendance (Upper row: Audit & Supervisory Board Meeting in FY 2021) (Lower row: Board of Directors Meeting in FY 2021)	Appointed in	Number of Nikko shares held	Independence (outside officers alone)	Corporate management and business operation	Industrial knowledge	Financial accounting	Legal compliance	International experience	Sales experience	ICT*2	Technical experience	Administrative experience	Delegation of authority of chair and head
 Nobutaka Yasuda	Full-time Audit & Supervisory Board Member	14/14 13/13	June 2016	37,000 shares		●	●				●				Chair of Audit & Supervisory Board
 Naoki Ota	Audit & Supervisory Board Member	14/14 13/13	June 2019	None	●	●				●					
 Tsuyoshi Fukui	Audit & Supervisory Board Member	14/14 13/13	June 2019	None	●			●							
 Koji Yoneda	Audit & Supervisory Board Member	(Not applicable)	June 2022 (newly appointed)	None	●				●						

*1 The above list does not indicate all insights and experiences the officers possess.
*2 ICT in the above list stands for information and communication technology.

Reasons for appointment and expected roles of Outside Officers

Outside Officers	Name	Appointed in	Date of birth	Career background	Reasons for appointment and expected roles
Independent Outside Director (reappointed)	Tsutomu Yuasa	June 2015	July 18, 1951	Corporate management	Yuasa is expected to reflect his abundant knowledge and experience, nurtured through his long engagement in corporate management as a director of a business company, in Nikko's management. As a Nomination and Remuneration Committee member, he is engaged in the selection of officer candidates and decision on the remunerations from an objective and neutral standpoint.
Independent Outside Director (reappointed)	Masafumi Ishii	June 2021	November 3, 1957	Diplomatic official	Ishii possesses extensive insight into international affairs, nurtured through his rich international experience including long service in various key positions at the Ministry of Foreign Affairs, as well as knowledge of the Asian region where Nikko aims to expand in the future. He is expected to provide a diverse and broad range of advice.
Independent Outside Director (reappointed)	Rika Saeki	June 2021	February 27, 1961	Corporate management	Saeki is expected to reflect her abundant knowledge and experience, nurtured through her engagement in corporate management as a founder and current executive of an operating company. She is also expected to supervise and advise Nikko on its business execution with her knowledge of ICT, which is Saeki's main field of business, as well as from a diversity perspective.
Independent Outside Director (newly appointed)	Shigeru Sadakari	June 2022	September 22, 1957	Corporate management	Sadakari is expected to reflect his abundant experience and broad knowledge, nurtured through his long engagement in corporate management at financial institutions and business companies, in Nikko's management. As a Nomination and Remuneration Committee member, he is engaged in the selection of officer candidates and decision on the remunerations from an objective and neutral standpoint. Sadakari has served as an Outside Audit & Supervisory Board Member since June 2019.
Independent Outside Audit & Supervisory Board Member	Naoki Ota	June 2019	March 1, 1955	Corporate management	Ota is expected to supervise and provide instructions regarding the legality of management execution from an objective and neutral standpoint, leveraging his abundant experience in overall corporate management and broad knowledge gained in his long engagement in corporate management at a business company.
Independent Outside Audit & Supervisory Board Member	Tsuyoshi Fukui	June 2019	July 24, 1965	Certified as Certified Public Accountant of Japan	Fukui has been demonstrating high performance from the specialist perspective as Certified Public Accountant and possesses deep insight into corporate management, and he is expected to supervise and provide instructions regarding the legality of management execution from an objective and neutral standpoint.
Independent Outside Audit & Supervisory Board Member (newly appointed)	Koji Yoneda	June 2022	February 17, 1957	Attorney	Yoneda has been demonstrating high performance from a specialist perspective as an attorney and also has deep insight in management, and he is expected to supervise and provide instructions regarding the legality of management execution from an objective and neutral standpoint.

Ensuring transparency of management

Nikko Group has been strengthening the foundation of its corporate structure based on the judgment that ensuring transparency of management is indispensable in gaining the trust of stakeholders. In 2021, the Group increased the number of outside directors, appointed a female director, and established the Nomination and Remuneration Committee, to develop a structure that enables discussions from more diverse perspectives. We will continue to work on governance reform so as to gain even more trust of stakeholders and to realize sustainable growth.

