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Corporate Governance Report

Last Update: March 25 2022

OPTEX GROUP Company, Limited

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Securities Code: 6914

<https://www.optexgroup.co.jp/en>

The corporate governance of OPTEX GROUP Company, Limited (the “Company”) is described below.

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

1. Basic Views

The Group recognizes that consistently improving its corporate value while winning the trust of shareholders, investors, customers and society at large is its ultimate mission. To implement this mission, it positions the enhancement of corporate governance as one of its important management issues and seeks to improve management transparency and maintain a management system that allows fair and prompt decision making and the strengthening of management monitoring functions.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code] Updated

This report is written based on the Corporate Governance Code revised in June 2021. It includes descriptions for the Prime Market which will be applied after April 4, 2022

Supplementary Principle 3-1-3. Initiatives for sustainability, etc.

Details of the Group's initiatives are described in the ESG Report posted on the Company's website and in "3. Issues, Materiality, and Measures" of the Bridge Report available at the following URL:

<https://www.optexgroup.co.jp/shareholder/library/index.html#esgreport>

However, the Company has formed a project team and started studying the enhancement of quality and quantity of disclosure in relation to internationally established disclosure frameworks or equivalent frameworks.

Supplementary principle 4-2-2. Basic policy for the company's sustainability initiatives

Details of the Group's initiatives are described in the ESG Report posted on the Company's website and in "3. Issues, Materiality, and Measures" of the Bridge Report available at the following URL:

<https://www.optexgroup.co.jp/shareholder/library/index.html#esgreport>

However, the Company has formed a project team and started studying the development of a framework and basic policy for the Company's sustainability initiatives from the perspective of increasing corporate value over the medium to long terms.

Principle 1.4 Cross-Shareholdings

Only if the Company deems it to be strategically conducive to the enhancement of business relationships and increased corporate value for the Group will it acquire shares for cross-shareholding upon discussions and resolutions of the Board of Directors. In addition, the Company examines the significance of cross-shareholdings at a meeting of the Board of Directors every year. If the Company determines it to be rationally pointless to hold certain shares in light of the intended objectives of cross-shareholding, it will sell them in consideration of market trends, etc., thereby endeavoring to reduce such holdings.

Listed shares currently held by the Company: One stock amounting to 54 million yen
(amount recorded on the balance sheet of December 31, 2021)

With regard to exercising the voting rights it holds, the Company approves or disapproves shareholder proposals based on comprehensive judgment by examining each agenda item individually according to its criteria for exercising voting rights and by taking into consideration whether or not the proposed motion will contribute to the sustained growth of the subject company and the enhancement of corporate value thereof and whether or not the proposed motion will cause significant damage to shareholder value.

Principle 1.7 Related Party Transactions

Regarding transactions with Directors of the Company or transactions that involve conflicts of interest as stipulated in the Companies Act, resolutions of the Board of Directors to approve such transactions are required in accordance with the Rules of the Board of Directors. It is also prescribed in the said Rules that important facts related to the situation of the said transactions after such approval are required to be reported to the Board of Directors without delay. In addition, a survey is conducted every year on whether there are any transactions conducted by officers of the Company or its subsidiaries and their close relatives with the Group and whether there are any transactions with any company to which the officers and their close relatives described above have substantial control rights, and the results of the survey are examined by the Board of Directors.

Supplementary Principle 2-4-1. Ensuring diversity in the promotion of core human resources, etc. Updated

Since its founding, the Company has aimed to serve as a stage for the self actualization of its employees, and has focused on creating an environment in which, regardless of gender, nationality, employment pattern (new graduate hire or mid-career hire) or other characteristic, employees can make each stage impressive with great diversity. The status of employees of the domestic companies of the Group (12 companies including the Company) is as follows:

- Gender distribution : Male: female = 77% : 23%
- Ratio of mid-career employees : 62%
- Ratio of foreign staff : 2 %
- Gender distribution of managerial staff : Male: female = 97% : 3 %
- Ratio of mid-career employees among managerial staff : 64%

As indicated above, there are inherently fewer female staff and foreign staff, reflecting the characteristics of the Group's business domains and contents. Accordingly, they currently do not represent a high percentage of managerial staff. On the other hand, as postings of mid-career workers to managerial positions account for more than 60%, we believe that diverse human talent with various experiences and skills play important roles as the core of corporate management.

Moreover, as the Group has consolidated subsidiaries around the world, we believe that adequate diversity is ensured in our human resources in the entire Group.

Going forward, the Company will positively study and seek to create an environment that allows diversified human talent to exercise their abilities to a greater extent than at present, while considering the characteristics of the business domains of each company in the Group.

Principle 2.6 Exercise of functions as asset owner of corporate pension plan

The Company has introduced a defined contribution pension system and is not involved in the management of the corporate pension as the asset owner. It provides explanations of the system and education on asset formation to its employees.

Principle 3.1 Full Disclosure **Updated**

(1) Corporate philosophy, management strategy and business plan

We have adopted a Group Philosophy of “We aim to become a corporate group full of Venture Spirit!” and aim to embody this philosophy by sharing it among all the officers and employees of the Group. The Group Philosophy is posted on the Company’s website.

