

The Corporate Governance of Nifco Inc. (hereinafter the "Company" or "we") is described in the following.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information

1. Fundamental Policy

The underlying basis for the corporate governance of the Company is to be a beneficial presence for all stakeholders, including shareholders and investors, users, business partners, employees, and the local communities. To do so, we, as a corporation must take action flexibly and appropriately for the socioeconomic environment which changes drastically, by practicing appropriate risk management along with strict compliance. We believe that corporate governance is to strictly practice such a point of view.

Based on the above fundamental policy, the Company regards thorough corporate governance as a priority issue of management, and has been promoting enhancement of the group management.

[Reasons for Non-compliance with the Principles of Japan's Corporate Governance Code]

[Supplementary Principle 2-4-(1)]

Based on the Nifco Group Corporate Behavior Charter and the Nifco Group Human Rights Policy, we are promoting our diversity inclusion.

Regarding the promotion of women's participation and career advancement, as of April 2022, female manager ratio is 6.3% (Nifco only) and we continue to carry out company-wide activities to achieve the target of 10% within FY 2027. The Nifco global female manager ratio is 20.8%.

As for non-Japanese employees and mid-career hires, as they are regularly promoted to managerial positions, no target values have been set.

[Supplementary Principle 3-1-(3)]

Nifco discloses our activities promoting sustainability in our sustainability report, which will be renamed as 'Nifco Report' from 2022.

<https://www.nifco.com/en/csr/sustainability/>

We plan to disclose our activities towards the climate change based on the international sustainability information disclosure standards in 2022 Nifco Report and our WEB page.

Our greatest strength is our ability to make proposals that meet the needs of our customers. We are focusing on developing creative human resources in order to solve customers' problems and propose unique products that create new added value. We hold approximately 3,300 intellectual property rights worldwide (as of the end of March 2022).

[Disclosure Based on the Principles of the Corporate Governance Code]

[Supplementary Principle 1-2-(4)]

Since 2016, the electronic voting platform has been in use and the English agenda of the convocation notice has been posted on the Tokyo Stock Exchange and the Company's website.

[Principle 1-4]

1. Policy regarding Cross-share Holdings of other Listed Companies

In principle, the Company does not hold investment shares for which the purpose of holding is net investment.

Regarding the classification of investment shares for purposes other than net investment, investment shares are held only when it is determined that it will lead to improvement in the corporate value of the Company, such as maintaining and enhancing business relationships, development of new fields, and promoting business partnerships.

Based on the "fundamental policy of corporate governance," the Company promotes the selling of shares that are not rational to be held through verification of the suitability of holding such shares by the Board of Directors, in consideration of the return and risk of holding. As of the end of March 2015, we held 6.1 billion yen in 22 brands however, the amount held was reduced to 2.3 billion yen in 5 brands as of the end of March 2022.

Going forward, we will specifically verify the appropriateness of individual strategic stockholdings, such as whether the benefits and risks associated with holding stocks are commensurate with the cost of capital, and decide whether or not to continue holding stocks.

2. Standards for Exercising Voting Rights concerning Strategic Shareholdings

In order to exercise the voting rights of strategic shareholdings, the Company may oppose or refrain from exercising voting rights for 1) resolutions which may damage business relationships, and 2) resolutions which do not lead to improvement in the corporate value of the Company or partner companies.

[Principle 1-7]

When conducting the following transactions with Officers and major shareholders, etc. (transactions between related parties), the Company obtains approval from the Board of Directors so that the profit of the Company and common shareholders will not be harmed, and the implemented results are reported to the Board of Directors.

1. Conflict of interest transactions between Directors and the Company
2. Competitive business transactions of Directors
3. Irregular transactions between related parties and the Company

[Supplementary Principle 2-3-(1)]

Nifco's plastic components have changed the automobile manufacturing process, leading to cars with greater safety, less weight, more comfort and reduced environmental impact. Nifco will continuously promote its unique ESG management in line with its business model to realize its Purpose: Sparking Innovation by fastening small insights with technology for a better world.

[Principle 2-6]

The Company manages a reserve fund of a specified type defined-benefit corporate pension. Based on the management of the reserve fund of the corporate pension having an influence on the stable asset formation of employees as well as the financial status of the Company, we have assigned human resources who have the appropriate qualifications for asset management of the corporate pension. We also maintain sound management of the pension system to determine the asset composition ratio in order to achieve the investment target, while incorporating the opinions of experts who have professional knowledge and experience concerning pension assets management as required. The initiatives for stewardship activities are monitored for each management organization, through reports on the quarterly management status.

[Principle 3-1]

(i) For the management philosophy, etc., business strategy and business plan of the Company, please refer to Pages 15 to 16 of the "70th Annual Securities Report" published on our website.

<https://pdf.irpocket.com/C7988/vlQV/lBzK/zzYQ.pdf>

(ii) For the fundamental policy concerning corporate governance, please refer to Page 39 of the "70th Annual Securities Report" published on our website. Each basic policy concerning corporate governance shall be established according to the code.

