

# Corporate Governance Report

Last Update: December 10, 2021

**ESPEC CORP.**

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Securities Code: 6859

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

The corporate governance of ESPEC CORP. (the “Company”) is described below.

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

### **1. Basic Views**

The Company firmly believes that a corporation is a public institution, or a social apparatus with roles and functions for fulfilling people’s wishes and living up to the expectations of society. Based on this philosophy, the Company aims to become a highly efficient corporate medium for exchanging value. Accordingly, the Company shall provide all stakeholders with higher value through the mutually beneficial relationships it builds with shareholders, customers, business partners, employees and all other stakeholders it interacts with in the course of conducting its corporate business activities.

By continually enhancing corporate governance with this philosophy as an impetus, the Company shall realize sustainable growth and enhance corporate value over the medium to long term, while fulfilling its social responsibility to stakeholders.

The Company’s basic views, policy for engagement in each principle, and status of implementation of the Corporate Governance Code have been formulated in a separate Basic Policy on Corporate Governance, publically disclosed on the Company’s website.

[https://www.espec.co.jp/english/ir/management/pdf/governance\\_policy.pdf](https://www.espec.co.jp/english/ir/management/pdf/governance_policy.pdf)

### **[Reasons for Non-compliance with the Principles of the Corporate Governance Code] (Updated)**

The Company has implemented each principle of the Corporate Governance Code after its revision in June 2021 in accordance with the above basic policy.

### **[Disclosure Based on the Principles of the Corporate Governance Code] (Updated)**

The Company has disclosed information based on the Corporate Governance Code after its revision in June 2021.

Please refer to the following articles of the Basic Policy on Corporate Governance for details on matters that ought to be disclosed under the Corporate Governance Code.

#### **[Principle 1.4 Cross-Shareholdings]**

Article 5. Cross-Shareholdings

At a meeting of the Board of Directors held on December 8, 2020, the Company verified the need for individual cross-shareholdings in its possession. As a result of the verification, the Company disclosed in its Annual Securities Report the shares it decided to continue to possess and the objectives in doing so.

#### **[Principle 1.7 Related Party Transactions]**

Article 6. Related Party Transactions

## **[Supplementary Principle 2.4.1 Ensuring Diversity in the Promotion of Core Human Resources, etc.]**

### Article 9. Promotion of Diversity

#### (1) Policies on Ensuring Diversity in the Promotion of Core Human Resources, etc.

The Company embraces diversity regardless of gender, age, nationality, or any other characteristic, and appropriately manages frameworks for human resources recruitment, promotion, training, evaluation and so forth, so that the Company's broad spectrum of human resources can demonstrate their individuality and abilities. For information on initiatives to promote the active participation of diverse human resources, please see the Company's Sustainability Report.

<https://www.espec.co.jp/sustainability/report.html>

#### (2) Voluntary and Measurable Goals for Ensuring Diversity and Current Status Thereof

##### 1. Promotion of women to managers

The Company is actively engaged in building an organization where motivated and capable women can enjoy a good working environment and actively participate in the workforce. Since fiscal 2013, the Company has been offering female leader development programs, along with striving to nurture female employees into managers and to expand the scope of their occupations and job duties. As of the end of fiscal 2020, the Company has 1 female officer (including executive officers) and the ratio of female managers stood at 4.7%. By fiscal 2025, the Company aims to achieve a ratio of female managers of 10% or more.

##### 2. Promotion of foreign nationals to managers

The Company strives to secure talented human resources, regardless of nationality. For example, in the hiring process, the Company has set a certain target for the recruitment of non-Japanese nationals and actively hires such individuals. Currently, the Company does not yet have a foreign national manager. It will push ahead with human resources development to secure such managers.

##### 3. Promotion of midcareer hires to managers

Midcareer hires account for 30% of the number of the Company's managers, almost the same percentage as the ratio of midcareer hires to all employees. Going forward, the Company will continue to promote midcareer hires to managers, with a view to ensuring even more diversity.

#### (3) Policies on Human Resource Development and Internal Environment Development to Ensure Diversity

##### 1. Provide motivated and capable human resources with a diverse range of support for growth and opportunities to succeed

Personal growth is highly dependent on individual will and motivation. Indeed, such growth can be described as a personal priority. The Company provides capable employees who are eager to grow with a diverse range of support for growth and opportunities to realize their ambitions.

##### 2. Developing an environment in support of diverse workstyles

The Company believes that it is important for it to develop an environment where employees can fully demonstrate their abilities with peace of mind. The workstyles that people desire are constantly changing with the times. To an appropriate extent, the Company will strive to develop an advanced workplace environment in support of diverse workstyles that meet the demands of the times.