(Corporate philosophy → <https://www.optexgroup.co.jp/en/company/compliance.html>)

The management objectives for the three years from 2022 to 2024 are also posted on the Company’s website. (Management objectives → <https://www.optexgroup.co.jp/en/shareholder/strategy.html>)

(2) Basic views on corporate governance

Please see I.1 Basic Views in this report.

(3) Board of Directors’ policies and procedures in determining the remuneration of the senior management and Directors

<Policy for determining remuneration>

- Directors (excluding Directors who are members of the Audit & Supervisory Committee)

Within the total amount of remuneration approved by the general shareholder meeting, Directors are given appropriate treatment for motivating them to contribute to the sustained growth of the Company and increase in corporate value over the medium- to long-term and to fulfill their duties and responsibilities. Directors’ remuneration comprises base remuneration, which is fixed compensation, and share-based compensation using the Company’s stock (stock options and so forth) to be granted to motivate them to contribute to the sustained growth of the Company and increase in corporate value over medium- to long-term and for sharing shareholder value, and is set at an appropriate ratio of the two types of remuneration based on comprehensive consideration of each Director’s capabilities, responsibilities and so forth.

- Directors who are members of the Audit & Supervisory Committee

Within the total amount of remuneration approved by the general shareholder meeting, Directors who are members of the Audit & Supervisory Committee are granted base remuneration only, which is fixed compensation, taking into account their role of fulfilling the function of supervising the Company’s overall management.

<Procedures for determining remuneration>

Remuneration for Directors, excluding Directors who are members of the Audit & Supervisory Committee, is determined based on consideration of factors such as each Director’s position and duties, the Company’s management environment and operating performance. Specifically, Directors with special titles discuss the remuneration of each officer, followed by the Compensation Advisory Committee’s deliberation on the results of these discussions. The Compensation Advisory Committee consists of three Directors, including two Independent Outside Directors, and is chaired by an Independent Outside Director. Results of these deliberations are reported to the Board of Directors for final decision-making. Each Director’s monthly remuneration (base remuneration) is determined by the President/CEO, who has been delegated this duty by the Board of Directors, based on the content of the report, while each Director’s stock-based compensation is determined at the Board of Directors meeting.

Remuneration for Directors who are members of the Audit & Supervisory Committee is determined according to each such Director’s position and duties based on discussions among the Directors who are members of the Audit & Supervisory Committee.

Please refer to III. Matters related to remuneration of Directors in this report for an overview of the compensation structure.

(4) Policies and procedures in the appointment and removal of the senior management and the nomination of candidates for Directors

<Policy for the appointment and removal of the senior management and the nomination of candidates for Directors>

- Directors (excluding Directors who are members of the Audit & Supervisory Committee)

Directors are appointed by comprehensively taking into account each person’s professional experiences and capabilities in corporate management, management supervision, technological development, production, marketing and sales, work overseas, accounting, legal affairs and other management fields, all of which should

be above certain levels in terms of experience and capabilities, as well as extensive insight and knowledge and future potential.

- Directors who are members of the Audit & Supervisory Committee

Directors who are members of the Audit & Supervisory Committee are appointed from those who exceed certain levels in terms of their experience in corporate management, such as professional experience and capabilities in accounting, tax affairs, legal affairs, audit departments and other corporate management fields, as well as excellent insight and knowledge.

<Procedures for the appointment and removal>

Regarding appointments and nominations, the Nomination Advisory Committee (chaired by an Independent Outside Director), which consists of three Directors, including two Independent Outside Directors, provides recommendations to the Board of Directors on the appointment of the senior management and the nomination of candidates for Directors after undertaking a comprehensive examination of the content of the descriptions above.

With regard to removals, the Board of Directors makes the decision to remove members of senior management based on consultation with and recommendations from the Nomination Advisory Committee, by comprehensively taking into account cases where there were acts in violation of public order and morals or acts in violation of laws and regulations or the Articles of Incorporation or other gross negligence, where the subject person is no longer capable of performing his/her duties due to mental or physical health reasons, where the subject person is recognized to have deteriorating performance over a long period or to be neglecting shareholders, or in other cases.

(5) Explanations with respect to the individual appointment and removal of the senior management and the nomination of candidates for Directors and members of the Audit & Supervisory Committee by the Board of Directors based on (4) above

Detailed information of each candidate for Director, including a career summary and the reasons for nomination, is provided in the Notification of General Shareholder Meeting. In addition, regarding Outside Directors, more detailed reasons for the nomination are stated therein.

Supplementary Principle 4.1.1 Scope of the Matters Delegated to the Management

Matters to be determined by the Board of Directors include those prescribed by laws and regulations and other matters stipulated in the Rules of the Board of Directors and the Rules of the Internal Approval System. Decision-making about other important matters relating to business execution is also stipulated in the Rules of the Internal Approval System.

Principle 4.9 Independence Standards and Qualifications for Independent Outside Directors

The Company appoints Independent Outside Directors who meet the requirements for outside directors stipulated in the Companies Act and independence standards defined by the Tokyo Stock Exchange and who meet the quantitative criteria determined by the Company.

Under the Independence Standards, a person who does not fall under any of 1 through 9 below is judged to have independence.

