

## Corporate Governance Report

Last Updated: March 30, 2022

**Nippon Carbon Co., Ltd.**

Takafumi Miyashita

Representative Director, CEO

Contact: Administration Div. of Biz Administration Dept.

Securities Code: 5302

<https://www.carbon.co.jp/english/>

The corporate governance of Nippon Carbon Co., Ltd. (the “Company”) is described below.

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

#### 1. Basic Views

The Company always pursues the best corporate governance and continues to work on enhancing it. The basic views are based on the Management Philosophy formulated in 1980.

##### Management Philosophy

“A company with dreams and technology that aims for a society of love and science”

In accordance with this view, the Company works on enhancing corporate governance, while regarding ensuring the transparency and fairness of decision-making as well as fully utilizing the management resources it holds and increasing the vitality of management using swift and decisive decision-making as the center of corporate governance, from the perspective of increasing the Company’s sustainable growth and long-term corporate value.

- (1) Respect the rights of shareholders and secure their equal treatment.
- (2) Consider the interests of stakeholders including shareholders and cooperate appropriately with the stakeholders.
- (3) Properly disclose the Company’s information and ensure transparency.
- (4) Make the Board of Directors’ supervision function for business execution effective.
- (5) Through the realization of the Management Philosophy, aim to increase sustainable corporate value and engage in constructive dialogue with shareholders and investors that have investment policies that align with the Management Philosophy.

#### [Reasons for Non-compliance With the Principles of Japan’s Corporate Governance Code] Updated

Described based on the Code revised in June 2021.

##### [Supplementary Principle 3.1.3 Disclosure of Initiatives on Sustainability]

Based on the understanding that Environment, Social and Governance (ESG) are very important for increasing medium- and long-term corporate value, the Company will set targets for each during FY2022 and implement specific initiatives toward increasing medium- and long-term corporate value.

In accordance with the purpose of the revision of the Code in June 2021, the Company will assess the impact of climate change-related risks and earning opportunities on its businesses using a scenario analysis required by the Task Force on Climate-related Financial Disclosures (TCFD) to disclose the assessment during FY2022.

[Translation]

**[Disclosure Based on the Principles of Japan's Corporate Governance Code] Updated**

[Principle 1.4 Cross-Shareholdings]

1. Policy relating to cross-shareholdings

The Company holds shares for policy-oriented purposes such as maintaining and expanding good transaction relationships, as well as keeping stable and continuous financial transaction relationships.

The Company examines the reasonableness of holding cross-shareholdings at a meeting of the Board of Directors annually from a medium- to long-term perspective, giving comprehensive consideration to the purposes, and risks and interests to be gained from cross-shareholdings, capital costs and other factors for all the individual issues.

The Company has a policy to reduce shares not deemed reasonable to be held after the examination.

The Company reduced four share issues in 2021.

2. Exercising voting rights regarding cross-shareholdings

The Company exercises the voting rights of all the cross-shareholdings in principle, believing that appropriate exercise of voting rights promotes the strengthening a company's corporate governance structure and leads to enhancement of its medium- and long-term value and sustainable growth. To exercise voting rights, the Company comprehensively decides whether a proposal would contribute to the establishment of an appropriate corporate governance structure and the increase of the medium- and long-term corporate value of an issuing company, as well as have any impact on the Company.

[Principle 1.7 Related Party Transactions]

Whenever the Company engages in related party transactions, its Board of Directors carries out appropriate procedures according to the details and characteristics of the transactions, and the transactions are disclosed in securities reports and similar. In addition, the Company monitors its group companies' officers by researching related party transactions annually.

[Supplementary Principle 2.4.1 Ensuring Diversity]

The Company actively and continuously hires and appoints diverse human resources such as women, foreign nationals and mid-career workers with various professional backgrounds to develop a business structure that enables flexible and swift responses to a rapidly changing market environment. The Company also works on improving the workplace environment so that each worker can utilize his or her abilities and characteristics, and sets criteria for selecting middle managers regardless of sex, or whether they are new graduate or mid-career employees.

Going forward, the Company will strive to train employees that will be engaged in management decision-making in the future, by conducting recruitment with ensuring diversity in mind from medium- and long-term perspectives, creating an environment where employees can play an active role regardless of the type of their hiring, sex or nationality, and supporting employees' self-directed growth.

As the target for promoting the active participation of women, the Company will vigorously work on hiring women in career track positions, candidates for middle managerial positions, in a bid to double the number of female managers by 2030.

[Principle 2.6 Roles as Asset Owners]

The Company manages a pension fund with the aim of ensuring necessary total revenues for the long term, while weighing risks to make sure to provide pension benefits into the future, and formulates the asset mix from a medium- to long-term perspective.

The Company selects an asset manager using a comprehensive evaluation of quantitative aspects such as management performance in addition to qualitative assessment of management process, compliance and the like.

[Principle 3.1 Full Disclosure]

1. Management Philosophy, etc., management strategy and management plan

(1) Management Philosophy, etc.

The Management Philosophy is as described in "1. Basic Views."

(2) Management strategy and management plan

The Company's group (the "Group") expects to develop along with new markets as a corporate group that provides carbon materials indispensable to growing markets related to "carbon neutral" and "digital transformation." The Group has formulated its Mid-term Management Policy "BREAKTHROUGH 2024,"

[Translation]

setting “Business structural reform” and “Improvement of corporate constitution” as core targets, and aims to enhance profitability and corporate value through the Group’s collective efforts.

<Nippon Carbon Group Policy>

(a) Business structural reform

We will develop strategy suited to our business portfolio with a focus on growing markets related to carbon neutral and digital transformation, aiming to ensure stable earnings.