Nomination and Remuneration Committee (established in FY 2021)

- President and Representative Director: 1 Masaru Tsuji
- Independent Outside Directors: 2 Tsutomu Yuasa and Shigeru Sadakari

Evolution of Nikko's governance reform

fiscal year		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Director and Chairman	With representative right								Masaru Kishi			Takahiko Fukatsu							Takahisa Nishikawa		
	Without representative right		Kenkichi Inoue											Takahiko Fukatsu							Takahisa Nishikawa
Representative Director and President		Kenkichi Inoue	Masaru Kishi						Takahiko Fukatsu			Takahisa Nishikawa							Masaru Tsuji		
Number of members of Board of Directors	Inside	10	9	9	8	6	7	8	7	6	6	6	6	6	5	5	5	5	6	6	5
	Outside	0	0	0	0	0	0	0	0	0	0	0	0	0	1	2	2	2	2	2	4
Number of members of Audit & Supervisory Board	Inside	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	1	1	1	1	1
	Outside	2	2	3	3	2	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Advisory committees	Inside	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
	Outside	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
Corporate slogan		Big Passion	Customer-first policy																		
Medium-Term Management Plan (name)			PLAN 5・7・9 with Best CS			Direction to be pursued, achievement of "vision"				Group management that is well-balanced between sales and profits			Promote activities to further raise the image of the Nikko brand and become a manufacturer that our customers truly depended on			INNOVATION			Future creation that starts from an 'n'		

Matters regarding officers' remuneration

● Basic policy

Nikko set out a basic policy to develop a system of remuneration of its Directors that adequately functions as an incentive to sustainably improve corporate value while paying attention to the interests of shareholders, and to decide remuneration of each Director at an appropriate level based on their duties in accordance with the Internal Regulations on Remuneration and Bonuses of Executives (hereinafter, "Internal Regulations") set by the Board of Directors.
Remuneration of Executive Directors comprises basic compensation as fixed compensation, performance-linked compensation, and stock compensation. To Outside Directors whose main function is supervision, basic compensation and performance-linked compensation are paid.
From April 2021, the optional Nomination and Remuneration Committee (hereinafter, the "Committee") was established, where remuneration is revised as necessary based on reports from the Committee.

Total remuneration of Directors and Audit & Supervisory Board Members

Officer ranks	Total amount of remuneration (million yen)	Total amount of all types of remuneration (million yen)				Those entitled (people)
		Fixed compensation	Performance-linked compensation	Shares with restriction on transfer	Retirement allowance	
Directors (excluding Outside Directors)	142	103	25	13	–	7
Audit & Supervisory Board Member (excluding Outside Audit & Supervisory Board Members)	22	17	3	2	–	1
Outside Officers	40	36	3	–	–	7

Breakdown of Director's remuneration

① Basic compensation
+
② Performance-linked compensation
+
③ Stock compensation (shares with restriction on transfer)

Indicators
- Consolidated net income
- Achievement rate of medium-term plan targets

① Basic compensation

It is monthly fixed compensation and is determined upon comprehensive consideration of the officer rank, duties, and years of service while also taking into account the standard at other companies, Nikko's performance, and the level of the employees' salary.

② Performance-linked compensation

It is determined upon consideration of the consolidated net income which is considered as the basic performance indicator, as well as performance of Nikko alone and of group companies, dividends to shareholders, and bonuses to employees, and is provided as bonuses for officers.
As for specific figures, consolidated net income of 1 billion yen is set as the target for achieving profits, and a 15% or 30% increase or decrease is added to the standard bonus for fluctuations of at least 200 million yen or 500 million yen from the target respectively. When consolidated net income is less than 500 million yen, performance-linked compensation is not provided. When consolidated net income exceeds 1.8 billion yen or a large amount of extraordinary loss or income is generated, compensation is discussed separately at the Board of Directors.
The level of companywide contribution to the Medium-Term Management Plan is evaluated on a scale of three, based on which 10–20% is added to the standard bonus. To Outside Directors, about a month's worth of monthly compensation is paid as performance-linked compensation when the payment standard is achieved.

③ Stock compensation (shares with restriction on transfer)

Its percentage is set around 10% of the monthly compensation, and the number of shares is determined based on the share price as of a specific date, for each officer rank and in accordance with the Internal Regulations. The timing of allotment is decided at the first Board of Directors' Meeting after the conclusion of the Ordinary General Shareholders' Meeting. The duration of restriction on transfer is 30 years or when the Company allows (retirement, etc.). Outside officers are not entitled to the stock compensation.

● Ratio of remuneration composition

Composition ratio of remuneration for executive directors is set at 7 : 2 : 1 for basic compensation, performance-linked compensation, and stock compensation. The Committee will continue to discuss the future remuneration system.

● Determination of the amount of individual remuneration

To determine the amount of individual remuneration, the Committee deliberates on it and provides a report, and the Director and President decides the amount within that scope.

Initiatives for improving the effectiveness of Board of Directors

Nikko is implementing initiatives for improving the corporate governance structure and its effectiveness, which it considers as the most important management issue. Every year in July, we carry out an evaluation of the effectiveness of Board of Directors to measure the success of the development and operation of the governance structure in the past fiscal year.