<https://pdf.irpocket.com/C7988/vlQV/lBzK/zzYQ.pdf>

(iii) For the policies and procedures to determine the compensation of management Executives and Directors by the Board of Directors of the Company, please refer to Pages 5 to 10 of the "Announcement of the Officer Nomination Policies and the Officer Compensation Policies" published on our website.

https://www.nifco.com/en/csr/governance/pdf/2022NominationPolicies_EN.pdf

(iv) For the policies and procedures to perform appointment and dismissal of management Executives and nomination of Director candidates by the Board of Directors of the Company, please refer to Pages 1 to 4 of the "Announcement of the Officer Nomination Policies and the Officer Compensation Policies" published on our website.

https://www.nifco.com/en/csr/governance/pdf/2022NominationPolicies_EN.pdf

(v) For the explanation of each appointment and nomination when performing appointments of management Executives and nomination of Director candidates based on the above (iv), please refer to Pages 11 to 17 of the "Notice of the 70th Annual General Meeting of Shareholders" published on our website.

https://www.nifco.com/en/ir/pdf/2022shoushuu_en.pdf

[Supplementary Principle 3-1-(2)]

The ratio of overseas investors among shareholders exceeds 30%, and we are promoting the posting and provision of information in English.

English translations of corporate governance reports and documents disclosed to the Tokyo Stock Exchange are posted on our website.

[Supplementary Principle 4-1-(1)]

In addition to the matters stipulated by law to be resolved by the Board of Directors, in view of the importance and nature, etc. of the business strategy and business plan formulation, the Company conducts deliberations and resolutions by the Board of Directors on matter recognized as being appropriate to be resolved by the Board of Directors.

Moreover, the management Executives of the Company are delegated to make decisions on the execution of individual operations, based on the direction of the business strategy and business plan formation, etc. resolved by the Board of Directors.

In pursuit of speedy management, management assigns Executive Officers who are dedicated to the execution of individual operations, where the authority for the execution of operations is transferred from Directors, in order to promote acceleration of the decision-making.

[Supplementary Principle 4-1- (3)]

In the Board of Directors meeting held on May 19, 2022, we resolved the Officer Compensation Policies for FY2022 and later. For the detailed contents, please refer to Pages 1 to 4 of the "Announcement of the Officer Nomination Policies and the Officer Compensation Policies" published on our website.

https://www.nifco.com/en/csr/governance/pdf/2022NominationPolicies_EN.pdf

[Supplementary Principle 4-2- (1)]

In order to improve the objectivity and transparency of the decision-making procedures for the compensation, etc. of Officers, the Nomination, Compensation and Governance Committee consisting of a majority of Independent Outside Directors one of which is the chairperson was established as a consultative organ of the Board of Directors. The compensation amount of the Officers is determined by the Board of Directors based on the advice and proposals from the Nomination, Compensation and Governance Committee for the Directors within the range of the compensation limits resolved in the Annual General Meeting of Shareholders.

In order to introduce external objective perspectives and expert opinions for the officer compensation system, the compensation level and compensation system, etc. will be examined taking external data, economic environment, industry trends, and financial condition, etc. into consideration, while obtaining assistance from the external compensation consultant appointed by the Company.

[Supplementary-Principle 4-3- (2)]

Please refer to Principle 3-1(iv), Principle 3-1(v), and Supplementary Principle 4-1(3).

[Supplementary Principle 4-3- (3)]

When there are grounds to suspect conduct applicable to the dismissal standards stipulated in the following, deliberations will be held immediately on the dismissal of the CEO by the Nomination, Compensation and Governance Committee and Board of Directors.

(1) When there are grounds to suspect illegal, unjust, or breach of trust conduct

(2) When the CEO is recognized as being disqualified due to a breach of Corporate Laws and related laws and regulations

(3) When the process of executing duties and outcome is unsatisfactory, and it is determined that it is inappropriate to continue the assignment as CEO

[Principle 4-8, Supplementary Principle 4-10-(1)]

We appointed five Independent Outside Directors which satisfy the standards of the Company (Please refer to Page 49 of the "70th Annual Securities Report" published on our website.

<https://pdf.irpocket.com/C7988/vlQV/lBzK/zzYQ.pdf>

Nifco is a company with an audit and supervisory committee, and five of nine directors of the Board of Directors are independent outside directors.

In addition, in order to strengthen the independence, objectivity, transparency and accountability of the Board of Directors, the nomination, remuneration and governance committee has been established as an advisory body to the Board of Directors. The committee consists of three directors, two of whom are independent outside directors.

[Principle 4-9]

For the standard of the independent judgment of Outside Directors, please refer to Page 49 of the "70th Annual Securities Report" published on our website. The Board of Directors of the company are selected based on the background and personal character, etc. as candidates of Independent Outside Directors, who are expected to perform straight forward, active and constructive discussions in the Board of Directors meetings.

<https://pdf.irpocket.com/C7988/vlQV/lBzK/zzYQ.pdf>

[Principle 4-11, Supplementary Principle 4-11-(1)]

Nifco's Board of Directors has an appropriate size and a diverse structure. Among the nine directors there is a woman, non-Japanese, and legal or accounting specialists.