- (i) Maintaining top share and further expansion of carbon fiber products for the high temperature furnace global market
- (ii) Strengthening global competitiveness of artificial graphite electrode and anode materials for lithium-ion batteries by reducing production costs and cost reduction by thorough review of production processes
- (iii) Creation of new business
- (iv) Increase profitability of specialty carbon business
- (v) Business development of silicon carbide continuous fiber to meet global demand

(b) Improvement of corporate constitution

We will aim to enhance organizational strength through the ongoing securing and training of human resources and execution of diversified promotion.

We will advance work style reform such as teleworking, which has become the new normal, and review functions of our business locations, including headquarters, to realize a sustainable and strong corporate constitution.

- (i) Securing and training of human resources
- (ii) Work style reform for the new normal era and promoting the efficiency of activity bases

(c) Promotion of ESG management

We will advance ESG management with “Environment,” “Social” and “Governance” in mind to realize a sustainable society and improve corporate value.

2. Basic views and basic policy on corporate governance

The Company aims to enhance the soundness and transparency of management by adopting the following system as a governance mechanism to build the best relationship with stakeholders through business activities and increase corporate value.

The Company has selected the form of a company with Board of Auditors.

The Board of Directors composed of all the Directors including outside Directors deliberates on important decision-making related to business execution.

The Board of Directors consists of four Directors, two of whom are outside Directors, and the Board of Auditors is composed of three Auditors, two of whom are outside Auditors. This aims to increase the objectiveness of decision-making as well as strengthen the audit and supervision function of the Auditors for the management.

The Internal Audit Bureau in charge of the Group’s internal audit monitors the status of the Company’s internal control and reports to the Board of Directors and the Board of Auditors as well as gives instructions for improvement.

In addition, the Corporate Compliance Committee undertakes supervision activities of the overall Group to ensure compliance.

3. Policies and procedures for the Board of Directors in determining remuneration to Directors

The details are described in “II. 1 [Director Remuneration] Disclosure of Policy for Determining Remuneration Amounts or Calculation Methods Thereof” of this report.

4. Policies and procedures for the Board of Directors in nominating the candidates for Director and Auditor

(1) Policies and procedures in nominating the candidates for Director

To nominate the candidates for Director, the Representative Director, CEO makes a proposal in line with the following standards, and after consulting the Advisory Committee, the Board of Directors resolves the draft proposal for a general meeting of shareholders and submits it as a proposal to the said meeting.

Standards for nominating the candidates for Director

- Be mentally and physically healthy
- Have high popularity, personal connections, dignity and ethics

[Translation]

- Possess deep management knowledge and objective judgement as well as good foresight and insight
- Have no interest and transaction relationship that could affect the execution of the duties by Directors
- For an inside Director, have abilities, knowledge, experience and track record in the field he or she is good at as well as a sense of balance and decision-making capacity that enables him or her to understand the overall business and act
- For an outside Director, have abundant experience and in-depth insight in each field he or she has belonged to, secure enough time to execute the duties as the Company's Director and possess qualifications to advise and propose from an independent position to ensure the validity and appropriateness of decision-making of the Board of Directors
- Possess other qualifications required of a Director from the viewpoint of building corporate governance that achieves the soundness and transparency of management necessary for a listed company

The criteria for ensuring the independence of outside Directors comply with those prescribed by the Tokyo Stock Exchange.

#### (2) Policies and procedures in nominating the candidates for Auditor

The Company limits the number of Auditors to four in a bid to strengthen its functions, with half or more members being outside Auditors, pursuant to the provision of Article 335, paragraph (3) of the Companies Act.

In addition, Auditors cooperate with the Internal Audit Bureau and Accounting Auditor to seek to make each of three-pronged audits effective and enhance the audit for the overall business of the Group.

To nominate the candidates for Auditor, the Representative Director, CEO makes a proposal in line with the following standards, and after the Board of Auditors discusses and agrees with it, the Board of Directors resolves the draft proposal for a general meeting of shareholders and submits it as a proposal to the said meeting.

#### Standards for nominating the candidates for Auditor

- Be mentally and physically healthy
- Have high popularity, personal connections, dignity and ethics
- Always have an impartial, unbiased attitude and act based on one's own belief
- Always seek to self-improve to enhance the quality of audits
- Possess management knowledge and objective judgement
- Recognize management issues from the perspective of the overall management
- Have no interest and transaction relationship that could affect the execution of the duties by Auditors
- For a full-time Auditor, have information-gathering capacity required to fully assume the roles and responsibilities of the Board of Auditors
- Have an appreciable extent of expertise in finance and accounting, or abilities, knowledge and experience in the field one is good at
- For an outside Auditor, have abundant experience and in-depth insight in each field he or she has belonged to, secure enough time to execute the duties as the Company's Auditor and possess qualifications to advise and propose from an independent position to ensure the validity and appropriateness of decision-making of the Board of Directors
- Possess other qualifications required of an Auditor from the viewpoint of building corporate governance that aims to enhance the soundness and transparency of management as a listed company

The criteria for ensuring the independence of outside Auditors comply with those prescribed by the Tokyo Stock Exchange.

#### (3) The reasons for appointment of candidates for Director and Auditor are disclosed in the Reference Documents for General Meeting of Shareholders.

URL: <https://www.carbon.co.jp/english/topics/>

#### (4) Policies and procedures in dismissing a Representative Director

A Representative Director shall be subject to a dismissal proposal if he or she meets even one of the following conditions.

- Violate laws and regulations, the articles of incorporation or other provisions of the Company to cause a heavy loss or trouble to the business
- Cause a significant loss in the execution of the duties
- Found to have a relationship with anti-social forces
- Clearly not satisfy each requirement of the appointment standards

[Translation]

A dismissal proposal shall be resolved at a meeting of the Board of Directors after consulting the Advisory Committee.

