

Corporate Governance

Basic concept

Meeting the expectations of stakeholders and improving corporate value through innovations in organizational governance that streamline management and increase transparency

By recognizing the importance of strengthening corporate governance in order to improve our corporate value in a long-term and stable manner, we aim to secure corporate transparency and fairness and achieve operations that can be trusted by diverse stakeholders, including shareholders, in accordance with our corporate philosophy and corporate principles.

Corporate Governance System

● Institutional Design

Nikke Group has chosen a company with an audit and supervisory board as its institutional design based on the Companies Act, in which the board of directors and the audit and supervisory board supervise and monitor execution of business. We have also established an advisory board to complement the functions of the board of directors. Through these institutional forms, we have created a system for monitoring management to improve our corporate value in the medium to long term and a system for selecting the most suitable managers.

● Structure of the Board of Directors

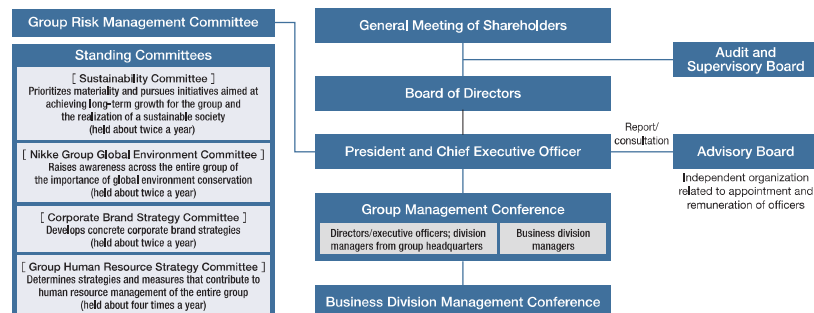
The Board of Directors consists of eight directors (including three external directors), who are balanced in terms of knowledge, experience, and capabilities and have diversified

backgrounds. We ensure that more than one third of the board members are external directors so that we can expect advice from various perspectives and strengthen the board's supervisory function. In addition, we hold a liaison meeting between external directors and Audit and Supervisory Board members twice a year as a place for exchanging information and sharing awareness with outside officers to revitalize the Board of Directors.

● Structure of the Audit and Supervisory Board

The Audit and Supervisory Board consists of four people, including two highly independent external members. The Audit and Supervisory Board members visit each division and group company and interviews the division manager and the group company president about business and risks.

Corporate Governance System



● Group Management Conference

The Group Management Conference consists of executive officers, Audit and Supervisory Board members, division managers, and division managers from group headquarters. It holds meetings twice or more per month to enable the chief executive officer to efficiently make important decisions regarding business execution by discussing each matter from various angles.

● Advisory Board

To strengthen the system for monitoring management and the system for selecting the most suitable managers, Nikke Group has established the Advisory Board, which functions as an appointment and remuneration committee and holds regular meetings twice a year. The Advisory Board, which is comprised of no more than five members, at least half of which are independent and external, receives reports regarding the appointment and remuneration of officers and matters that are essential to company management from the chief executive officer and provides advice.

History

2001	Chairman of the Board of Directors made a director with no right of representation
2003	Shortened the term of office of directors to one year
2004	Established the Advisory Board
2005	Abolished the retirement allowance system for officers
2006	Introduced an executive officer system, invited external directors, and appointed reserve external Audit and Supervisory Board members
2007	Increased the number of external directors to two. Established a special committee to ensure the rationality and fairness of the response policy for the large-scale purchase of Nikke shares (takeover defense measures)
2009	Increased the number of external directors to three
2010	Appointed three independent officers (five as of February 2022)
2016	Established the Nikke Corporate Governance Guidelines (revised in December 2021)
2022	Introduced restricted stock compensation

Status of Cross-holdings

● Policy on Holdings

Regarding share cross-holdings, we disclose these in our securities report as well as conduct an annual review during which the Board of Directors considers a number of questions about each stock held, including the purpose for holding it and whether the risks and benefits of holding it justify the capital cost.

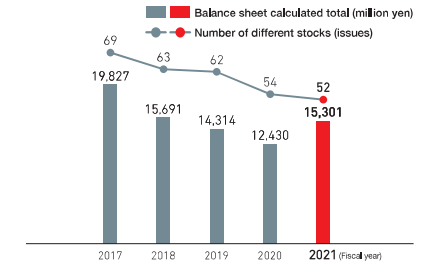
Based on the results of this review, we sold off 20 of our cross-holdings (eight of these partially) as part of the RN130 first medium-term management plan (fiscal 2017–2019), which represented a book value reduction of approximately 2.2 billion yen. Also, we sold off 23 of our cross-holdings between fiscal 2020 and fiscal 2021, which represented a book value reduction of approximately 400 million yen.