1. Executing person of the Company and its affiliated company
2. Person whose principal trading partner is the Company (Note 1) or said person's executing person (Note 2)
3. The Company's principal trading partner (Note 3) or said trading partner's executing person
4. Consultant, professional accountant or legal professional who receives a large amount of money (Note 4) or other assets from the Company besides executive compensation (in the case where person receiving said assets is a corporate body, association or other organizations, this shall mean consultant, professional accountant or legal professional who belongs to said corporate body or other organizations)
5. Large shareholder of the Company (Note 5), or in the case where said large shareholder is a corporate body, etc., said shareholder's executing person
6. Person who receives a large amount of donation from the Company (Note 6) or the person's executing person
7. Person who belongs to an audit corporation and acts as accounting auditor of the Company
8. Person who fell under any of 1 through 7 above at any time during the past 3 years

9. Spouse or relative within the second degree of kinship of any person who falls under any of 1 through 7 above

(Note 1) “Person whose principal trading partner is the Company” shall mean a person who received from the Company payment of an amount equivalent to no less than 2% of the person’s consolidated net sales in the immediately preceding business year.

(Note 2) “Executing person” shall mean director, executive officer, employee who executes business operations, executive director and other persons equivalent thereto, of a corporate body or other organizations.

(Note 3) “The Company’s principal trading partner” shall mean a person who paid the Company an amount equivalent to no less than 2% of the Company’s consolidated net sales in the immediately preceding business year.

(Note 4) “Large amount of money” shall mean a total of no less than 10 million yen per year calculated as the average of the past three years in the case of an individual person, and an amount equivalent to no less than 2% of total revenue in the immediately preceding business year calculated as the average of the past three years in the case of corporate body, etc.

(Note 5) “Large shareholder” shall mean a person who directly or indirectly holds no less than 10% of total voting rights.

(Note 6) “Large amount of donation” shall mean a total of no less than 10 million yen per year calculated as the average of the past three years.

Supplementary Principle 4.11.1 Balance, diversity and size of the Board of Directors as a whole

The Board of Directors of the Company comprises eight Directors (seven males and one female) (the maximum number thereof is set at nine) who respectively have professional capabilities in corporate management, management supervision, technological development, production, marketing and sales, experience in working abroad, accounting, and other specialty fields, and three Directors (three males) who are members of the Audit & Supervisory Committee (the maximum number thereof is set at four) and have practical auditing experience, are lawyers, certified public accountants and certified tax accountants, and have excellent insight and knowledge. In light of the current sizes, etc. of the Company and the Group, we believe that this composition is appropriately balanced to enable the Company to pursue its medium- to long-term management strategies.

With regard to balancing diversity and specialties, we will continue to conduct a review in order to optimize said balance.

Please refer to the end section of this report for the skills matrix of the current management team.

Supplementary Principle 4.11.2 Concurrent holding of managerial positions in other listed companies by the Directors

The situation of the concurrent holding of positions by each Director and Director who is a member of the Audit & Supervisory Committee is disclosed in the Notification of General Shareholder Meeting.

Supplementary Principle 4.11.3 Analysis and evaluation of the effectiveness of the Board of Directors

Updated

To further enhance the effectiveness of the Board of Directors, the Company conducts a questionnaire once a year targeting all Directors, and the Board analyzes and evaluates the results through constructive discussions. The results of the questionnaire show that the Board of Directors of the Company is generally evaluated as efficiently fulfilling its roles and responsibilities. Meanwhile, the members of the Board of Directors share the recognition that creating an environment in which Outside Directors can exchange opinions among themselves and enhancing their understanding of new key businesses, among other measures, will further improve functionality. We will work to make improvements in those matters and continue to ensure and strengthen the effectiveness of the Board of Directors.

Supplementary Principle 4.14.2 Training policy for Directors

The Company provides opportunities for the Directors before and after their appointment to continuously expand their insights into their legal obligations, duties, responsibilities, etc.

Principle 5.1 Policy for Constructive Dialogue with Shareholders **Updated**

To facilitate proactive and constructive dialogue with shareholders, the Company has established Public Relations and Investor Relations Dept. and endeavors to provide clear explanations of the Company's management policy and management situation. In addition, the President/CEO, officers and IR personnel systematically hold briefings for institutional investors and briefings for individual investors and field requests for interviews from institutional investors.

Moreover, the ordinary general meetings of shareholders are held on Saturdays to ensure the attendance of a wide range of shareholders, and these meetings are followed by briefings for shareholders and social gatherings for shareholders to ensure that they understand the Company's policies for the future.

Note: At the 43rd Ordinary General Meeting of Shareholders, the Company cancelled the social gathering for shareholders to prevent the spread of COVID-19.

2. Capital Structure **Updated**

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

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	3,854,400	10.85
SSBTC CLIENT OMNIBUS ACCOUNT	2,227,079	6.27
Tatsuya Arimoto	1,902,550	5.36
Custody Bank of Japan, Ltd. (Trust account)	1,681,900	4.73
Toru Kobayashi	1,194,190	3.36
Custody Bank of Japan, Ltd. (Trust account 9)	982,300	2.77
THE BANK OF NEW YORK MELLON 140051	846,400	2.38
STATE STREET BANK AND TRUST COMPANY 505025	775,900	2.18
Katsutoshi Kurita	720,000	2.03
SMBC Nikko Securities Inc.	692,500	1.95

Controlling Shareholder (except for Parent Company)	-
Parent Company	None

Supplementary Explanation **Updated**

1. The above capital structure is as of December 31, 2021.

2. The above percentages of shares owned by major shareholders are calculated after deducting 2,214,684 shares of treasury stock.