For the skill matrix of each director, please refer to 'Notice of the 70th General Meeting of Shareholders' Pages 11 to 17 posted on the Company's website.

https://www.nifco.com/en/ir/pdf/2022shoushuu_en.pdf

[Supplementary Principle 4-11-(2)]

When a Director of Nifco concurrently serves as an Officer of other listed companies, it is limited to four companies including Nifco. For the concurrently serving status of Directors who hold positions as Officers of other listed companies, please refer to Pages 47 to 48 of the "70th Annual Securities Report" published on our website.

<https://pdf.irpocket.com/C7988/vlQV/lBzK/zzYQ.pdf>

[Supplementary Principle 4-11-(3)]

Based on the Corporate Governance Code, we evaluate the effectiveness of our Board of Directors once a year. For this year, we analyzed and evaluated the effectiveness of the Board of Directors of the Company from April 2021 to March 2022. Below is an overview.

(i) Process

The Company conducted a questionnaire to all the Directors with the following items as the main contents, reported the analysis results to the Board of Directors, evaluated the effectiveness of the Board of Directors, and considered future measures. We utilized an external organization to conduct the questionnaires and analyze the results to ensure transparency and effectiveness.

【Questionnaire items】

- 1) Roles and functions of the Board of Directors
- 2) Structure and size of the Board of Directors
- 3) Management of the Board of Directors
- 4) Cooperation with auditing organizations
- 5) Communication with management
- 6) Relationship with shareholders / investors
- 7) Nomination / Compensation / Governance Committee Management (Its members only respond)

(ii) Effectiveness analysis / Evaluation results

It was confirmed that the strengths of the Board of Directors of the Company are that they are of an appropriate size and structure, that they are sufficiently diverse, that they have appropriate dialogue with shareholders and investors, that the discussions are open and active, and that the results of various discussions were properly reported, thus it was evaluated that the effectiveness of the Board of Directors was generally ensured.

On the other hand, we received opinions that, in order to further deepen discussions on individual important themes such as medium-to-long-term growth strategies or human capital business portfolio, it is necessary to further strengthen the function of the Board of Directors secretariat and systematically train the executives, which we recognized as a future issue.

(iii) Future response

Based on the results of effectiveness analysis and evaluation, in order to further deepen discussions on important themes at the Board of Directors, we will consider to further strengthen the secretariat function, review the meeting agenda, provide the meeting materials earlier, share the information in advance and implement systematic executive training.

[Supplementary Principle 4-14-(2)]

The policy of the Company is to support the acquisition of knowledge of Nifco as training for the Directors, particularly the Outside Officers, by conducting observation of our main facilities including the factories. In order to learn the basic knowledge required for the tasks performed by Directors and acquire the knowledge necessary for global management of the Nifco Group, we provide support by paying the expenses for external education and training as required for Directors to further understand their roles and responsibilities.

[Principle 5-1]

We continuously engage in dialog with shareholders for the purpose of contributing to sustainable growth, and medium-to long-term improvement in corporate value. We periodically provide opportunities to engage with shareholders and investors, by holding settlement of accounts explanatory meetings, meetings with institutional investors in Japan and overseas, and explanatory meetings for individual investors. In addition, we pay careful attention so that such opportunities do not lead to leakage of insider information.

[Supplementary Principle 5-2]

We accurately assess our own cost of capital, review the business portfolio and implement medium-to long-term investment in equipment and R&D. For the details of the Medium-to-Long Term Management Plan, please refer to Pages 15 of the "70th Annual Securities Report" published on our website.

<https://pdf.irpocket.com/C7988/vlQV/lBzK/zzYQ.pdf>

2. Capital Structure

Foreign Shareholding Ratio	30% or more
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[Status of Major Shareholders] **Updated**

Name or Designation	Number of Shares Owned (Shares)	Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	23,963,900	23.79
Ogasawara Toshiaki Memorial Foundation	10,343,665	10.26
Custody Bank of Japan, Ltd. (Trust Account)	7,476,300	7.42
Goldman Sachs & Co. Regular Account	6,017,606	5.97
Nippon Life Insurance Company	2,915,390	2.89
The Bank of New York Mellon (International) Limited 131800	2,701,500	2.68
The Dai-ichi Life Insurance Company, Limited	2,065,400	2.05
Taiyo Fund, L. P.	1,837,300	1.82
J.P. MORGAN BANK LUXEMBOURG S.A. 381572	1,305,900	1.29
THE BANK OF NEW YORK MELLON 140042	1,253,057	1.24

Controlling Shareholder (Except for parent company)	-----
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Existence of Parent Company	None
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Supplementary Explanation **Updated**

The above "Status of Major Shareholders" indicates the status as of September 30, 2022.