● Exercise of Voting Rights

With regard to the exercise of our voting rights for share cross-holdings, this is done when we have separately investigated and, when necessary, talked with the issuing

company in question to determine that the exercise of such rights will contribute to an increase in the medium-to-long-term corporate value of said company.

Status of cross-holdings



In fiscal 2021, Ashimori Industry, Co., Ltd. was removed as an equity method affiliate and switched to investment securities.

Remuneration of Directors

The Board of Directors determines the amount of remuneration for directors within the range of the total amount approved by a resolution of the general meeting of shareholders. However, prior to making the decision, the Advisory Board, which consists of internal and external members, is consulted on the matter to ensure objective and transparent procedures, and the appropriateness and reasonableness of remuneration through deliberation.

The remuneration system for directors was revised in fiscal 2022 to introduce restricted stock compensation. This revision, aimed at all directors who are not external directors, and at executive officers who are not directors, is intended to incentivize efforts to achieve sustained increases in corporate value, as well as to further facilitate

alignment with shareholder interests. As a result, the amount of remuneration for internal directors consists of a fixed remuneration, which is a standard amount based on job title, annual performance-linked remuneration, business result-linked remuneration related to the progress and achievement of the medium-term management plan, and share-based remuneration, which utilizes allocation of shares. All of this is paid at a ratio of 5:2:1:2 as a standard. Also, the amount of remuneration for the chairman of the Board of Directors consists of a fixed remuneration and share-based remuneration, which are paid at a ratio of 8:2. The amount of remuneration for external directors and Audit and Supervisory Board members is limited to a fixed remuneration, which is not linked to business results of the company in view of their roles and independence.

Total amount of remuneration, etc. (results for the fiscal year ended November 2021)

	Total amount of remuneration, etc.	Total amount of remuneration by type			Number of eligible executives
		Basic remuneration (fixed remuneration)	Performance-linked remuneration, etc.	Non-monetary remuneration, etc.	
Directors (of which, external directors)	209 million yen (18 million yen)	155 million yen (18 million yen)	53 million yen (—)	— (—)	8 (3)
Audit and Supervisory Board members (of which, external Audit and Supervisory Board members)	49 million yen (12 million yen)	49 million yen (12 million yen)	— (—)	— (—)	4 (2)

Note:
 ▶ Total remuneration includes an anticipated 34 million yen directors' bonus for the fiscal year.
 ▶ The maximum amount of remuneration for directors and Audit and Supervisory Board members was revised at the 189th Ordinary General Meeting of Shareholders held on February 26, 2020, with an annual remuneration of up to 300 million yen for directors (of which, up to 24 million yen for external directors) and an annual remuneration of up to 96 million yen for Audit and Supervisory Board members (of which, up to 16 million yen for external Audit and Supervisory Board members). Also, at the Ordinary General Meeting of Shareholders held on February 26, 2022, a remuneration framework separate from that above was approved to set aside up to 50 million yen and 100,000 shares of Nikke common stock per year as monetary claims used for funding restricted stock compensation for directors (excluding external directors).
 ▶ For details, please see pages 18 and 32 of the Notice of Convocation of the 191st Ordinary General Meeting of Shareholders. <https://www.nikke.co.jp/ir/>

Evaluation of the Effectiveness of the Board of Directors

With respect to the evaluation of the effectiveness of the Board of Directors in fiscal 2021, we conducted a self-evaluation on the composition, content of discussions, and methods of operation of the Board of Directors by distributing questionnaires to directors and Audit and Supervisory Board members. As a result of analyzing the self-evaluation and organizing the issues at the Board of Directors, it was confirmed that the self-evaluation of our Board of Directors was high overall.

The liaison meeting between external directors and Audit and Supervisory Board members, which is held regularly to facilitate information and awareness-sharing with independent external directors, has been well-received for its effectiveness. In addition, the assessment of the overall composition of the Board of Directors has improved. Meanwhile, we recognize the continuing need for

more well-balanced proceedings that align with the agenda. We will refer to these evaluation results as we continue working to enhance the efficacy of the Board of Directors and strengthen our corporate governance.

Overview of Matters for Deliberation by the Board of Directors

As a general rule, the Board of Directors meets once a month to make decisions on various matters, such as matters prescribed by law and the articles of incorporation or important investment and loan matters. It also receives reports on, and oversees the status of, operations of the different businesses and group companies. The board also facilitates and oversees corporate strategy, including the approval and progress management of group planning, such as medium-term management plans and fiscal year plans, and the drafting and progress management of important investments.