3. Fidelity Investments Inc. submitted an amendment report for a large volume holding report on July 27, 2021 stating that it owned 2,121,500 shares (percentage of shares owned: 5.62%) as of July 15, 2021, and Fidelity Investments Inc. submitted an amendment report for a large volume holding report on September 7, 2021 stating that it held 1,452,300 shares (percentage of shares owned: 3.85%) as of August 31, 2021. However, since the Company was unable to confirm the actual number of shares owned as of December 31, 2021, Fidelity Investments Inc. was not included in the status of major shareholders presented above.

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange, First Section
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Fiscal Year-End	December
Type of Business	Electric Appliances
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	At least 1000
Sales (consolidated) of the Previous Fiscal Year	From ¥10 billion to less than ¥100 billion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	From 10 to less than 50

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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

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

1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Committee
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[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	13
Term of Office Stipulated in Articles of Incorporation	One year
Chairperson of the Board	President
Number of Directors	11
Nomination of Outside Directors	Nominated
Number of Outside Directors	4
Number of Independent Outside Directors	4

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Kazuhiro Yoshida	From another company												
Nanako Aono	Certified public accountant												
Yasushi Sakemi	Lawyer												
Minoru Kida	Certified public accountant												

* 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; "▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the listed company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as a director/member of the Audit & Supervisory Committee

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

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

i. Executive of a company, between which and the Company outside Directors/members of the Audit & Supervisory Committee are mutually appointed (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others

Outside Directors' Relationship with the Company (2)

Name	Membership of Supervisory Committee	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons for Appointment
Kazuhiro Yoshida		○	-	<p>Mr. Yoshida worked at a major Japanese electronics manufacturer as an engineer for many years. He was also head of the general affairs and human resources division and of the management planning division and an executive officer at the company and served as a director at an affiliate of the company. He has extensive experience and knowledge. The Company has determined that he is suitable as a Director of the Company and has appointed him as an Outside Director to continue to enhance the Group's corporate value.</p> <p>The Company has designated him as an Independent Officer because he does not come under an executing person, etc. of the Company, the Group or major business partners and because it has been concluded that he is unlikely to cause any conflicts of interest with general shareholders.</p>
Nanako Aono		○	-	<p>Ms. Aono has been a certified public accountant for many years and worked as an auditor at listed companies. She has extensive practical experience and knowledge. The Company has determined that she is suitable as a Director of the Company and has appointed her as an Outside Director, expecting her to give the Company appropriate advice to strengthen the Group's corporate governance and continue to enhance its corporate value.</p> <p>The Company has designated her as an Independent Officer because she does not come under an executing person, etc. of the Company, the Group or major business partners and because it has been concluded that she is unlikely to cause any conflicts of interest with general shareholders.</p>
Yasushi Sakemi	○	○	-	<p>Mr. Sakemi has worked over many years as a lawyer and has developed deep operational experience and insight and advanced legal knowledge. As he is expected to appropriately provide advice based on the above, the Company considers him to be suitable as an Outside Director who is a member of the Audit & Supervisory Committee, with an eye on the enhancement of the Group's audit systems.</p> <p>In addition, the Company designates him as Independent Officer because he does not come under an executing person, etc. of the Company, its Group or major business partners and because it has been concluded that he is unlikely to cause any conflict of interest with general shareholders.</p>

Minoru Kida	○	○	-	Mr. Kida has worked over many years as a certified public accountant and a certified tax accountant, is currently engaging in audit operations of listed companies and has developed broad insight and abundant knowledge and experience. As he is expected to appropriately provide advice based on the above, the Company considers him to be a suitable candidate to act as an Outside Director who is a member of the Audit & Supervisory Committee with an eye on the enhancement of the Group's audit systems. In addition, the Company designates him as Independent Officer because he does not come under an executing person, etc. of the Company, its Group or major business partners and because it has been concluded that he would not be likely to cause any conflict of interest with general shareholders.
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[Audit & Supervisory Committee]

Committee's Composition and Attributes of Chairperson

	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Chairperson
Audit & Supervisory Committee	3	1	1	2	Full-time Director
Appointment of Directors and/or Staff to Support the Audit & Supervisory Committee			Not Appointed		

Reasons for adopting the current system

Although there are no full-time staff assigned to assist with the functions of the Audit & Supervisory Committee, the Internal Audit Departments and other related sections provide the relevant assistance as needed.

Cooperation among the Audit & Supervisory Committee, Accounting Auditors and Internal Audit Departments

With regard to accounting audits of the Company, it has an audit contract with Deloitte Touche Tohmatsu LLC. The Company holds auditor reporting meetings with the accounting auditors on a periodic basis to receive the results of accounting audits from the accounting auditors, exchange opinions on important accounting issues and conduct reviews as required.

The Company has established the Internal Audit Departments (two staff members) under the direct control of the President / CEO, and the necessary internal audits of the Company and business execution of its subsidiaries are performed in accordance with the Rules on Internal Audits and yearly internal audit plans. The results of such audits are reported to the President / CEO. The situation of internal audits is also reported to the Audit and Supervisory Committee on a periodic basis, and deliberations are made on important audit matters as necessary. Accordingly, while each of these auditing bodies maintains its independence as an auditing body, they cooperate and collaborate with each other and endeavor to improve the efficiency and effectiveness of audits.

