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attended by the Directors who concurrently serve as

title. To supplement these meetings, NOF from time

to time receives advice from such experts as lawyers

and certified public accountants regarding business

management and daily execution of business for

reference in making judgment on business affairs.

Operating Officers and Operating Officers with a

Finances

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## Corporate Governance

## Organizational Setup for Corporate Governance

With a view to architecting a management setup that can appropriately respond to changes in the business environment, NOF introduced the operating officer system in 2000. It was intended to strengthen the decision making function and the supervision function of the Board of Directors and at the same time to enhance the efficiency of the executive setup under authorization by the Representative Director by separating the decision making function and the business executing function of management. In 2021, we shifted to being a company with an Audit and Supervisory Committee and appointed five independent Outside Directors (including Audit and Supervisory Committee members). This move was motivated by our determination to further strengthen the supervisory function of the Board of Directors by assigning voting rights for Board of Directors meetings to Directors who are Audit and Supervisory Committee members and to increase management efficiency and further improve corporate governance by facilitating agile decision-making. The Board of Directors, consisting of ten members including five Outside Directors. holds one regular meeting every month and extraordinary sessions are also convened as required. Besides deciding on important matters set forth by laws, regulations, the articles of incorporation, and the rules of the Board of Directors, the Board supervises the state of business execution. Any important matter to be referred to the Board of Directors goes through preliminary deliberation,

intended to ensure more appropriate decision making, by the Executive Committee from time to time attended by Directors who concurrently serve as Operating Officers, Operating Officers with a title, standing Audit and Supervisory Committee members, and heads of the organizational unit or units concerned or the weekly Strategic Meeting as a rule

#### Corporate governance diagram

**General Meeting of Shareholders** Appointment / Dismissal Appointment / Dismissal Auditing / Audit and **Board of Directors** Supervision Supervisory Committee Participation -Nomination Committee (discretionary) Directors who are Audit and Compensation Committee (discretionary) Supervisory Committee Members Selection / Dismissal Supervision Reporting President and Chief Executive Officer Appointment / Support Deliberation Dismissal Direction / Cooperation Sustainability Committee Strategic Meeting Specialist **Executive Committee** Auditing Committees (Compliance, Reporting Risk Manage-Audit and Supervisory Operating Internal Control ment. RC. Committee's Office Officers Department Quality Control) Auditing Cooperation **Accounting Auditor** Business Divisions / Staff Departments / Affiliates (Auditing Company) Cooperation

Contents

# Corporate Governance

## Organizational Setup for Corporate Governance

Development of internal control system

Each NOF Group company has developed an internal control system for ensuring adherence to laws and regulations, the articles of incorporation and various internal rules of the Company, and appropriateness of business operations. Regarding observance of social norms and laws and regulations, the Company's code of conduct is formally spelled out as the NOF Code of Ethical Conduct, based on the NOF Basic CSR Policy, and an Ethics Committee is established to ensure thorough adherence to the code. Further, in order to secure safety in production sectors in the Five Core Components, including the environment, products, plants, transportation, and labor, the Responsible Care (RC) rules are instituted, with the RC Committee checking conduct in actual scenes of production and performing internal auditing.

## Internal audits and audits by Audit and Supervisory Committee

Internal audits are performed by the Internal Control Department, which is an organization reporting directly to the President. The Audit and Supervisory Committee has in place a system for auditing and supervising the business execution of Directors through effective cooperation with the Internal Audit Department, etc. and by having the Committee members, primarily standing Audit and Supervisory Committee members, actively participate in Executive Committee meetings and various other meetings.

The Audit and Supervisory Committee, the Accounting Auditor, and the Internal Control Department exchange information by sharing their respective audit plans and audit results, etc., and strive to mutually cooperate through methods such as assembling periodically. In addition, Audit and Supervisory Committee members engage in appropriate coordination with the relevant organs by attending the meetings of the competent committees on CSR and risk management, sitting in on internal audits conducted by the internal auditing organs of each committee, and receiving and exchanging opinions on the audit result reports of the internal audit organs of each committee.

#### Nomination Committee / Compensation Committee

In order to improve the oversight function of the Board of Directors and strengthen the corporate governance system, the Nomination Committee and Compensation Committee, which are voluntary advisory committees to the Board of Directors, have been established.

The Nomination Committee, in consultation with the Board of Directors, deliberates and reports to the Board of Directors on matters such as the election and dismissal of Directors (excluding Audit and Supervisory Committee members), as well as the selection and dismissal of Representative Directors and the succession plan.

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The Compensation Committee, in consultation with the Board of Directors, deliberates and reports to the Board of Directors on matters related to the compensation of Directors, excluding Audit and Supervisory Committee members. Both committees are chaired by an independent Outside Director, and consist of five independent Outside Directors and two Internal Directors. This ensures the committees' independence and objectivity.

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### **Specialist Committees**

The Risk Management Committee, the Compliance Committee, the RC Committee, and the Quality Control Committee analyze management risks, consider countermeasures, and report to the Board of Directors. The Sustainability Committee conducts integrated assessment of various business risks, including those related to compliance, information management, and environment and safety, as well as confirmation and evaluation of the comprehensiveness of risks.

Appendix