● Evaluation of the effectiveness of Board of Directors for FY 2021

In the evaluation of Board of Directors for FY 2021, nine Directors (including four independent outside members) and four Audit & Supervisory Board Members (including three independent outside members) were asked to respond to a questionnaire with 30 questions regarding six items of overall evaluation of Board of Directors, composition of Board of Directors, Operation of Board of Directors, quality of discussions at Board of Directors, provision of information and training, and other (free description). As a result of deliberations based on the outcome of the survey, the Board of Directors judged that it was functioning at favorable level in terms of all of the above six items in FY 2021. We will work on improving the issues grasped in the survey in FY 2022.

Issues identified in the survey of the effectiveness of Board of Directors in FY 2021 and initiatives for improvement

	Issues identified in Board of Directors in FY 2021	Initiatives from FY 2022 onwards
Issue 1	Enhancement of opportunities for deliberation regarding medium- to long- term strategies and management vision	● Strengthening the progress management of the medium-term plan ● Identifying important agenda items
Issue 2	Enhancement of opportunities for deliberations regarding SDGs and diversity	● Enhancement of disclosure of ESG and non-financial information ● Strengthening of supervisory function regarding climate change problems
Issue 3	Improvement of provision of information in advance	● Consideration of the timing to provide materials distributed in advance
Issue 4	How to carry out continued deliberation of important matters	● Identifying matters for continued deliberation and securing deliberation time

Development of internal control system

The internal control system primarily aims at developing rules, flexibly planning and implementing employee training, and ensuring its effectiveness. In accordance with the basic policy regarding internal control, the Group reorganized the Audit Office into the Internal Audit Office to strengthen audit structure, formulated the compliance rules and basic risk management rules, and established the Compliance Committee and Risk Management Committee. Subsequently, it divided the Internal Audit Office to the Internal Control Office and Internal Audit Office to clearly separate promotion of internal controls and evaluation function. The Nikko Group will continue to improve the structure to raise the effectiveness of the internal control system.

Development of risk management structure

Risk factors surrounding the management include changes in market environment, product price fluctuations, exchange rate fluctuation, environment, and other regulations regarding products, protection of intellectual properties, capital investment, and impacts of disasters, wars, terror attacks, strikes, etc. To swiftly cope with these risks, Nikko established the basic risk management rules. The Risk Management Committee comprehensively recognizes, evaluates, and analyzes risks faced by Nikko and the Nikko Group, deliberates issues and countermeasures, and reports them to President.
The Company also receives advices and guidance and proposals for improvement from experts including its corporate lawyers and tax accountants.

Status of reducing strategically-held shares

The Board of Directors annually examines whether or not to continue holding strategically-held shares and facilitates the gradual sales of the shares if it determines that there is no rationale to keep holding them. To make this decision, the Board looks into the purpose of holding the shares, their risks, Nikko's relationship with the issuers, and capital cost. In the last five years, we sold a total of 35 issues (17 sold-off issues) at a total value of 2.52 billion yen. We aim to achieve the ratio of market capitalization to shareholders' equity of 9%.
We judge exercise of voting rights upon comprehensive consideration of not only short-term results and stock price of the issuers but also Nikko's relationship with them.

Status of reducing strategically-held shares (million yen)

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Number of shares sold	7(5)	6(1)	6(2)	9(5)	7(4)
Amount sold	405	194	720	506	691
Book value	1221	106	272	469	376
Gain on sales	184	88	448	38	314
Ratio of market capitalization to shareholders' equity (%)	20.3	17.2	11.6	11.8	12.7

( ) denotes the number of shares that have been completely sold off.

Dialogues with shareholders and investors

We position the building of long-term, trusting relationships with our shareholders and investors as an important management issue. We proactively work on improving constructive dialogues through the appropriate information disclosure in both Japanese and English and regular information dissemination by our management staff. The opinions of our Japanese and overseas shareholders and investors we have learned through meetings with them are reported to the Board of Directors and shared with relevant sections to reflect them in our management decisions and reports for investors.

Results of dialogues with shareholders and investors

Event types	FY 2018		FY 2019		FY 2020		FY 2021	
	Number of events	Number of participants	Number of events	Number of participants	Number of events	Number of participants	Number of events	Number of participants
Financial Results Briefing Session	4	58	4	69	4	90	4	134
Individual meetings	12	15	23	28	17	23	10	18
Small group meetings by Nikko	1	6	2	8	0	0	0	0
Ordinary General Shareholders' Meeting	1	53／791	1	21／3,303	1	19／4,709	1	23／5,062

(attendance in person/attendance in writing)