[Voluntary Establishment of Nomination/ Compensation Committee]

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee	Established
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Committee’s Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Compensation Committee
Committee’s Name	Nomination Advisory Committee	Compensation Advisory Committee
All 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	Outside Directors	Outside Directors

Supplementary Explanation

The Company has established the Nomination Advisory Committee and the Compensation Advisory Committee, both of which consist of one chairperson and two Outside Directors, for the purpose of strengthening corporate governance in decision-making regarding nominations and the remuneration of officers.

With regards to roles of each committee, please refer to (3) “Board of Directors’ policies and procedures in determining the remuneration of the senior management and Directors” and (4) “Policies and procedures in the appointment and removal of the senior management and the nomination of candidates for Directors” in [Principle 3.1 Full Disclosure] described above.

The Rules of the Nomination Advisory Committee and the Rules of the Compensation Advisory Committee stipulate the composition, operation and so forth of each committee and General Affairs Dept. acts as the secretariat for handling such matters.

[Independent Directors]

Number of Independent Director	4
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Matters relating to Independent Directors

The Company has appointed all the Outside Directors who satisfy the qualification requirements as Independent Directors.

[Incentives]

Incentive Policies for Directors	Restricted Stock, Stock Options
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Supplementary Explanation

The Company has introduced stock-based compensation with restrictions on transfer for its Directors (excluding Directors who are members of the Audit & Supervisory Committee and Outside Directors). providing the subject Directors with incentives to make efforts to achieve sustained increases in the Company’s corporate value and for promoting value sharing between the subject Directors and shareholders, the stock-based compensation is paid to grant shares with restrictions on transfer within the total remuneration of the Directors as a group (not exceeding 300 million yen per year). The said remuneration takes the form of monetary claims within a total amount of not more than 25 million yen, and the specific allocation, etc. of the said remuneration is determined by the Board of Directors through consultation with and reporting by the Compensation Advisory Committee.

In addition, while the Company abolished the retirement benefit plan for Directors, it introduced stock options under the stock-based compensation scheme for the Directors of the Company (excluding Directors who are members of the Audit & Supervisory Committee and Outside Directors) and Directors of the Company’s subsidiaries up to 50 million yen per year for the purpose of sharing the advantages and risks of stock price fluctuations with shareholders and for bolstering motivation toward improvements over the long term in business performance and corporate value to a greater extent than in the past.

Recipients of Stock Options	Inside Directors, Subsidiaries' Directors
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Supplementary Explanation

Stock options are granted to the Directors in charge of business operations of the Company and its subsidiaries (excluding Directors who are members of the Audit & Supervisory Committee and Outside Directors).

[Directors' Remuneration]

Disclosure of Individual Directors' Remuneration	No individual disclosure
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Supplementary Explanation

Directors' remuneration is disclosed separately for Inside Directors and Outside Directors with the total remuneration amounts and their numbers in securities reports and business reports.

Policy on Determining Remuneration Amounts and Calculation Methods	Established.
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Directors' remuneration comprises base remuneration, which is fixed compensation, stock-based compensation with restrictions on transfer (excluding Directors who are members of the Audit & Supervisory Committee and Outside Directors) and stock acquisition rights as stock options under the stock-based compensation scheme (excluding Directors who are members of the Audit & Supervisory Committee and Outside Directors). Base remuneration is established according to specific standards and is determined by the Board of Directors by taking into account each Director's position and specific area of ongoing responsibility, the Company's management environment and business results and other matters. Stock-based compensation with restrictions on transfer and stock acquisition rights as stock options under the stock-based compensation scheme are determined by the Board of Directors in accordance with the Rules on Stock-based Compensation with Restrictions on Transfer and the Rules on Stock Options prescribed elsewhere.

Each type of remuneration is established according to specific standards by the Compensation Advisory Committee (chaired by an Independent Outside Director), which consists of three Directors, including two Independent Outside Directors, and is determined by the Board of Directors.

[Supporting System for Outside Directors]

Although there are no full-time staff assigned to assist with the duties of the Outside Directors, Internal Audit Departments and other related departments provide the relevant assistance whenever necessary. For meetings of the Board of Directors and other important meetings, the Company has adopted a system in which the relevant materials are distributed in advance and agenda items are explained prior to such meetings as necessary.

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

As a body in charge of decision-making and supervision concerning matters prescribed by laws and regulations, basic management policy and other important matters, the Board of Directors (eleven Directors, of which three are members of the Audit & Supervisory Committee) has been established to engage in deliberations and the reporting of important matters concerning business execution. In addition, the Audit & Supervisory Committee conducts audits of the execution of duties by the Directors and other status in accordance with pre-determined auditing standards.

Status of meetings of the Board of Directors during fiscal year 2021: 13 times
(attendance rate of eleven Directors: 100%) (excluding five written resolutions).

3. Reasons for Adoption of Current Corporate Governance System

From the perspective of further enhancing corporate governance and with the aim of promoting effective and efficient corporate management to a greater extent than in the past, the Company has adopted the system of a Company with an Audit & Supervisory Committee. In light of the size of the Group's business and organizational structure, it considers that the current system is the most appropriate for ensuring the independence of audits and efficient corporate governance.