Primary matters for deliberation by the Board of Directors (for the fiscal year ended November 2021)

Management strategy related	Medium-term management plan / management plan for the coming fiscal year / financial plan / financial results / performance management / group company financial results / progress management of M&A, restructuring, and investments
Governance	Directors, Audit and Supervisory Board members, executive officers, and important division management personnel / Advisory Board appointment / policy decision-making (e.g., director remuneration) / liability limitation agreements with D&O insurance and outside officers / Audit and Supervisory Board auditing policies and planning / internal control audit planning / accounting auditor audit planning / verification of cross-shareholdings / Board of Directors effectiveness evaluation / Tokyo Stock Exchange new market segment and corporate governance code revision initiatives
Investment and loans	Important investments (production facilities, commercial facilities, opening of new branches, Tokyo Building redevelopment, etc.) / core system investments / investment planning and results comparison
Shareholder related	Shareholder returns / dividend policy / shareholder special benefit plan revision / general meeting of shareholders operating policy and results summarization / deliberation on response policy for the large-scale purchase of Nikke shares

Compliance and Risk Management

Risk Recognition

Nikke Group has established the Group Risk Management Committee to identify the risks recognized by the group and strengthen the risk management system for preventing the risks and minimizing losses.

Business risks
<ul style="list-style-type: none"> Declining business results, business withdrawal of important business partners, etc. Business reorganization, and improvement of business structure Significant drop in stock prices, fluctuations in exchange rates, etc. Product defects, etc. Purchase of raw materials Overseas business development Disasters, spread of serious infectious diseases, etc. Impairment losses on fixed assets

Note: For details please see page 16 onwards of the 191st Securities Report. <https://www.nikke.co.jp/ir/>

Risk Management System

Through audits by the Audit and Supervisory Board and the Internal Audit Department and Group Risk Management Committee meetings held twice a year, Nikke Group aims to improve comprehensive group-wide recognition and sharing of the risks and conducts regular reviews on the risk management system. Business divisions and group companies also hold Risk Management Committee meetings to understand the risks unique to each business. In order to prevent the spread of COVID-19, we are implementing measures under the instruction of the contingency task force including: encouraging employees to refrain from taking business trips and holding large meetings, utilizing online tools such as online meeting systems, working from home, utilizing staggered working hours, and developing and strengthening contact systems.

Structure of Nikke Group Risk Management Committee



Protection of Whistleblowers

Nikke Group has established a whistleblower contact desk for reporting illegal activities and activities that violate the Corporate Code of Ethics. We have informed employees about this contact desk via the Corporate Ethics Handbook and the company intranet.

This whistleblower contact desk can be accessed via two routes, the Audit and Supervisory Board and the Internal Audit Office. The system is designed so that report confidentiality is strictly maintained. There were three reports received in fiscal 2021. Also, in anticipation of the revisions to the Whistleblower Protection Act, we have revised our whistleblower system regulations and are working to strengthen compliance management group-wide.

Handling of Information

Respect for Intellectual Property

On December 1, 2008, Nikke Group established the Environment/Intellectual Property Control Office (currently, System/Environment Development Office). By establishing a system that supervises the management of intellectual property owned by the entire Nikke Group, we strive to make effective use of and defend the patents owned by the group. In addition to handling the conclusion of non-disclosure agreements for joint research projects and inventions that have been created, we are working to ensure that intellectual property outside the group are also thoroughly respected. At Nikke Group, intellectual property created by employees related to their work are evaluated and treated based on the rules for handling employee inventions, which is an incentive system for inventions.

Protection of Personal Information

Nikke Group recognizes that information is an important asset for continuing its business and believes that properly handling and protecting personal information is its social responsibility. Having established the Nikke Group Privacy Policy and Nikke Group Personal Information Protection Regulations in 2005 and built a management system based on these, we conscientiously manage personal information to ensure that it is handled appropriately. We also implement awareness-raising activities regularly through the Nikke Group Corporate Ethics Handbook, internal newsletters, and e-learning.

Nikke Officers (As of February 25, 2022)



■ Kazuya Tomita

Chairman
Date of birth: April 3, 1959
Number of years as board member: 9
Number of shares held: 83 thousand
Attendance at Board of Directors meetings (previous term): 12/12 meetings

Reasons for appointment
As president and chief executive officer, Tomita performed appropriate management supervision and decision-making on important matters. He facilitated the drafting and implementation of the second medium-term management plan, which achieved 11 consecutive periods of profit growth. Further, he is judged to be the appropriate choice for this appointment in light of his success in pursuing diversification of group business and the steady implementation of initiatives in different business fields and for driving other efforts to strengthen our corporate group.