3. Company Attributes

Listed stock market and market section	Tokyo Stock Exchange Prime Market
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Fiscal year end	March
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Type of business	Chemicals
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Number of employees (Consolidated) at end of the previous fiscal year	1,000 or more
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Net sales (Consolidated) for the previous fiscal year	100 billion yen or more and less than 1 trillion yen
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Number of consolidated subsidiaries at end of the previous fiscal year	50 or more and less than 100 companies
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4. Policy for Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholders

5. Special Circumstances which may have Material Impact on Other Corporate Governance

Nothing particularly

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Supervision in Management

1. Organizational Composition and Operation

Organizational form	Company with an Audit & Supervisory Committee
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[Directors]

Maximum number of Directors stipulated in the Articles of Incorporation	11
Term of office stipulated in the Articles of Incorporation	1 year
Chairperson of Board of Directors	Chairman (Except when concurrently posted as President)
Number of Directors	9
Appointment of Outside Directors	Appointed
Number of Outside Directors	5
Number of Independent Officers designated from among the Outside Directors	5

Relationship with the Company (1)

Name	Attributes	Relationship with the Company (*)												
		a	b	c	d	e	f	g	h	i	j	k		
Yoshiko Nonogaki	From another company													
Brian K. Heywood	From another company								○					
Masayuki Abe	From another company													
Toshiyuki Arai	Attorney													
Mitsuhiro Matsumoto	Certified Public Accountant													

* Selection items for relationship with the Company

"○": When the Director "presently falls or has recently fallen" under the category

"△": When the Director fell under the category in the "past"

"●": When a close relative of the Director "presently falls or has recently fallen" under the category

"▲": When a close relative of the Director fell under the category in the "past"

- Executing person of a listed company or its subsidiary
- Executing person or Non-executive Director of the parent company of a listed company
- Executing person of a sister company of a listed company
- Party whose major business partner is a listed company or an executing person thereof
- Major business partner of a listed company or an executing person thereof
- Consultant, accounting professional or legal professional who receives a large amount of monetary consideration or other property besides officer compensation from a listed company
- Major shareholder of a listed company (when said major shareholder is a corporation, an executing person of the said corporation)
- Executing person of a business partner of a listed company (which does not fall under either of d, e or f) (Director only)
- Executing person of the destination in the relation to the mutual appointment of Outside Officers (Director only)
- Executing person of the destination where the listed company is making donations (Director only)
- Other

Name	Audit Committee, etc.	Independent Officers	Supplementary Explanation of Relationship	Reason for Appointment
Yoshiko Nonogaki		○	-----	<p><Reason for Appointment> She has broad insight to supervise overall management based on her business experience in the business divisions of major companies, management experience of overseas subsidiaries, and experience of outside directors at other companies listed on the stock exchange. We would like her to utilize this insight in our management.</p> <p><Reason for being designated as an Independent Officer> She has been elected as an independent director based on the judgment that she meets the independence standards stipulated by the Tokyo Stock Exchange and there is no risk of conflicts of interest with general shareholders.</p>
Brian K. Heywood		○	<p>Taiyo Pacific Partners L.P. where Mr. Brian K. Heywood serves as the CEO is a shareholder of Nifco. An advisory agreement has been concluded between Taiyo and Nifco for the purpose of obtaining advice and proposals concerning the management strategy and business strategy.</p> <p>The ratio of the transaction amount is less than 1% for either side in the consolidated net sales of Nifco and Taiyo, and the service in the advisory agreement is being provided from different members of Taiyo.</p> <p>According to the above, we have determined that he is suitable as an Independent Officer.</p>	<p><Reason for Appointment> Mr. Heywood has abundant experience and insight as an expert in corporate management and investment, and we would like him to utilize this in our management from the perspective of shareholders and investors.</p> <p><Reason for being designated as an Independent Officer> Mr. Heywood has been elected as an independent director based on the judgment that he meets the independence standards stipulated by the Tokyo Stock Exchange and there is no risk of conflicts of interest with general shareholders.</p>

Masayuki Abe	○	○	-----	<p><Reason for Appointment> Mr. Abe has abundant experience and knowledge cultivated in the IT sector of a major company therefore, we would like him to use such expertise in the management of Nifco.</p> <p><Reason for being designated as an Independent Officer> Mr. Abe has been elected as an independent director based on the judgment that he meets the independence standards stipulated by the Tokyo Stock Exchange and there is no risk of conflicts of interest with general shareholders.</p>
Toshiyuki Arai	○	○	-----	<p><Reason for Appointment> Mr. Arai is conversant in law internally and externally as an attorney, he has been conducting audits particularly focusing compliance, and we would like to see the Company utilize this in its management.</p> <p><Reason for being designated as an Independent Officer> Mr. Arai has been elected as an independent director based on the judgment that he meets the independence standards stipulated by the Tokyo Stock Exchange and there is no risk of conflicts of interest with general shareholders.</p>
Mitsuhiro Matsumoto	○	○	-----	<p><Reason for Appointment> Mr. Matsumoto has abundant knowledge and experience in auditing corporate management as a certified public accountant. Therefore, he conducts audits with particular emphasis on accounting, and we would like to see the Company utilize this in its management.</p> <p><Reason for being designated as an Independent Officer> Mr. Matsumoto has been elected as an independent director based on the judgment that he meets the independence standards stipulated by the Tokyo Stock Exchange and there is no risk of conflicts of interest with general shareholders.</p>