The Company has appointed four Outside Directors who have no relationships of special interest with the Company. The Outside Directors express their opinions based on abundant management experience at meetings of the Audit & Supervisory Committee and the Board of Directors and provide important advice that contributes to enhancing the Group's management system.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights Updated

	Supplementary Explanations
Early Notification of General Shareholder Meeting	<p>The Company is taking steps to dispatch convocation notices early. The convocation notice for the latest meeting (the 43rd Ordinary General Shareholder Meeting held on March 25, 2022) was dispatched 22 days prior to the date of the meeting.</p> <p>In addition, the convocation notice was disclosed on the Company's website on February 28, 2022, prior to sending the notices, both in Japanese (the entire text) and in English (a narrowly defined version and reference materials).</p>
Scheduling General Meetings of Shareholders Avoiding the Peak Day	<p>As the Company's fiscal year ends on December 31, the ordinary general shareholder meeting is held in late March every year.</p>
Exercise of Voting Rights by Electronic Method	<p>The Company introduced electronic voting rights.</p>
Use of the Electronic Voting Platform and Other Steps for the Creation of an Infrastructure Allowing Institutional Investors to Exercise their Voting Rights	<p>The Company uses the Electronic Voting Platform. The entire text of the convocation notice in Japanese and the main portion of the text (in a narrow sense; together with reference materials) in English are posted on the platform operated by ICJ Inc.</p>
Providing Convocation Notice in English	<p>An English version of the convocation notice in a narrow sense and reference materials are posted on the Company's webpage (https://www.optexgroup.co.jp/en/) for reference purposes.</p>
Other	<p>The entire text of the convocation notice is posted on the Company's webpage (https://www.optexgroup.co.jp/en/).</p> <p>Every year, a briefing session for shareholders is held after the Ordinary General Meeting of Shareholders, and explanations of the Company's future policy, etc. are given by the Directors. This is followed by a social gathering for shareholders with the Company's officers.</p> <p>Note: At the 43rd Ordinary General Meeting of Shareholders, the Company cancelled the social gathering for shareholders to prevent the spread of COVID-19.</p>

2. IR Activities **Updated**

	Supplementary Explanations	Explanations by Representative
Preparation and publication of disclosure policy	The Company has prepared a disclosure policy and posts the policy on its web site. (https://www.optexgroup.co.jp/shareholder/disclosure.html)	
Regular Investor Briefings for Individual Investors	Company information sessions for individual investors are held on an occasional basis.	Yes
Regular Investor Briefings for Analysts and Institutional Investors	After the announcement of the fiscal year-end and interim business results, briefing sessions are held for analysts and institutional investors.	Yes
Regular Investor Briefings for Overseas Investors	The Company provides individual explanations on matters such as the Group's business results and management strategies to institutional investors mainly in the U.S., Europe and Asia. Meanwhile, in Japan, the Company attends conferences held by securities firms as appropriate.	Yes
Posting of IR Materials on Website	On the page entitled "To our Shareholders and Investors," the Company posts earnings summaries, securities reports, materials for results briefing sessions, convocation notices for general shareholder meetings, the shareholder newsletter, materials for timely disclosure, etc. (https://www.optexgroup.co.jp/en/).	
Establishment of Department and/or Manager in Charge of IR	The Company has established Public Relations and Investor Relations Dept. (three members)	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	The Optex Group Code of Conduct stipulates the importance of the continuous improvement of corporate value while winning the trust of customers, business partners, shareholders, investors, local communities and all other stakeholders.
Implementation of Environmental Activities, CSR Activities etc.	Under the Company's unique environmental policies, its subsidiaries pursue the manufacture of environmentally conscious products from the development and design phases. The Group is working to contribute to local communities, and its initiatives include the Lake Biwa Environmental Training Course for elementary, junior high and high school students nationwide, institutions dedicated to education for students with disabilities and other associations.
Development of Policies on Information Provision to Stakeholders	The Optex Group Code of Conduct stipulates that in addition to the statutory disclosure of information, information about the management philosophy, business policy, business activities, social contribution activities and other relationships with society shall be shared proactively and accurately with all stakeholders, and that accountability shall be fulfilled.

IV. Matters Related to the Internal Control System

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

1. Basic views

The Group recognizes that the continuous improvement of corporate value while winning the trust of shareholders, investors, customers and society at large is its ultimate mission. To implement this mission, the Group has set the basic policy to develop and maintain internal control systems as systems for establishing appropriate organizations, regulations and rules and for conducting monitoring, to constantly review and improve the said systems, and to seek to firmly establish lawful and efficient business execution systems.

2. Progress of system development

The Board of Directors of the Company has adopted the following resolution regarding the development of systems that are necessary for ensuring the appropriateness of the business operations of the Company in accordance with the provisions of the Companies Act, the Ordinance for Enforcement of the Companies Act, etc.