■ Yutaka Nagaoka

President and Chief Executive Officer
Date of birth: September 7, 1961
Number of years as board member: 2
Number of shares held: 32 thousand
Attendance at Board of Directors meetings (previous term): 12/12 meetings

Reasons for appointment
As a director, Nagaoka performed appropriate management supervision and decision-making on important matters. As a managing executive officer, he was the general manager of the Human & Future Development Division, where he facilitated smooth expansion in all business fields. In particular, he is judged to be the appropriate choice for this appointment in light of his positioning of the life support field, which encompasses nursing care, childcare, sports schools, and child-related businesses, to be a growth driver and for developing measures, such as opening new business sites, which are aimed at medium and long-term growth.



■ Kuniaki Hihara

Director and Managing Executive Officer
General Manager of Industrial Machinery & Materials Division
Date of birth: May 7, 1957
Number of years as board member: 4
Number of shares held: 31 thousand
Attendance at Board of Directors meetings (previous term): 12/12 meetings

Reasons for appointment
As a director, Hihara performed appropriate management supervision and decision-making on important matters. As a managing executive officer, he was the general manager of the Industrial Machinery & Materials Division, where he focused resources on growth industries connected with automobiles and the environment, strengthened overseas business, achieved synergistic results with the new-Nikke Group member Fuji Corporation, expanded nonwoven fabric business, and produced measures, such as opening new business sites, which are aimed at medium and long-term growth.



■ Yasuhiro Wakamatsu

External Director (independent officer)
Date of birth: August 6, 1964
Number of years as board member: – (newly appointed)
Number of shares held: –
Attendance at Board of Directors meetings (previous term): – meetings

Reasons for appointment
Wakamatsu has experience in management at other companies, along with proven results and ample experience in the warehouse industry, which he draws upon while serving in an independent role focused on management supervision and sustained improvement in corporate value for the Nikke Group. He is thus judged to be an appropriate appointment who can contribute to improved corporate governance.



■ Seishi Miyajima

External Director (independent officer)
Date of birth: January 11, 1960
Number of years as board member: – (newly appointed)
Number of shares held: –
Attendance at Board of Directors meetings (previous term): – meetings

Reasons for appointment
Miyajima has experience in management at other companies, along with proven results and ample experience in the real estate industry, which he draws upon while serving in an independent role focused on management supervision and sustained improvement in corporate value for the Nikke Group. He is thus judged to be an appropriate appointment who can contribute to improved corporate governance.



■ Shogo Ueno

Audit and Supervisory Board member
Date of birth: July 6, 1957
Number of years as board member: 2*
Number of shares held: 27 thousand
Attendance at Board of Directors meetings (previous term): 12/12 meetings
Attendance at Audit and Supervisory Board meetings (previous term): 12/12 meetings

Reasons for appointment
As a director, Ueno has overall management experience encompassing a broad range of business, including Textile & Clothing Materials, Human & Future Development, and Consumer Goods & Services. As a full-time Audit and Supervisory Board member, he has participated in key meetings, conducted visiting audits of group companies, and been involved in other duties, which have provided him with a great deal of insight into Nikke Group business. In addition, Ueno also has group company management experience. He is thus judged to be an appropriate appointment who can contribute to auditing that will ensure good corporate health.



■ Yoshiro Kawamura

Director and Managing Executive Officer
General Manager of Human & Future Development Division
Date of birth: November 15, 1960
Number of years as board member: 3
Number of shares held: 30 thousand shares
Attendance at Board of Directors meetings (previous term): 12/12 meetings

Reasons for appointment
As a director, Kawamura performed appropriate management supervision and decision-making on important matters. As a managing executive officer, he was the general manager of the Textile & Clothing Materials Division, where he strengthened the profitability of existing business and cultivated new business. In particular, he is judged to be the appropriate choice for this appointment in light of his steady pursuit of measures that position overseas business as growth drivers and cultivate functional materials business.



■ Takehiro Okamoto

Director and Managing Executive Officer
Director of Corporate Strategy Center
Date of birth: June 9, 1961
Number of years as board member: – (newly appointed)
Number of shares held: 25 thousand shares
Attendance at Board of Directors meetings (previous term): – meetings

Reasons for appointment
As a managing executive officer, Okamoto oversaw the Corporate Strategy Center as director, formulating and promoting corporate strategy, shaping corporate governance, and facilitating overall group financial, HR, IR, and M&A strategies, among other achievements for which he is judged to be the appropriate choice for this appointment.