[Supplementary Principle 4.1.1 Roles and Responsibilities of the Board of Directors]

The Company decides that strategic matters such as corporate management policies and the decision of important business execution that cannot be legally delegated to the management shall be resolution matters at meetings of the Board of Directors in the Board of Directors Regulations. It also determines the scope of authority regarding other matters related to business execution in the regulations on authority and specifies the details of the matters that should be transferred to the management.

Meetings of the Board of Directors are attended by outside Directors not engaged in management execution, and they have active discussions with other Directors not involved in the execution of the duties related to individual proposals. The supervision function performed by non-executive directors and the mutual supervision function among each of the Directors are fulfilled.

[Principle 4.8 Effective Use of Independent Outside Directors]

The Board of Directors currently consists of four Directors including two Representative Directors and two independent outside Directors.

The Board of Independent Outside Director composed of independent outside Directors and independent outside Auditors has been established and is held twice a year for members to freely exchange opinions and share recognition regarding the Company's management policies including the evaluation of the Board of Directors and management improvement, the development of the future top management and other topics based on expertise each member has from an independent position to fulfil the roles expected of independent outside Directors.

[Principle 4.9 Independence Criteria and Qualifications for Independent Outside Directors]

The Company's independence criteria to certify outside Directors and outside Auditors as independent officers comply with those prescribed by the Tokyo Stock Exchange.

[Supplementary Principle 4.10.1 Number of Independent Outside Directors and Matters Relating to Nominating and Remuneration Committees]

The Board of Directors is currently composed of two Representative Directors and two independent outside Directors.

Therefore, the Advisory Committee equivalent to a Nominating Committee or Remuneration Committee, composed of one inside Director and two independent outside Directors, has been established to ensure the objectiveness and transparency of the process of appointing and dismissing Directors as well as of determining remuneration to Directors. Nomination and determination of remuneration, etc. shall be decided after consultation of the Advisory Committee.

[Supplementary Principle 4.11.1 Preconditions for Ensuring the Effectiveness of the Board of Directors and the Board of Auditors]

The Company believes it necessary that inside Directors be composed of members with diverse professionalism that have a sense of balance, track record and decision-making capacity that enable them to understand the overall business and act.

The Company also believes it necessary that outside Directors consist of a wide variety of human resources with independence that have diverse viewpoints, abundant experience, in-depth insight and professionalism. As a result, the Company believes that it can expect to have sophisticated checking and advice functions performed by outside Directors and establish a management system to soundly respond to increasing risks including globalization.

[Supplementary Principle 4.11.2 Preconditions for Ensuring the Effectiveness of the Board of Directors and the Board of Auditors]

The Company limits the number of concurrent positions of officers at other companies to three other than the Company as reasonable for officers to allocate time and effort to the Company's Director and Board of Auditors services.

[Translation]

[Supplementary Principle 4.11.3 Preconditions for Ensuring the Effectiveness of the Board of Directors and the Board of Auditors]

#### 1. Overview

The Company analyzes and evaluates the effectiveness of the Board of Directors, utilizing such analysis and evaluation to improve the future operation of the Board of Directors with the aim of increasing sustainable growth and long-term corporate value. As one of the measures, the Company provides an evaluation and feedback questionnaire to each Director and Auditor about the operation of the Board of Directors and other topics once or more a year in principle.

#### 2. Evaluation process

In FY2021, to ensure the anonymity of the questionnaire results and the objectiveness of the evaluation and analysis, the Company delegated the collection and analysis of the questionnaire to a third-party institution and conducted the questionnaire and self-evaluation in the manner described below.

- (1) Evaluation period: From January 2021 to December 2021
- (2) Response period: From January 14, 2022 to January 24, 2022
- (3) Respondents: Seven Directors and Auditors in total
- (4) Overview: Evaluation for each question (on a five-point scale) and additional comments

#### 3. Questionnaire items

- (1) Roles and functions of the Board of Directors
- (2) Composition and size of the Board of Directors
- (3) Operation of the Board of Directors
- (4) Cooperation with audit organizations
- (5) Relationship with outside Directors
- (6) Relationship with shareholders and investors

Each question has an additional comment space, calling for a wide range of opinions.

#### 4. Evaluation

Based on the questionnaire results, the Company has analyzed the effectiveness of the Board of Directors and judged that it is mostly ensured.

In particular, the Company recognizes that the proceedings of the meetings of the Board of Directors and its cooperation with audit organizations are its strengths.

On the other hand, issues identified to further enhance the effectiveness of the Board of Directors are described below.

- (1) Expansion of discussion to ensure the diversity of the Board of Directors
- (2) Expansion of discussion about the allocation of management resources

Based on this evaluation, the Company will work on expanding opportunities to discuss the composition and diversity of the Board of Directors, personnel strategy, and business portfolio management, with the focus on the increasing importance of risk management.

[Supplementary Principle 4.14.2 Training for Directors and Auditors]

In accepting outside Directors and outside Auditors, the Company provides training for them to learn necessary information about the industry the Company belongs to, its history, business overview, financial information, strategy, organization and so on in addition to a plant tour. In addition, the Company conducts training for Directors to acquire management skills in order to develop abilities to foster greater leadership and management strategy mainly through training courses offered by external institutions. Auditors also seek to study keenly audit skills relating to the service and accounting, by actively attending various kinds of seminars and skill sessions with those in other fields.

[Principle 5.1 Policy Relating to Constructive Dialogue With Shareholders]

The Company's policy relating to constructive dialogue with shareholders is described below.