## **[Principle 2.6 Roles of Corporate Pension Funds as Asset Owners]**

To ensure appropriate operation of its defined benefit pension plan, the Company has established operational goals and a policy asset composition from a medium- to long-term standpoint, and entrusts its corporate pension to an investment management institution that accepts Japan's Stewardship Code. From an operational viewpoint, the Company assigns human resources with appropriate skills as heads of the finance and personnel departments and monitors the operational status of the operational institution. Moreover, to ensure transparency in regard to conflicts of interest, the Company notifies employees of the results of fund operations.

## **[Principle 3.1 Full Disclosure]**

Article 1. Basic Stance on Corporate Governance

Article 7. The Company's Corporate Philosophy, Management Policy, and Relationship with Stakeholders

Article 14. Method and Procedures for Nominating a Candidate for Director

Article 17. Method and Procedures for Nominating a Candidate for Audit & Supervisory Board Member

Article 19. Compensation of Directors and Audit & Supervisory Board Members

• The Company shall disclose its reasons behind the nomination of candidates for director and audit & supervisory board member in the reference materials to its Notice for Convening a Shareholders Meeting.  
<https://www.espec.co.jp/english/news/2021/0525.pdf>

• The policy and procedures by which the Board of Directors determines the compensation of the management executives and directors is disclosed in this report under “Disclosure of Policy and Calculation Method for Determining Compensation Amounts”, in the business report included in the convocation notice for the general meeting of shareholders, and the Annual Securities Report.

### **[Supplementary Principle 3.1.3 Initiatives on Sustainability]**

Article 8. Policy on Sustainability

#### **(1) Initiatives on Sustainability**

THE ESPEC MIND, which is the Company’s corporate philosophy, contains two important beliefs. The first belief is that a corporation is a public institution. The second belief is that the Company should aim to enhance its value exchangeability with all its stakeholders. Guided by this corporate philosophy, the Company has formulated ESPEC Vision 2025, where it clearly defines what kind of company and team it wants to be in the future, and what kinds of businesses it will pursue to create value. By implementing THE ESPEC MIND and ESPEC Vision, the Company seeks to achieve sustainable growth and contribute to society. For information on policies and initiatives related to the Company’s sustainability, please see its Sustainability Report.  
<https://www.espec.co.jp/sustainability/report.html>

#### **(2) Investments in Human Capital**

The Company aims to maximize employees’ abilities and energy through efforts to develop and nurture high-quality human resources who are strongly ambitious. For information on initiatives related to investments in human capital, please see the Company’s Sustainability Report.  
<https://www.espec.co.jp/sustainability/report.html>

#### **(3) Investments in Intellectual Properties**

Regarding patents and technology-based designs, the Company strategically submits applications and acquires and exercises rights, along with continuously making a certain level of investment in the development of new technologies and products. In addition, the Company has developed a security framework to protect intellectual properties. Moreover, the Company regularly holds Company-wide technology networking meetings to bring out the creativity and ingenuity of employees. Concurrently, the Company works to raise employee motivation and enhance technical capabilities by, for example, presenting awards through the ESPEC Idea Challenge program, and by providing incentives based on invention and design handling regulations. For details on specific research and development initiatives, please see “Research and Development Activities” in the Annual Securities Report.  
<https://www.espec.co.jp/ir/library/security.html>

### **[Supplementary Principle 4.1.1 Scope of Delegation to Management]**

Article 12. Roles of the Board of Directors

### **[Principle 4.9 Criteria for the Independence of Independent Outside Directors]**

Article 14. Method and Procedures for Nominating a Candidate for Director

### **[Supplementary Principle 4.11.1 Size, Diversity and Overall Balance of the Board of Directors]**

Article 13. Composition of the Board of Directors

Article 14. Method and Procedures for Nominating a Candidate for Director

### **[Supplementary Principle 4.11.2 Directors and Audit & Supervisory Board Members Concurrently Holding Positions at Other Listed Companies]**

Article 20. Tenure of Outside Directors and Outside Audit & Supervisory Board Members and Their Concurrent Positions at Other Companies

The Company discloses the status of its directors and audit & supervisory board members holding important concurrent positions in other companies in the reference materials, business report and other content attached to its Notice for Convening a Shareholders Meeting.

**[Supplementary Principle 4.11.3 Evaluating the Effectiveness of the Board of Directors]**

## Article 21. Evaluating the Effectiveness of the Board of Directors

To evaluate the effectiveness of the Board of Directors during fiscal 2020, the Board of Directors met in April 2021 to analyze and evaluate their effectiveness as a whole. As an evaluation method, the outside directors as the responsible officers, had all board members and Audit & Supervisory Board members fill out a questionnaire-style self-evaluation of the organization, functions,] and conduct of the Board of Directors, as well as the support it had received. Based on the results, follow-up interviews were conducted. As a result, it was judged that the effectiveness of the Board of Directors as a whole has been secured based on the confirmation that the Board had put in place an organization for fulfilling its function of supervising management, and that conditions within the Board contributed to discussions and exchanges of opinions in a free, uninhibited and constructive manner. Meanwhile, the Board of Directors confirmed the need to work on expanding the ratio of outside directors and ensuring the board's diversity as issues that must be addressed going forward. Looking ahead, we will continue to have discussions from various perspectives and endeavor to further improve the Board's effectiveness.