■ Yoshihiro Ohnishi

External Director (independent officer)
Date of birth: January 26, 1946
Number of years as board member: 4
Number of shares held: –
Attendance at Board of Directors meetings (previous term): 12/12 meetings

Reasons for appointment
Ohnishi has experience in management at other companies, along with proven results and ample experience in the machine manufacturing industry, which he draws upon while serving in an independent supervisory role among the Board of Directors. In addition, as an external member of the Advisory Board, who advises on the appointment and remuneration of officers and matters put forward by the chief executive officer that are essential to company management, he is judged to be an appropriate appointment who can contribute to improved corporate governance.



■ Junichi Komiya

Audit and Supervisory Board member
Date of birth: September 14, 1959
Number of years as board member: 4
Number of shares held: 18 thousand
Attendance at Board of Directors meetings (previous term): 12/12 meetings
Attendance at Audit and Supervisory Board meetings (previous term): 12/12 meetings

Reasons for appointment
Komiya has a broad range of experience with Nikke, including sales, marketing, public relations, general affairs, legal affairs, and internal auditing. As a full-time Audit and Supervisory Board member, he has participated in key meetings, conducted visiting audits of group companies, and been involved in other duties, which have provided him with a great deal of insight into Nikke Group business. In addition, Komiya also has group company management experience. He is thus judged to be an appropriate appointment who can contribute to auditing that will ensure good corporate health.



■ Takeshi Katayama

External Audit and Supervisory Board member (independent officer)
Date of birth: February 26, 1950
Number of years as board member: 7
Number of shares held: –
Attendance at Board of Directors meetings (previous term): 12/12 meetings
Attendance at Audit and Supervisory Board meetings (previous term): 12/12 meetings

Reasons for appointment
Katayama has experience in management at other companies, along with proven results and ample experience in the finance industry, which he draws upon to carry out independent and objective audits that help ensure corporate health. He is thus judged to be an appropriate appointment who can contribute to improved corporate governance as an external Audit and Supervisory Board member.



■ Michiko Uehara

External Audit and Supervisory Board member (independent officer)
Date of birth: December 24, 1949
Number of years as board member: 5
Number of shares held: –
Attendance at Board of Directors meetings (previous term): 11/12 meetings
Attendance at Audit and Supervisory Board meetings (previous term): 12/12 meetings

Reasons for appointment
As a highly skilled attorney, Uehara draws upon a wealth of experience to carry out independent and objective audits that help ensure corporate health. She is thus judged to be an appropriate appointment who can contribute to improved corporate governance as an external Audit and Supervisory Board member.

*Before his appointment as a Nikke Audit and Supervisory Board member, Shogo Ueno had two years of experience serving as a Nikke director.

Name	Kazuya Tomita	Yutaka Nagaoka	Kuniaki Hihara	Yoshiro Kawamura	Takehiro Okamoto
Position	Chairman	President and Chief Executive Officer	Director and Managing Executive Officer General Manager of Industrial Machinery & Materials Division	Director and Managing Executive Officer General Manager of Human & Future Development Division	Director and Managing Executive Officer Director of Corporate Strategy Center
ESG	Corporate management	●	●	●	●
	Sales	●		●	●
	Engineering/R&D		●	●	
	Finance/accounting	●			●
	HR/Labor	●	●		●
	Legal/risk management	●			●
SPECIAL SKILLS	Global experience	●	●	●	●
	Textile & Clothing Materials	●	●	●	●
	Industrial Machinery & Materials	●	●	●	●
	Human & Future Development	●	●		●
Consumer Goods & Services	●	●			

	Yoshihiro Ohnishi	Yasuhiro Wakamatsu	Seishi Miyajima	Shogo Ueno	Junichi Komiya	Takeshi Katayama	Michiko Uehara
Position	External Director (independent officer)	External Director (independent officer)	External Director (independent officer)	Full-time Audit and Supervisory Board member	Full-time Audit and Supervisory Board member	External Audit and Supervisory Board member (independent officer)	External Audit and Supervisory Board member (independent officer)
Corporate management	●	●	●		●	●	
Sales		●	●	●	●		
Engineering/R&D	●						
Finance/accounting						●	
HR/Labor			●				
Legal/risk management		●			●	●	●
Global experience		●					
Textile & Clothing Materials				●	●		
Industrial Machinery & Materials							
Human & Future Development				●			
Consumer Goods & Services				●			