[Audit & Supervisory Committee]

Committee's Composition and Chairperson's Attributes

	Total Committee Members	Full-time Committee Members	Inside Directors	Outside Directors	Chairperson
Audit & Supervisory Committee	3	1	1	2	Inside Director

Appointment of Directors and employees who must support the duties of the Audit & Supervisory Committee

Appointed

Matters related to the Independency of such Directors and Employees from Executive Directors

When staff is requested by the Audit & Supervisory Committee, the Board of Directors pay careful attention to the request from the Audit & Supervisory Committee, and make adjustments in the execution of business operations. Employees who are appointed as staff shall give priority to the work directly received from the Audit & Supervisory Committee, and shall not accept direct orders from Directors (except for the Directors who are Audit & Supervisory Committee Members) for said work ordered directly.

Cooperation among Audit Committee, Accounting Auditor and Internal Auditing Division

The Company has changed to a Company with an Audit & Supervisory Committee based on the resolution of the 69th Annual General Meeting of Shareholders held on June 24, 2021. The Audit & Supervisory Committee consists of three members including two outside directors who are audit & supervisory committee members. The Audit & Supervisory Committee is cooperating with the accounting auditor and the internal audit department by explaining the audit plans after the transition and exchanging questions and answers at the committee meetings.

[Arbitrary Committees]

Existence of Arbitrary Committees equivalent to Nominating Committee or Compensation Committee

Yes

Establishment Status of Arbitrary Committees, Committee's Composition and Chairperson's Attributes

	Name of Committee	Total Committee Members	Full-time Committee Members	Inside Directors	Outside Directors	External Experts	Others	Chairperson
Arbitrary committee equivalent to nominating committee	Nomination, Compensation and Governance Committee	3	0	1	2	0	0	Outside Director
Arbitrary committee equivalent to compensation committee	Nomination, Compensation and Governance Committee	3	0	1	2	0	0	Outside Director

Supplementary Explanation

In order to improve the independency, objectivity, and transparency of the contents of the officer compensation system, the Nomination, Compensation and Governance Committee where the chairperson and majority of committee members make up the Independent Outside Directors was established on October 28, 2020 as an advisory body of the Board of Directors. The committee is supposed to hold four meetings or more annually as a general rule, where the compensation amount for individuals and quantitative evaluations are also discussed in the meetings, in

order to provide advice and make proposals to the Board of Directors. The Board of Directors shall pass a resolution on the compensation amount for individuals, in response to the report from the committee. In addition, in order to introduce external objective viewpoints and expert opinions concerning the officer compensation system, the compensation levels and compensation system will be discussed in consideration of external data, economic environment, industry trends, and financial condition, based on advice from external consultants appointed by the Nomination, Compensation and Governance Committee.

[Relationship with Independent Officers]

Number of Independent Officers	5
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Other matters concerning Independent Officers

The Company designates all Outside Officers who satisfy the qualifications of Independent Officers as Independent Officers.

Therefore, all the Outside Officers of the Company are Independent Officers.

[Incentives]

Implementation of Measures to Provide Incentives to Directors	Introduction of performance-based compensation system
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Supplementary Explanation for Applicable Items

In the 64th Annual General Meeting of Shareholders held on June 24, 2016, introduction of a Performance-based Stock Compensation System was approved by the Directors (except for Outside Directors and overseas residents). Continuance of this plan was approved after a partial change was made in the 69th Annual General Meeting of Shareholders held on June 24, 2021.

Recipients of Stock Options	
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Supplementary Explanation for Applicable Items

[Compensation for Directors]

Disclosure Status of Individual Directors' Compensation	Individually disclosed for some Directors
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Supplementary Explanation for Applicable Items

The total amount of compensation of all Directors, and total amount of consolidated compensation of Directors who received 100 million yen or more in the total amount of consolidated compensation, etc. is disclosed in the Annual Securities Report.

Disclosure of individual Directors' compensation

Toshiyuki Yamamoto : 169 million yen

Masaharu Shibao : 101 million yen

(Note)

Only the Directors who received 100 million yen or more in the total amount of consolidated compensation, etc. are disclosed. For details, please refer to Page 58 of the "70th Annual Securities Report" published on our website.

<https://pdf.irpocket.com/C7988/vlQV/lBzK/zzYQ.pdf>

Existence of Determination Policy of Compensation Amount or its Calculation Method	Yes
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1. Basic Policy of Officers' Compensation

The basic policy, based on the fundamental policy of corporate governance for compensation of Directors and Executive Officers of the Company (hereinafter the "Officer Compensation") is as follows.

- (1) Officers' compensation shall be designed to contribute to our Mission: "Nifco generates ideas and cultivates technology to turn your expectations into excitement."
- (2) Officers' compensation shall be designed as an independent, objective, and transparent compensation system that is held accountable to our stakeholders, including employees, customers, and shareholders.
- (3) Officers' compensation shall be designed to be attractive to our employees.