Results of the evaluation of the effectiveness of the Board of Directors have been posted on the Company's website.

<https://www.espec.co.jp/english/csr/management/>

**[Supplementary Principle 4.14.2 Training for Directors and Audit & Supervisory Board Members]**

## Article 24. Training for Directors and Audit &amp; Supervisory Board Members

**[Principle 5.1 Policy for Constructive Dialogue with Shareholders]**

## Article 25. Dialogue with Shareholders

The Company has formulated and disclosed a separate investor relations IR policy outlining its basic stance for realizing a constructive dialogue with shareholders.

<https://www.espec.co.jp/english/ir/policy.html>

**2. Capital Structure**

Foreign Shareholding Ratio	From 10% to less than 20%
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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)	4,552,500	20.18
ESPEC Business Partners' Stockholding Association	2,190,160	9.71
Custody Bank of Japan, Ltd. (Trust account)	1,756,100	7.78
ESPEC Employee Stockholding Association	742,750	3.29
Nippon Life Insurance Company	553,600	2.45
Yoshiki Sasaki	520,000	2.30
Mizuho Bank, Ltd.	513,500	2.27
TACHIBANA ELETECH CO., LTD.	419,083	1.85
Custody Bank of Japan, Ltd. (Trust account 9)	342,400	1.51
Inaba Denki Sangyo Co., Ltd.	310,600	1.37

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

Supplementary Explanation (Updated)

The Company owns 1,231,846 shares of treasury stock in addition to the shares mentioned above.

### 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March
Type of Business	Electric Appliances
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1,000
Sales (consolidated) as of the End 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 which may have Material Impact on Corporate Governance

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## 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 Board
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	8
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	8
Appointment of outside directors	Appointed
Number of Outside Directors	2
Number of Independent Directors	2

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Toshiya Kosugi	From another company									△			
Akihiko Yanagitani	From another company												

\* 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 compensation as a director / audit & supervisory board member

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/ outside audit & supervisory board member (said individual 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	Designation as an independent director	Supplementary Explanation of the Relationship	Reasons of Appointment
Toshiya Kosugi	○	Outside Director Toshiya Kosugi is the representative employee of the joint venture company Truth, Human Science & Management Organization Laboratory LLC., which had business with the Company in March 2017 equivalent to five hundred thousand yen, however the details were omitted from this report as the scale of the business was deemed as posing no risk of affecting the independence of this director based on the Criteria for the	Outside Director Toshiya Kosugi has acquired plenty of knowledge and experience from a career that includes the management of the joint venture company Truth, Human Science & Management Organization Laboratory LLC, and research into the development of human resources at the Graduate School of Science and Technology, Keio University. At the same time, he is deemed as posing no conflict of interest with the general shareholders while possessing a high degree of independence from the executive management of the Company. We therefore adjudges that he is sufficiently capable of carrying out his role as outside director.

		Independence of Outside Officers of the Company.	
Akihiko Yanagitani	○	Outside Director Akihiko Yanagitani has been designated as an independent director of the Company, having satisfied the Tokyo Stock Exchange's criteria for independence of independent directors.	Outside Director Akihiko Yanagitani has acquired plenty of knowledge and experience from a career that includes the management of Sanyo Special Steel Co., Ltd. and as a specially appointed professor at the University of Hyogo and a guest professor at Osaka University studying collaboration between industry and academia in research and other areas. At the same time, he is deemed as posing no conflict of interest with the general shareholders while possessing a high degree of independence from the executive management of the Company. We therefore adjudges that he is sufficiently capable of carrying out his role as outside director.

Voluntary establishment of committee(s) corresponding to Nomination Committee or Compensation 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 and Compensation Advisory Committee	Nomination and Compensation Advisory Committee
All Committee Members	5	5
Full-time Members	-	-
Internal Directors	2	2
Outside Directors	2	2
Outside Experts	-	-
Other	1	1
Chairperson	Outside directors	Outside directors

#### Supplementary Explanation

The Company changed the name of the Personnel Advisory Committee, a voluntary body that deliberates on director appointments and compensation, to the Nomination and Compensation Advisory Committee in March 2021, and increased the number of committee members. From a standpoint of ensuring management transparency and objectivity, the Nomination and Compensation Advisory Committee's main members are outside directors and the chairperson and members are decided by the Board of Directors. The Personnel Advisory Committee met five times in fiscal 2020, and all committee members were in attendance. The committee currently consists of five members, President Masaaki Ishida, Managing Director Taneo Shimada, Outside Directors Toshiya Kosugi and Akihiko Yanagitani, and Outside Audit & Supervisory Board Member Masahiko Tsutsumi, with Outside Directors Toshiya Kosugi serving as the chairperson.