- (1) The overall dialogue with shareholders is administered by the Representative Director, CEO and managed by the General Manager of the Biz Administration Dept.
- (2) The Administration Div. of Biz Administration Dept. is in charge of investor relations (IR) of the Company that supports dialogues.
- (3) The Administration Div. of the Biz Administration Dept. handles individual interviews as the point of contact for IR, and other means of dialogue except for individual interviews, as well.

[Translation]

- (4) The Administration Div. of the Biz Administration Dept. circulates shareholders' opinions and concerns identified through dialogues to the management every quarter.
- (5) The Administration Div. of the Biz Administration Dept. checks insider information in dialogue before the start of the IR response period every quarter.

## 2. Capital Structure

Foreign Shareholding Ratio	From 10% to less than 20%
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[Status of Major Shareholders] **Updated**

Name	Number of Shares Owned (Shares)	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,476,400	13.30
Custody Bank of Japan, Ltd. (Trust Account)	829,900	7.47
Mizuho Bank, Ltd.	551,748	4.97
Nippon Life Insurance Company	379,079	3.41
JP MORGAN CHASE BANK 385781	146,625	1.32
Nippon Carbon Kyoei Shareholding Association	136,100	1.23
STATE STREET BANK AND TRUST COMPANY 505019	125,771	1.13
STATE STREET BANK WEST CLIENT - TREATY 505234	102,100	0.92
Sumitomo Mitsui Banking Corporation	99,585	0.90
SSBTC CLIENT OMNIBUS ACCOUNT	84,914	0.76

Controlling Shareholder (except for Parent)	----
Parent	N/A

Supplementary Explanation **Updated**

Of the shares in the table above, the following are those related to the trust business.

The Master Trust Bank of Japan, Ltd.: 1,476,400 shares

Custody Bank of Japan, Ltd.: 829,900 shares

## 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	December
Type of Business	Glass & Ceramics Products
Number of Employees (Consolidated) at End of the Previous Fiscal Year	From 500 to less than 1,000
Net Sales (Consolidated) for the Previous Fiscal Year	From ¥10 billion to less than ¥100 billion
Number of Consolidated Subsidiaries at End of the Previous Fiscal Year	Less than 10

[Translation]

**4. Policy for Measures to Protect Minority Shareholders in Conducting Transactions With Controlling Shareholder**

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**5. Special Circumstances Which May Have Material Impact on Corporate Governance**

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[Translation]

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

### 1. Organizational Composition and Operation

Organization Form	Company with Board of Auditors
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	15
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board of Directors	President
Number of Directors	4
Appointment of Outside Directors	Appointed
Number of Outside Directors	2
Number of Independent Officers Designated From Among Outside Directors	2

Outside Directors' Relationship With the Company (1) Updated

Name	Attribute	Relationship With the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Takeo Kato	From another company									△			
Yuriko Katayama	Attorney at law												

\* Categories 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; and

“▲” when a close relative of the director fell under the category in the past

a Executive (a person who executes business; hereinafter, the same) of the Company or its subsidiary

b Non-executive director or executive of the parent of the Company

c Executive of a fellow subsidiary of the Company

d Party whose major client or supplier is the Company or an executive thereof

e Major client or supplier of the Company or an executive thereof

f Consultant, accounting professional or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as a director

g Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a corporation)

h Executive of a client or supplier of the Company (which does not correspond to any of d., e., and f.) (the director himself/herself only)

i Executive of a corporation to which outside officers are mutually appointed (the director himself/herself only)

j Executive of a corporation that receives a donation from the Company (the director himself/herself only)

k Other

Outside Directors' Relationship With the Company (2) Updated

Name	Appointment as Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Takeo Kato	○	Takeo Kato had worked for ULVAC, Inc. until 2013 and then ULVAC TOHOKU, Inc. until 2018 respectively as an executive. Both companies are general users of the Company's carbon products as are other vacuum furnace manufacturers, and Takeo Kato is from the clients of the Company. The transactions with ULVAC, Inc. and ULVAC TOHOKU, Inc. are limited to regular transactions like other general users; therefore, the Company has judged that there is no risk of a conflict of interest with general shareholders.	The Company has appointed Takeo Kato in order for him to utilize his abundant experience and superior insight in corporate management and a wide range of other fields in the management of the Company from an objective standpoint, and thus increase corporate value and further enhance corporate governance.
Yuriko Katayama	○	-----	Yuriko Katayama does not have prior experience of participating in corporate management, but the Company has appointed her in order for her to utilize her expert knowledge, experience, etc., as an attorney in the management of the Company from an objective standpoint, and thus increase corporate value and further enhance corporate governance. Yuriko Katayama has neither advisory contract or any other agreement with the Company nor interest with the management; therefore, the Company has judged that she has high independence.

Establishment of Voluntary Committee(s) Equivalent to Nominating Committee or Remuneration Committee	Established
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[Translation]

Voluntary Committee's Name, Composition, and Chairperson's Attributes

	Committee Equivalent to Nominating Committee	Committee Equivalent to Remuneration Committee
Committee's Name	Advisory Committee	Advisory Committee
Total Committee Members	3	3
Full-time Members	0	0
Inside Directors	1	1
Outside Directors	2	2
Outside Experts	0	0
Other	0	0
Chairperson	None	None

Supplementary Explanation

The Advisory Committee aims to ensure the objectiveness and transparency of the process of determining the amounts of remuneration to Directors as well as of appointing and dismissing Directors. The Advisory Committee consists of a majority of independent outside Directors to ensure its independence.

Roles are described below.