- (1) Systems necessary for ensuring that the execution of duties by the Directors and employees of the Group complies with laws and regulations and the articles of incorporation
 - a. The Board of Directors of the Company shall determine the basic policies for internal control systems, including systems for ensuring compliance with laws and regulations, the articles of incorporation, etc., supervise the status of the implementation of the systems and review the basic policies, as needed.
 - b. The Audit & Supervisory Committee of the Company shall conduct examinations of the status of the execution of business, including the status of the development and implementation of internal control systems, and audits of the execution of duties by the Directors from an independent standpoint.
 - c. The Company shall establish a compliance committee chaired by the President/CEO for deliberations on important matters that are required for ensuring a law-abiding spirit in corporate action and employee action. In addition, the Company shall establish the Optex Group Code of Conduct, keep all the officers and employees of the Group informed about the Code, and endeavor to maintain and improve their compliance awareness.
 - d. The Company shall establish the Internal Audit Departments under the direct control of the President/CEO., including audits of the effectiveness of internal audit systems, shall be performed in accordance with the Rules on Internal Audits and yearly internal audit plans. The results of such audits shall be reported to the President/CEO on a periodic basis. The situation of internal audits shall also be reported to the Audit and Supervisory Committee.
 - e. The Company shall take a resolute attitude as an integrated organization in cooperation with the relevant organs toward anti-social forces that threaten the order of society or sound corporate activities, and shall refrain from having any connection with anti-social forces.
- (2) System for storing and managing information related to the execution of duties by the Directors of the Company
The Company shall store and manage, in an appropriate manner, the minutes of general shareholder meetings, the minutes of meetings of the Board of Directors and other statutory documents and documents that contain information about important business execution (including electromagnetic records; the same shall apply hereunder) together with related documents in accordance with the provisions of the Document Management Rules and other internal rules. The Directors of the Company may inspect these documents whenever necessary for supervision or audits of the execution of duties by the Directors.
- (3) Rules and other systems concerning the management of the risk of loss by the Group
 - a. The Company shall identify and evaluate potential risks that may have a significant impact on the Group's business operations and develop a system for utilizing such information in its business operations. In addition, to ensure the effectiveness of the management of such risks, the Company shall establish a committee and develop relevant systems.
 - b. The Company shall take steps to determine its response to events that have a significant impact on the Group's business operations and preventative measures as necessary.
- (4) Systems for ensuring the efficient execution of duties by the Directors of the Group
 - a. To ensure the efficient execution of duties by the Directors, the Company shall hold regular Board of Directors' meetings once a month and temporary meetings, as necessary, and undertake prompt and appropriate decision-making. In addition, based on such decisions, the Directors shall ensure the efficient execution of duties.
 - b. To seek prompt and appropriate decision-making by all the group companies, the Company shall clearly define authorities and responsibilities in the Holding Company Group Governance Rules, and deliberations shall be made by the Board of Directors of the Company regarding important matters of the subsidiaries.

(5) Systems for ensuring appropriate business operations in the corporate group consisting of the Company and its subsidiaries

- a. The Company shall establish the Optex Group Code of Conduct as action guidelines to be applied to all the group companies and conduct compliance management for all the group companies as a whole.
- b. By concurrently serving as Directors of the main subsidiaries, the Directors of the Company shall supervise the execution of duties by the Directors, etc. of the main subsidiaries, and shall be obliged to report important matters to the Company.
- c. The Company shall designate departments as those that exercise control over each group company in cooperation therewith with respect to the business management thereof in accordance with the Holding Company Group Governance Rules and other related rules, and the said departments shall conduct monitoring as necessary.

(6) Matters related to employees who assist with the duties of the members of the Audit & Supervisory Committee, matters related to the independence of the said employees from Directors other than the members of the Audit & Supervisory Committee and matters related to ensuring the effectiveness of the instructions given to the said employees where the Audit & Supervisory Committee requests the Company to assign such employees

Where the Audit & Supervisory Committee requests the Company to place employees to assist with the duties of the members of the Audit & Supervisory Committee, the Board of Directors shall assign such employees upon discussions with the Audit & Supervisory Committee. The appointment, transfer or evaluation of such employees, the authority to give directions and orders to such employees and other matters shall require the prior approval of the Audit & Supervisory Committee in order to ensure the independence of such employees from Directors other than the members of the Audit & Supervisory Committee and the effectiveness of the instructions.

(7) Systems for the Directors and employees, etc. of the Group and Corporate Auditors, etc. of the subsidiaries of the Company to report to the Audit and Supervisory Committee of the Company and systems for ensuring that the said reporters are not treated disadvantageously on the grounds of having made such reports

- a. The Directors and employees of the Group shall report to the Audit and Supervisory Committee without delay about important matters that have an impact on the business operations or business performance of the Company and the Group in detail, including the contents of the said important matters, the situation of the execution of operations and the results thereof. In addition, notwithstanding the foregoing, the Audit and Supervisory Committee may make a request to the Directors and employees of the Group for a report at any time.
- b. The Group shall establish internal whistleblowing systems and clearly specify in the Compliance Regulations to the effect that whistleblowers will not be treated disadvantageously on the grounds of having undertaken whistleblowing and shall thoroughly inform all the group companies of the above matter.