2. Compensation Level

The level of Officers' compensation is determined based on the above-mentioned basic policy for Officers' compensation in consideration of the business environment of the Company, and performing annual investigation and analysis of the compensation level of other companies in the same industry and major companies of the same size as a peer group, using an external database, etc. Specifically, we also refer to the level, etc. of companies that have similar operating income and market capitalization, and companies which have introduced stock compensation systems among the JPX-Nikkei Index 400, and take the dividends for shareholders, highest annual salary of employees, and pay ratio (deviation between the CEO compensation and average salary of employees) into consideration in order to examine an appropriate compensation level.

[Support System for Outside Directors]

We provide explanations to Outside Directors so that they can accurately understand the current condition and issues of the Company, such as each headquarters and Auditing Division providing materials related to the contents of important meetings, including the Board of Directors meeting.

2. Matters on Functions of Business Execution, Audit and Supervision, Nomination and Compensation Decisions (Overview of Current Corporate Governance System) Updated

(1) Composition of Board of Directors and Adoption of Executive Officer System

In order to reflect and utilize the points of view and perspectives that are different from the ideas and viewpoints peculiar to the Company in management, we have appointed five Outside Directors among the nine members of the Board of Directors.

Furthermore, we have adopted an executive officer system in order to realize clear recognition and efficiency in the decision-making and supervisory functions of management, and business execution functions.

(2) Establishment of Various Committees

We have established a Risk Management Committee, Compliance Committee, and Information Security Committee under the Board of Directors, in order to verify whether the business is being executed properly by the Executive Officers, as well as promote efficient business execution.

We have also established the Nomination, Compensation and Governance Committee and the Sustainability Committee as advisory committees to the Board of Directors, each of which provides advice and proposal to the Board of Directors.

(3) Status of Audits by Audit & Supervisory Committee, Internal Audit, and Accounting Audits

We changed to a Company with an Audit & Supervisory Committee based on the resolution of the 69th Annual General Meeting of Shareholders held on June 24, 2021. The Audit & Supervisory Committee consists of three members including two Outside Directors who are audit committee members. Two Outside Directors appointed as audit committee members are also an attorney and certified public accountant, and have expert knowledge regarding legal affairs, financial and taxation, and accounting, etc.

The Auditing Division has been established as a division responsible for internal audits, and eight members including the Auditing Division Manager are conducting audits to ensure that the overall business of the Company is being executed appropriately and efficiently, according to the annual audit plan.

The accounting audits are conducted KPMG AZSA LLC.

3. Reasons for Adoption of Current Corporate Governance System

Based on the viewpoint of improving the audit and supervisory functions of the Board of Directors in order to further enhance corporate governance by appointing audit committee members that are responsible for auditing the execution of duties of the Directors as constituent members of the Board of Directors to allow them to have voting rights in the Board of Directors meeting, we have changed from a Company with a board of company auditors to a Company with an Audit & Supervisory Committee as of June 24, 2021, according to a change in the Articles of Incorporation which mentioned a change to a Company with an Audit & Supervisory Committee, which was resolved in the Annual General Meeting of Shareholders held the same day.

III. Implementation of Measures for Shareholders and Other Interested Parties

1. Measures to Vitalize the General Meeting of Shareholders and Smooth Exercising of Voting Rights

	Supplementary Explanation
Early Distribution of Convocation Notice for Annual General Meeting of Shareholders	The notification was distributed one business day before (June 7) the legal term (June 8) in 2022.
Scheduling of Annual General Meeting of Shareholders Avoiding Peak Dates	The date of the meeting is determined avoiding the peak dates for the shareholders meetings. The meeting was held on June 23, 2022.
Exercising Voting Rights by Electronic Method	Exercising of voting rights by electronic method has been adopted since the 64th Annual General Meeting of Shareholders (2016).
Participation in Electronic Voting Platform and Other Efforts to Enhance the Voting Environment for Institutional Investors	We have participated in an electronic voting platform (ICJ, Inc.) since the 64th Annual General Meeting of Shareholders (2016), and it can now be used.
Provision of Convocation Notice (Summary) in English	We have been creating some contents (Resolution) of convocation notices in English since the 64th Annual General Meeting of Shareholders (2016), and are published on the websites of the Tokyo Stock Exchange, ICJ, and Nifco.
Other	We have been visualizing the report contents in the Annual General Meeting of Shareholders.