Matters relating to remuneration to Directors

- (1) Establishment, amendment and disposal of basic policy, regulations and procedures about remuneration, etc. received by Directors
- (2) Basis for the calculation of the amounts of remuneration, etc. to Directors, etc.
- (3) Matters judged to be required other than the above matters

Matters relating to personnel affairs of Directors

- (1) Proposals relating to the appointment and dismissal of candidates for Director made to general meeting of shareholders
- (2) Reasons for appointment and dismissal of each Director regarding the above proposal
- (3) Matters judged to be required other than the above matters

[Auditors]

Establishment of Board of Auditors	Established
Maximum Number of Auditors Stipulated in Articles of Incorporation	4
Number of Auditors	3

Cooperation Among Auditors, Accounting Auditor and Internal Audit Department Updated

The audit by the Auditors is conducted by three members with one full-time Auditor and two part-time Auditors (two outside) and is held based on the audit policy and audit plan formulated at the Board of Auditors. Auditors cooperate with the Accounting Auditor by receiving explanations about the audit plan as well as the audit system by the Accounting Auditor, observing the inventory count and other inspections, and holding regular meetings to receive accounting audit results and related materials and exchange opinions. Auditors conduct an audit of the legality and validity of Directors' decision-making and execution of the duties mainly by attending meetings of the Board of Directors and other important meetings, hearing opinions from Directors and viewing important approved documents.

[Translation]

For the internal audit, the Internal Audit Bureau that directly reports to the top management has been established with two full-time members appointed, to enhance the internal audit system of the Company and its group companies. Based on the policies and specific measures of the development and operation of the internal control system prescribed by the Corporate Compliance Bureau as an internal control department, the Internal Audit Bureau draws up an annual audit plan, and in accordance with the plan, conducts an internal audit of the appropriateness of the business process and the reliability of financial reporting at each organization within the Group. The Internal Audit Bureau conveys audit results to departments subject to auditing, checks improvement status, and reports the results of follow-up audits to the Board of Directors. The Internal Audit Bureau strives to achieve an effective audit by cooperating with Accounting Auditor as necessary as well as regularly providing an audit report to and exchanging information with the Board of Auditors.

Appointment of Outside Auditors	Appointed
Number of Outside Auditors	2
Number of Independent Officers Designated From Among Outside Auditors	2

Outside Auditor' Relationship With the Company (1) Updated

Name	Attribute	Relationship With the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Mitsuo Sasaki	CPA													
Yoshikazu Tanaka	Other	△												

\* Categories for "Relationship With the Company"

"○" when the Auditor presently falls or has recently fallen under the category;

"△" when the Auditor fell under the category in the past;

"●" when a close relative of the Auditor presently falls or has recently fallen under the category; and

"▲" when a close relative of the Auditor fell under the category in the past

a Executive (a person who executes business; hereinafter, the same) of the Company or its subsidiary

b Non-executive director or accounting advisor of the Company or its subsidiary

c Non-executive director or executive of the parent of the Company

d Auditor of the parent of the Company

e Executive of a fellow subsidiary of the Company

f Party whose major client or supplier is the Company or an executive thereof

g Major client or supplier of the Company or an executive thereof

h Consultant, accounting professional or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as an Auditor

i Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a corporation)

j Executive of a client or supplier of the Company (which does not correspond to any of f., g., and h.) (the Auditor himself/herself only)

k Executive of a corporation to which outside officers are mutually appointed (the Auditor himself/herself only)

l Executive of a corporation that receives a donation from the Company (the Auditor himself/herself only)

m Other

Outside Auditors' Relationship With the Company (2) Updated

Name	Appointment as Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Mitsuo Sasaki	○	-----	<p>The Company expects Mitsuo Sasaki will conduct checks of the execution system based on a fair and neutral outside perspective not bounded by the Company's convention and an audit perspective utilizing his experience and background. He has abundant experience and wide-ranging insight as a CPA and certified public tax accountant as well as an appreciable extent of expertise in finance and accounting. The Company expects that he will appropriately audit the overall corporate management from his specialized perspective. Mitsuo Sasaki has neither advisory contract or any other agreement with the Company nor interest with the management; therefore, the Company has judged that he has high independence.</p>
Yoshikazu Tanaka	○	<p>Yoshikazu Tanaka had served as Director and an executive of the Company from March 2006 to March 2009, for Nikka-en Co., Ltd. from March 2007 to March 2009, and for Nippon Techno-Carbon Co., Ltd. from March 2008 to March 2011, the latter two of which are subsidiaries of the Company. As a considerable time has passed since Yoshikazu Tanaka retired and his relationship has not been continued after he retired, the Company has judged that he does not fall under any of the standards for independence or criteria requiring additional disclosure, and therefore there is no risk of a conflict of interest with general shareholders.</p>	<p>He possesses abundant experience and wide-ranging insight as a manager. The Company has thus appointed him as outside Auditor based on its judgment that he is a suitable person to strengthen the audit system of the Company.</p>

[Translation]

### [Independent Officers]

Number of Independent Officers <u>Updated</u>	4
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#### Matters Relating to Independent Officers

1. Auditor Mitsuo Sasaki  
Took office on March 30, 2015
2. Director Takeo Kato  
Took office on March 27, 2020
3. Director Yuriko Katayama  
Took office on March 29, 2022
4. Auditor Yoshikazu Tanaka  
Took office on March 29, 2022

### [Incentives]

Implementation of Measures to Provide Incentives to Directors	Performance-linked remuneration
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#### Supplementary Explanation

The Company has established the following remuneration framework for Directors to increase the linkage with business performance as well as to contribute to the enhancement of the medium- and long-term corporate value.