(8) Other systems for ensuring effective audits by the Audit and Supervisory Committee

- a. The Audit and Supervisory Committee of the Company shall hold meetings with the President/CEO on a regular basis and exchange opinions about management policies, issues to be dealt with by the Company, risks surrounding the Company, the status of developing audit environments for the Audit and Supervisory Committee, significant auditing issues and other matters.
- b. All the members of the Audit and Supervisory Committees, Corporate Auditors or officers in charge of auditing in all the companies in the Group shall exchange opinions on a periodic basis to clarify the auditing status of the companies in the Group as a whole and examine issues.
- c. The internal audit section of the Company shall maintain close coordination with the Audit and Supervisory Committee of the Company and exchange opinions.
- d. The Audit and Supervisory Committee of the Company shall secure a budget allocation for the implementation of audit plans. When the members of the Audit and Supervisory Committee of the Company request the reimbursement of costs relating to the execution of their duties, such costs shall be paid promptly.

(9) Systems for ensuring the reliability of financial reporting

To ensure the reliability of financial reporting by the Group, valid and appropriate internal control systems shall be established in accordance with the Financial Instruments and Exchange Act. In addition, the Company shall seek to improve the effectiveness of such systems by continuously evaluating the status of the development and operation thereof and take corrective measures if necessary.

2. Basic Views on Eliminating Anti-Social Forces and the Progress of System Development

* Please describe the basic views on eliminating anti-social forces and the progress of system development. In

accordance with the basic policies on internal controls stated above, the Group takes a resolute attitude in cooperation and collaboration with the police authority, corporate lawyers, etc. toward anti-social forces. It is working to prevent anti-social acts and any relationships with anti-social forces with the aim of eliminating anti-social forces.

In addition, the Company has clearly defined the standard of behavior toward anti-social forces in the Optex Group Code of Conduct, the action guidelines of the Group, and ensures that its officers and employees act according to strong moral values. Furthermore, the Group participates in exchanges of opinions with local police and other companies and training activities for promoting the elimination of anti-social forces.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not adopted.
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Supplementary Explanation

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

(1) Timely disclosure concerning the settlement of accounts

Regarding summaries of financial statements and other corporate information concerning the settlement of accounts (consolidated and non-consolidated bases), draft documents are prepared collaboratively Accounting Finance Dept, Public Relations and Investor Relations Dept., and General Affairs Dept, etc. under the control of the Director in charge of information disclosure and are submitted to the Board of Directors for its judgment upon obtaining the consent of the Director in charge of information disclosure.

After a resolution to approve the draft documents is adopted by the Board of Directors, the Director in charge of information disclosure gives directions concerning disclosure to Public Relations and Investor Relations Dept, which then performs tasks needed for disclosure. For the preparation of fiscal year-end and quarterly summaries of financial statements, etc. the Company is provided with audits and instructions from the accounting auditor.

(2) Timely disclosure of other matters for disclosure

A fact that has been determined or occurred at a section shall be summarized and reported directly by the person responsible for the section to Public Relations and Investor Relations Dept. and the Director in charge of information disclosure and submitted to the Board of Directors for its judgment upon obtaining consent of the Director in charge of information disclosure.

After a resolution to approve an important decision for disclosure is adopted by the Board of Directors, the Director in charge of information disclosure gives directions concerning disclosure to Public Relations and Investor Relations Dept. which then performs tasks needed for disclosure.

In addition, if an important fact that needs to be promptly disclosed occurs, it shall be disclosed upon obtaining the consent of the Director in charge of information disclosure and the approval of the President / CEO.

In this case, Public Relations and Investor Relations Dept. also performs the tasks needed for disclosure at the instruction of the Director in charge of information disclosure.

(3) Observance of timely disclosure by the relevant personnel in the Group and management of corporate information

The Group clearly describes the importance of timely disclosure in the Optex Group Code of Conduct as shown in the excerpt below. The text is shown in both Japanese and English side by side and distributed to all affiliated companies in and outside Japan or posted on the webpages to ensure observance by all the officers and employees and interested parties.

In addition, basic matters for information disclosure in and outside the Company are stipulated in the Information Management Rules. Furthermore, in an effort to prevent insider trading, the Company has established Inside Trading Control Regulations that stipulate the management of insider information obtained by officers and employees during the course of the execution of their duties, restrictions on purchases, sales, etc. of stocks, etc. by officers and employees and fundamental matters to be observed by officers and employees on duty.

(Excerpt from the Optex Group Code of Conduct)

Chapter 4

3-(3) Information disclosure and public relations

In addition to the statutory disclosure of information, we will proactively and accurately share with all stakeholders (customers, business partners, shareholders, investors, local communities, etc.) information about the Company's business policy, business activities, social contribution activities and other relationships with society and fulfill accountability.

“Corporate Governance Report” Skills Matrix

【Skills Matrix】 Updated

	Name	corporate management / Management Strategy	International Experience	Audit/ Internal Control	Technology/ Research and Development	Sales / Marketing	Financial / accounting	Legal Affairs/ Risk Management
Directors	Isamu Oguni	●	●			●	●	●
	Hiroyuki Onishi	●				●	●	●
	Toru Kobayashi	●	●		●	●	●	
	Toru Kamimura	●			●	●		
	Tatsuya Nakajima	●	●			●		
	Akira Higashi	●			●	●	●	●
	Kazuhiro Yoshida	●	●		●	●		
	Nanako Aono	●		●			● (certified public accountants)	●
Directors who are members of the Audit and Supervisory Committee	Yukio Kuroda		●	●			●	●
	Yasushi Sakemi			●				● (lawyers)
	Minoru Kida		●	●			● (certified tax accountants·certified public accountants)	●