2. IR Activities

	Supplementary Explanation	Explanation by Representative
Holding Periodic Explanatory Meetings for Individual Investors	Previously, the meeting was held several times a year, but last year, due to COVID-19, the meeting was postponed. In the current fiscal year, we are reviewing the situation and are considering resuming operations.	None
Holding Periodic Explanatory Meetings for Analysts and Institutional Investors	In the previous fiscal year, several sessions were held in remote format. Two of them are briefings held by representatives.	Yes
Publishing of IR Materials on Website	We publish the consolidated financial results, annual securities report, and shareholder notifications, etc. on our website, and the IR related news is distributed to requestors via e-mail.	
Establishment of Division and/or Manager in Charge of IR	Corporate Management Division	
Other	<p><Basic Policy concerning Profit Sharing> The Company has been determining the dividends on a full year basis since FY2008, targeting about 30 percent of the consolidated net income. This is because, setting the dividend payout ratio based on the consolidated net income contributes to the return to shareholders instead of the non-consolidated net income, along with the increase in the contribution ratio in the consolidated net profit of overseas subsidiaries, due to the progression of globalization in the Nifco Group.</p> <p><Decision-making Body for Dividends> The basic policy of the Company is to distribute surplus dividends two times annually, including an interim dividend and a year-end dividend. Along with the "partial amendment to the Articles of Incorporation" having been approved in the Annual General Meeting of Shareholders held on June 24, 2021, a</p>	

new policy "unless otherwise provided separately in laws and regulations, the company shall be able to define matters stipulated in Article 459, Paragraph (1) of the Companies Act including dividends of surplus, etc. by resolution of the Board of Directors" is defined in the Articles of Incorporation. However, there is no change in the policy for distribution of dividends of surplus two times annually including the interim dividend (end of 2nd Quarter), and the year-end dividend therefore, the decision-making body for distribution of such surplus will be determined by the Board of Directors for the interim dividends, and the Annual General Meeting of Shareholders for the year-end dividends.

<Reduction of Investment Unit>

We reduced the investment unit of our shares from 1,000 shares to 100 shares from August 2004.

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanation
Rules to Ensure Due Respect for Stakeholders in Internal Rules, etc.	The rules are stipulated in the "Nifco Group Corporate Action Charter."
Implementation of Environmental Conservation and CSR Activities, etc.	In 2001, the "Nifco Environmental Policy" was established, and an "Environmental Report" has been issued every year since 2004. The "Nifco Sustainability Report" has been issued since 2018.
Other	The Company established the "Office of Diversity Development" in 2008, in order to promote career improvement and career support particularly for women, in consideration of the work-life balance. In addition, although there were only two women in managerial positions before the Office of Diversity Development was established, it has currently increased to 26 positions.

IV. Matters Related to Internal Control Systems

1. Fundamental Policy and Development Status Regarding Internal Control Systems

A system to ensure that the execution of the duties of Directors comply with the laws and regulations and Articles of Incorporation, and a system to ensure the appropriateness of the operations of the Company are resolved as follows. This matter was amended in the Board of Directors meeting held on June 24, 2021, in order to meet the change of the Company to a Company with an Audit & Supervisory Committee.

(1) System to ensure that the execution of the duties of Directors and employees comply with the laws and regulations and Articles of Incorporation

Under the Nifco Group Corporate Action Charter, while complying with the laws and regulations, etc. led by the Compliance Committee based on Nifco's Compliance Rules, the Nifco Group will establish an internal system to execute the duties by Directors and employees with a high sense of ethics.

In addition, if there is any approach, etc. by anti-social forces, we will shut-out and exclude anti-social forces without accepting any undue claims, etc. under the supervision of the Compliance Committee.

(2) System for Storage and Management of Information concerning the Execution of Duties of Directors

Based on the Document Management Rules, we will develop a robust storage and management system for said information, so that the decision-making process concerning the execution of duties of Directors and the detailed status of the execution of duties can be reviewed at any time.

(3) Rules and Other Systems for Risk Management of Loss

Based on the Basic Regulations of Risk Management, the main risks of the Nifco Group will be extracted and analyzed, and preventive measures against each risk will be examined and implemented led by the Risk Management Committee. Moreover, we will establish a post response system in order to minimize loss, even if any risk is actualized.

In addition, an information security system based on the Information Security Policy will be promoted led by the Information Security Committee.

(4) System to Ensure that the Duties of Directors are Executed Efficiently

The Directors shall efficiently execute their duties after holding detailed deliberations on important matters for management in the Management Committee meeting held monthly, in addition to the Board of Directors meeting.

The Directors shall request Executive Officers and the Manager of the Division in charge to attend the Management Committee meeting as required and give appropriate instructions in response to reports on the execution and management status of pending matters, in order to improve the efficiency of their execution of duties.

We will establish a system to convey the decisions made, policies, and instructions by Directors throughout the organization through such communication, so that the integrated and efficient duties can also be executed by management including the Executive Officers.

(5) System to Ensure the Appropriateness of the Operations in the Nifco Group

Based on the regulations of authority for related companies in Japan and overseas, the Company will accurately understand the status of the subsidiary companies belonging to the Nifco Group for proper management.

Not only the monthly report on the business performance figures, but we also receive qualitative reports on customers and products, etc. Moreover, management as well as the Directors of the Company shall visit the subsidiary companies including overseas as required, in order to understand and solve issues.