- Basic remuneration: Certain amount (fixed amount) according to a position, paid in monetary consideration every month.
- Short-term performance-linked remuneration: Paid in monetary consideration with an annual portion, with sales growth rate, operating profit growth rate, ordinary profit and stock price during the period under review as evaluation indices.
- Medium- to long-term performance-linked remuneration: Stock-based remuneration using a trust where points are granted according to a position every year and fixed through adjustment of deleting and adding for each target period (three years) with stock prices as an evaluation index, and the Company's shares, etc. are provided at retirement by the trust based on the number of points fixed during the time in office.

Recipients of Share Options	
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#### Supplementary Explanation

### [Director Remuneration]

Disclosure of Individual Directors' Remuneration	No individual disclosure
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#### Supplementary Explanation Updated

Details of Officer Remuneration, Etc.

1. Remuneration paid to Directors and Auditors  
Two Directors (excluding outside Directors): ¥172 million  
One Auditor (excluding outside Auditors): ¥15 million  
Four outside officers: ¥24 million

Policy for Determining Remuneration Amounts or Calculation Methods Thereof <u>Updated</u>	Established
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Disclosure of Policy for Determining Remuneration Amounts or Calculation Methods Thereof

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Remuneration to Directors is made up of fixed remuneration and a bonus as an annual incentive as well as performance-linked stock-based remuneration as a medium- to long-term incentive. Basic remuneration and bonuses are decided after consulting the Advisory Committee based on the position of each Director within the range determined at a general meeting of shareholders, considering the standards of the industry or other companies of the same size.

Bonus evaluation indices are sales growth rate, operating profit growth rate, ordinary profit and stock price.

The performance-linked stock-based remuneration aims to raise awareness to contribute to increasing the medium- to long-term business performance of Directors and expanding corporate value through trying to align interests with shareholders. To this end, a mechanism has been adopted where fluctuations in stock prices are reflected in points granted in accordance with a position and the Company's shares are provided according to the points. Basic remuneration and bonus to Directors was determined as limited to ¥300 million annually at the Annual General Meeting of Shareholders held on March 29, 2007.

**[Supporting System for Outside Directors and/or Outside Auditors]**

For a supporting system for outside Directors, an independent supporting department has not been established; however, when needed for operations, orders can be given to employees belonging to the Biz Administration Dept. for necessary matters.

A supporting system has been developed through measures such as sending proposals for the Board of Directors to outside Directors and outside Auditors before meetings to allow them to obtain necessary information as equally as inside officers.

[Translation]

**[Status of Persons Who Have Retired From a Position Such as Representative Director and President]**

Retired Representative Director and Presidents, etc. holding advisory or any other position in the Company

Name	Title/Position	Responsibilities	Working Form and Conditions (Full-time/Part-time, Paid/Unpaid, etc.)	Date of Retirement From Position Such as President	Term of Office
Ikuo Ito	Advisor	-----	No service/No remuneration	December 31, 2016	-----

Total number of retired Representative Director and Presidents, etc. holding advisory or any other position in the Company

1

Other Matters

- The Company prescribes advisor provisions.

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

1. Directors and the Board of Directors

The articles of incorporation stipulate that the Company shall have not more than 15 Directors. As of the date of submitting the securities report, there are four Directors, including two outside Directors.

Meetings of the Board of Directors are held twice a month in principle or in a timely manner as necessary. The Board of Directors determines a basic management policy and receives reports on important matters.

2. Corporate Officer

There are currently five Corporate Officers, and they assume responsibility for and execute the duties divided under the basic policy determined by Directors and the Board of Directors.

3. Auditors and the Board of Auditors

There are three Auditors (one full-time and two part-time), of whom are two outside Auditors (two part-time). Auditors seek to enhance the audit effectiveness in mutual cooperation with Accounting Auditor and the internal auditing department.

4. Accounting Auditor

Deloitte Touche Tohmatsu LLC has been appointed as Accounting Auditor and conducts an accounting audit. There is no special interest between the said audit corporation as well as its employees, etc. who execute business and the Company.

In the current fiscal year, Koichi Yano and Kenji Akiyama are executing the duties, and four CPAs and another four staff are supporting the audit service. The number of years that all the business execution employees can continuously be involved is seven years or less because the said audit corporation has set up rotations for them according to its internal rules prescribed in compliance with laws and regulations.

Audit fees are remuneration of ¥52 million based on the services stipulated in Article 2, paragraph (1) of the Certified Public Accountants Act.

For the policy of appointment and dismissal, the "Evaluation Criteria Relating to Selection, etc. of Accounting Auditor" is determined by the Board of Auditors.

Matters including independence and professionalism are appropriately evaluated every term.

Discussions with Representative Directors and outside Auditor(s) are held in the middle of every term.

In addition, discussions with the Board of Auditors and outside Auditor(s) are regularly held to closely cooperate with them.



[Translation]

### **3. Reasons for Adoption of Current Corporate Governance System**

The Company has adopted a system of Auditors and established the Board of Directors, Auditors (Board of Auditors) and Accounting Auditor.

The Board of Directors is responsible for decision-making and supervising the execution of business by Directors. In order to ensure speedy and efficient business execution, the Board of Directors is working to improve its effectiveness by enhancing the internal control functions and applying the regulations on authority and other rules. The Board of Directors is also working on risk management including compliance, ensuring transparency of management, and fair information disclosure, among other issues.

The Company has adopted the current system because it has judged that Auditors are in charge of the audit function, and the Board of Directors as well as Auditors (Board of Auditors) fulfil each function in one framework for Directors to execute duties, and therefore, the governance system is established and fully functions.

Going forward, the Company continues to seek to enhance the governance system to make the business more effective, reinforce the risk control and ensure the transparency of management.

[Translation]

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Energize General Meetings of Shareholders and Facilitate Smooth Exercise of Voting Rights **Updated**

	Supplementary Explanation
Early Notification of General Shareholders Meeting	The notice of the 163rd Annual General Meeting of Shareholders was sent three weeks prior to the date of the meeting. The said matter is prescribed in Article 2, paragraph (1) of the “Basic Policy on Corporate Governance.”
Scheduling General Meeting of Shareholders Avoiding the Peak Day	The 163rd Annual General Meeting of Shareholders was held on March 29, 2022, to avoid the peak day. The said matter is prescribed in Article 2, paragraph (2) of the “Basic Policy on Corporate Governance.”
Allowing Electronic or Magnetic Exercise of Voting Rights	The Company has introduced an environment to allow for exercising voting rights via the Internet since the 162nd Annual General Meeting of Shareholders held on March 26, 2021.
Participation in Electronic Voting Platform and Other Efforts to Enhance the Voting Environment for Institutional Investors	The Company has participated in the electronic voting platform for institutional investors operated by ICJ, Inc. since the 163rd Annual General Meeting of Shareholders.
Providing Convocation Notice in English (Translated Fully or Partially)	Convocation notices (translated fully or partially and reference documents) are prepared in English and disclosed on the TDnet of the Tokyo Stock Exchange and the Company’s website.
Other	The notice of the 163rd Annual General Meeting of Shareholders was disclosed on the TDnet of the Tokyo Stock Exchange and the Company’s website four weeks prior to the date of the meeting (one week earlier than the notice was sent.)

#### 2. IR Activities

	Supplementary Explanation	Explanation by Representative
Preparation and Publication of Disclosure Policy	The “IR Basic Policy” has been formulated and disclosed.	
Posting IR Materials on Website	Summary of financial results, overview of quarterly financial results, sales performance and transition of property status are posted.	
Establishment of Department and/or Manager in Charge of IR	The Administration Div. of the Biz Administration Dept. is in charge of IR, and the General Manager of the Biz Administration Unit takes responsibility for it.	
Other	Interviews with analysts and institutional investors are dealt with individually and as necessary.	

[Translation]

### 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanation
Provisions to Ensure Due Respect for Stakeholders in Internal Rules, etc.	The Product Liability Management Rules, the Claim Management Rules, the Environmental Management Rules and other rules have been established.
Implementation of Environmental Activities, CSR Activities, etc.	For the main plants, ISO 9001 and ISO 14001 certifications have been obtained.
Formulation of Policies for Information Provision to Stakeholders	The “IR Basic Policy” has been established.

## IV. Matters Related to Internal Control System

### 1. Basic Views on Internal Control System and Progress of System Development Updated

The Company has established a system to ensure the appropriateness of its business operations based on the Companies Act and the Regulations for Enforcement of the Companies Act, as follows.

1. System for retaining and managing information pertaining to the execution of duties by Directors  
Information pertaining to the execution of duties by Directors is recorded and retained in documents or electromagnetic medium (the “Documents, etc.”) in accordance with the documents rules. Directors and Auditors can always view these Documents, etc.

2. Rules and other systems for management of risk of loss  
The Basic Manual on Crisis Management has been established as a basic policy for the Company to strive to maintain its social credibility and reduce damage by making the utmost effort to prevent risks from occurring as well as resolving them accurately, quickly and in good faith if they occur.

3. System to ensure efficiency of the execution of duties by Directors  
The Company seeks to ensure the efficiency of the execution of duties by Directors using the following management control system.

- a) The Board of Directors clarifies the company-wide medium- to long-term goals shared by Directors and employees, sets performance targets and budgets including those for research and development as well as capital expenditure for each business department every term and formulates an implementation plan to give shape to the goals.
- b) Managers in charge of each business department develop a system for performing efficient operations including concrete measures and authority distribution to achieve an implementation plan.
- c) The General Manager of the Biz Administration Unit swiftly digitalizes monthly performance results for management accounting and reports them at the Management Meeting.
- d) Managers in charge of each business department analyze the factors for difference from targets, report them at the Business Promotion Meeting and revise the targets if necessary.
- e) Based on the discussion described in d), managers in charge of each business department improve specific measures to be taken by each business department and the system for performing efficient operations.

4. System to ensure that Directors and employees perform their duties in compliance with relevant laws and regulations and the articles of incorporation

The Company has established the “Basic Policy on Ethics and Compliance” and the “Nippon Carbon Code of Conduct” as the standards and manual of ethics and compliance for all Directors, Auditors and employees of the Company and its group companies, making sure that compliance is the premise for every corporate activity.

The following organizational system has been established to achieve compliance.

- a) The Corporate Compliance Committee composed of Directors and Auditors (observers) with the President as its chair has been established to administer and determine all the matters related to ethics and compliance.
- b) The Corporate Compliance Bureau has been put in place under the Corporate Compliance Committee to consistently deal with all the matters related to ethics and compliance and administrative office operations.
- c) The Corporate Compliance Bureau directly controls all the departments of the Company and its group companies. A direct point of contact that handles reports and consultations from employees on the matters related to ethics and compliance has been established, and an external reporting point of contact with an external attorney has also been developed. Questionable cases are investigated, the status of their rectification and compliance is checked and they are reported to the Corporate Compliance Committee.
- d) An operational manual has been formulated for those who report or consult as described in c) to avoid disadvantage in any case.

5. System to ensure the appropriateness of the business operations of the corporate group consisting of the said listed company, its parent company and subsidiaries

With the Company’s Biz Planning Unit CSR Dept. as a department in charge of the internal control of the overall group companies, a framework has been established including a system for ensuring the efficiency of discussions about internal control among the Company and its group companies, information sharing, and conveying of instructions.

[Translation]

6. Matters concerning employees if Auditors decide to call for employees to assist their duties  
Auditors can give necessary orders to employees belonging to the Internal Audit Bureau when needed for the audit service.