(6) System concerning Directors and Employees who must Assist the Duties of the Audit & Supervisory Committee, Matters concerning Interdependency of Employees from Directors, and Matters concerning Effectiveness of Instructions given to Employees

When staff is requested by the Audit & Supervisory Committee, the Board of Directors pay careful attention to the request from the Audit & Supervisory Committee and make adjustments in the execution of business operations. Employees who are appointed as staff shall give priority to the work directly received from the Audit & Supervisory Committee, and shall not accept direct orders from Directors (except for the Directors who are Audit & Supervisory Committee Members) for said work ordered directly.

Moreover, prior consent of the Audit & Supervisory Committee shall be obtained for staff reassignment and personal evaluation of employees who are appointed as staff.

(7) System for Directors (except for the Directors who are Audit & Supervisory Committee Members) and Employees to Provide Reports to the Audit & Supervisory Committee

The Board of Directors shall ensure that Directors and employees are fully aware of their obligation to provide reports on important matters to the Audit & Supervisory Committee. Based on the Nifco Group Internal Whistle Blowing Regulations, the Company will establish internal and external contacts to collect extensive information, in order to ensure that there are no cases of compliance violations.

The system of the contacts is to report the contents of the collected information to the Audit & Supervisory Committee. We also ensure that the whistleblower will not be subject to adverse disposition or unfair treatment, due to the reporting of information.

Moreover, the full-time audit committee members not only attend the Board of Directors meeting but also attend meetings held by the executive divisions, such as the Management Committee meeting, in order to receive reports on the execution status of the duties of Directors and management. In addition, full time audit committee members shall establish a system so that the requests for approval are reviewed before approval, and ask questions to and obtain reports from the Director or employee in charge on the contents of said requests for approval.

(8) System to ensure that Audits by the Audit & Supervisory Committee are Conducted Efficiently

Directors including Representative Directors shall periodically exchange opinions with the Audit & Supervisory Committee, and the Audit & Supervisory Committee shall hold periodic discussions with the Internal Auditing Division. The Audit & Supervisory Committee and the Internal Auditing Division shall hold deliberations and discussions with the accounting auditors, as well as hold deliberations and exchange opinions with the Auditing Divisions of subsidiary companies in Japan and overseas as required.

If any expense is incurred in order to execute the duties of the audit committee, the expense shall be handled appropriately and promptly.

2. Status of Preparation

The Compliance Committee meeting was held four times in FY2021 regarding the above (1) System to ensure that the execution of the duties of Directors and employees comply with the laws and regulations and Articles of Incorporation. The Risk Management Committee meeting was held four times in FY2021, and the Information Security Committee meeting was held two times in FY2021 regarding the above (3) Rules and Other Systems for Risk Management of Loss. The following items were conducted regarding the above (5) System to Ensure the Appropriateness of the Operations in the Nifco Group.

(a) The Audit & Supervisory Committee and the Auditing Division of the Company are conducting audits, including each of the group companies as the target.

(b) The "Rules for Authority to Operate Subsidiaries and Affiliated Companies" were established separately for Japan and overseas, and the appropriate management and delegation of authority is being conducted according to the size and business form of each group company.

2. Fundamental Policy towards Exclusion of Anti-social Forces and Status of Preparation

As mentioned in the above contents in (1) of "1. Fundamental Policy and Development Status Regarding Internal Control Systems," if there is any approach, etc. by anti-social forces, we will shut-out and exclude anti-social forces without accepting any undue claims, etc. under the supervision of the Compliance Committee.

In addition, in order for the business partners of Nifco to also strictly observe the shut-out and exclusion of relationships with anti-social forces, a Memorandum of Understanding has been concluded.

Ⅴ. Other Matters

1. Introduction of Measures against Takeovers

Introduction of Measures against Takeovers	Not introduced
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Supplementary Explanation for Applicable Items
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2. Other Matters concerning the Corporate Governance System

The status of the internal system for the timely disclosure of the Company information of Nifco is as follows.

1. Policy for Timely Disclosure

The Company properly discloses the information that must be disclosed in a timely manner concerning information that Nifco determines to be useful for investors, not only information that requires disclosure based on the "Timely Disclosure Rules" established by the Tokyo Stock Exchange, and the various laws and regulations including the Financial Instruments and Exchange Act.

2. Internal System for Timely Disclosure

The Company handles important information that may become the target of disclosure as follows.

(1) When it is determined that matters planned, drafted or facts that have occurred may be applicable to important information, the General Manager of each division assumes the responsibility to immediately report said information to the "Chief Information Officer" (who is appointed by the Board of Directors) where they comply with and execute their reporting obligations.

The person in charge of each division also assumes the responsibility to report important information to the General Manager of each division.

(2) The "Chief Information Officer" who received the reports of the above (1), holds discussions with the General Managers of the related divisions, in addition to the General Manager of the Administration Department according to the contents and characteristics of said information, and takes action as follows when it is determined that the information must be disclosed in a timely manner.

1. When said information belongs to determined facts or information on financial results

In the event of a resolution for approval, and reporting in the Board of Directors meeting, or in the case of an emergency, such information shall be disclosed in a timely manner without delay after obtaining the approval of the CEO.

2. When said information belongs to facts

After the occurrence of fact, such information shall be disclosed in a timely manner without delay after obtaining the approval of the CEO.