7. Matters concerning the independence of the employees described in the preceding provision from Directors  
Employees that receive orders required for the audit service from Auditors shall not be instructed or ordered by Directors regarding the orders.

8. System for Directors and employees to report Auditors, and other systems concerning reporting to Auditors  
Directors and employees shall report to the Board of Auditors about matters that have a material impact on the Company and its group companies by the way determined through discussions between Directors and the Board of Auditors. However, Directors and employees that have found material facts concerning these matters can directly report to Auditors.

9. Other systems to ensure that Auditors perform audits effectively  
Individual hearings from Directors and important employees by the Board of Auditors as well as skill sessions between the Board of Auditors and Accounting Auditor are held.

## **2. Basic Views on Eliminating Anti-Social Forces and Progress of Related Efforts**

The “Nippon Carbon Code of Conduct” stipulates that the Company shall have no relationship with anti-social forces (anti-social individuals or groups), and that it shall take a firm attitude against racketeering by interceding in civil disputes and threatening the use of violence, not allow any one of its employees to be isolated, handle matters systematically and, at a maximum, engage the support of police, lawyers and other experts.

If anti-social forces make an unlawful demand, the Company will strive to maintain its social credibility and reduce damage by resolving the case accurately and quickly in accordance with the “Basic Manual on Crisis Management.”

[Translation]

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Adopted
Supplementary Explanation	Updated

#### 1. Basic Views

The Company's Board of Directors believes that a Large-scale Purchase of shares and other equity securities of the Company should not be denied even if it is not approved by the Board of Directors if it leads to the efficient management of the Company's assets, enhances its corporate value, and realizes the Company's interests, and eventually the shareholders' common interests. However, it cannot be denied that among such Large-scale Purchases of shares and other equity securities, there may be so-called "abusive acquisitions" that are clearly detrimental to the target company's corporate value and interests, and eventually to the common interests of shareholders, such as purchases conducted by acquirers who have no intention of participating in the management of the company and whose sole purpose is to increase the company's stock price and induce parties related to the company to purchase the company shares at a high price.

Therefore, the Board of Directors has determined that the introduction of the countermeasures against Large-scale Purchases of the shares and other equity securities of the Company is necessary as a reasonable framework to enhance the Company's corporate value and realize the shareholders' common interests in the event of any Large-scale Purchase of the Company Shares by securing the information and time necessary for the shareholders to appropriately determine whether or not to accept the relevant Large-scale Purchase, or for the Board of Directors to make an alternative proposal to the shareholders, and enabling the Board of Directors to consult and negotiate with the acquirer on behalf of the shareholders.

#### 2. Overview of Countermeasures against Large-scale Purchases of the Company Shares

The countermeasures require Large-scale Purchasers to follow the prescribed procedures in making Large-scale Purchases, and in the event of a Large-scale Purchase not in compliance with such procedures, or in the event that a Large-scale Purchase in compliance with such procedures is judged to be significantly detrimental to the Company's corporate value and interests, and eventually to the shareholders' common interests, the countermeasures allow, as a countermeasure against such Large-scale Purchase, a free allotment of stock acquisition rights to shareholders on a certain date determined by the Board of Directors, in principle by the method of gratis allotment of stock acquisition rights. In addition, if it is deemed appropriate to invoke other countermeasures permitted under the Companies Act and other laws and regulations as well as the Company's articles of incorporation, such other countermeasures may be used.

The Board of Directors will make the final decision on triggering or non-triggering of the countermeasures, but in order to ensure the reasonableness and fairness of its decision, an independent committee (the "Independent Committee") will be established as an organization independent of the Company's Board of Directors. The Board of Directors will, in principle, resolve whether or not to trigger countermeasures against the Large-scale Purchase with the utmost respect for the recommendations of the Independent Committee. However, if the Board of Directors determines that it is appropriate from a practical standpoint to directly confirm the shareholders' intentions, in addition to consulting the Independent Committee, in consideration of various circumstances such as the details of the Large-scale Purchase by the Large-scale Purchaser, and the time required to hold a general meeting of shareholders, and in light of laws and regulations and the Directors' duty of care, the Board of Directors may convene a general meeting of shareholders, and confirm the shareholders' intentions regarding the triggering of countermeasures with the approval of a majority of the voting rights of the shareholders present.

The countermeasures against Large-scale Purchases were approved at the Annual General Meeting of Shareholders held on March 29, 2022, and the effective term of these countermeasures will expire at the conclusion of the annual general meeting of shareholders for the fiscal year ending December 31, 2022. If a resolution to abolish the countermeasures against Large-scale Purchases is passed at a general meeting of shareholders of the Company or the Board of Directors, the countermeasures will be abolished at that time even before the expiration of the effective term. Therefore, it has been judged that the countermeasures reflect the intentions of the shareholders.

[Translation]

## **2. Other Matters Concerning Corporate Governance System**

1. Identification of information related to material decisions, facts which occurred and financial results  
Matters concerning the Company and its Group are presented by each department in charge (including subsidiaries) according to its importance and resolved at the Board of Directors or the Management Meeting, based on the “Regulations on Authority.”

Proposals of material resolutions are submitted by each department in charge to the Planning Dept. The General Manager of the Planning Dept. checks the details, and the General Manager of the Biz Administration Dept. considers matters such as the need and method of disclosure in accordance with the “Securities Listing Regulations” prescribed by the Tokyo Stock Exchange.

2. Information disclosure

If information is required to be disclosed in a timely manner, the General Manager of the Biz Administration Dept. discusses with Accounting Auditor, corporate lawyers and others as necessary, prepares a timely disclosure document, gains approval of the President and discloses it quickly.