#### [Audit & Supervisory Board]

Establishment of Audit & Supervisory Board	Established
Maximum number of audit & supervisory board members stipulated in the Company's Articles of Incorporations	4
Actual number of audit & supervisory board members	4

#### Cooperation among audit & supervisory board members, accounting auditors and the Internal Audit Division

· The Company's audit & supervisory board members and Audit & Supervisory Board receive an overview of the audit plan from the accounting auditors and receive explanations and exchange opinions on such matters as the priority auditing items. The Company's audit & supervisory board members and Audit & Supervisory Board also accompany the accounting auditors on audits and audit reviews and request timely progress reports on audit execution from the accounting auditors. Audit & supervisory board members interview the accounting auditors for opinions on how accounting methods and treatments affect the Company's asset position and financial reports, and whether those methods and treatments are appropriate in light of the applicable accounting standards and generally accepted accounting principles. The Audit & Supervisory Board receives audit reports and related materials from the accounting auditors. At the same time, it inspects the audit reports from the accounting auditors and requests explanations of the important matters. The Audit & Supervisory Board holds meetings in accordance with the accounting settlement and audit schedule, and as the need arises. Members of the committee also exchange opinions and maintain contact including by e-mail.

· Employees will be allocated to assist Audit & Supervisory Board Members in their operation and auditing duties. Corporate Auditor's Staff are subject to orders from the Audit & Supervisory Board Members. To ensure the independence of the Corporate Auditor's Staff, advance approval will be obtained from the Audit & Supervisory Board regarding their transfers and personnel evaluations.

· The internal audit division conducts internal audits of each of the Company's divisions and Group companies. These internal audits are conducted both efficiently and effectively with an emphasis on coordination with the audit & supervisory board members.

· In principle, the head of the internal audit division strives to enhance the audit & supervisory board members' audits and internal audits even further by attending the meetings of the Audit & Supervisory Board to deliver reports and exchange opinions and so forth.

Appointment of outside audit & supervisory board members	Appointed
Number of outside audit & supervisory board members	3
Number of independent outside audit & supervisory board members	3

#### Outside audit & supervisory board members Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Masahiko Tsutsumi	CPA													
Takahiro Tanaka	Lawyer													
Yasuko Yoshida	CPA													

\* 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 subsidiary
- b. Non-executive director or accounting advisor of the Company or its subsidiaries
- c. Non-executive director or executive of a parent company of the Company
- d. Audit & supervisory board member of a parent company of the Company
- e. Executive of a fellow subsidiary company of the Company
- f. A 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, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an audit & supervisory board member
- i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- j. Executive of a client or supplier company of the Company (which does not correspond to any off, g, or h) (the audit & supervisory board member himself/herself only)
- k. Executive of a company with which the Company has exchanged personnel for appointment as an outside director or outside audit & supervisory board member (said individuals only)
- l. Executive of a company or organization that receives a donation from the Company (the audit & supervisory board member himself/herself only)
- m. Others

Outside audit & supervisory board members Relationship with the Company (2)

Name	Designation as Independent outside audit & supervisory board member	Supplementary Explanation of the Relationship	Reasons of Appointment
Masahiko Tsutsumi	○	Mr. Tsutsumi has been designated as an independent director of the Company, having satisfied the Tokyo Stock Exchange's criteria for independence of independent directors.	Masahiko Tsutsumi has ample experience and knowledge as a CPA. At the same time, he is deemed as posing no conflict of interest with the general shareholders while possessing a high degree of independence from the Company. We therefore adjudge that he is sufficiently capable of carrying out his role as outside audit & supervisory board member.
Takahiro Tanaka	○	Mr. Tanaka has been designated as an independent director of the Company, having satisfied the Tokyo Stock Exchange's criteria for independence of independent directors.	Takahiro Tanaka has ample experience and knowledge as a lawyer. At the same time, he is deemed as posing no conflict of interest with the general shareholders while possessing a high degree of independence from the Company. We therefore adjudge that he is sufficiently capable of carrying out his role as outside audit & supervisory board member.
Yasuko Yoshida	○	Ms. Yoshida has been designated as an independent director of the Company, having satisfied the Tokyo Stock	Yasuko Yoshida has ample experience and knowledge as a CPA. At the same time, she is deemed as posing no conflict of interest with the general shareholders while possessing a high degree of independence from the

		Exchange's criteria for independence of independent directors.	Company. We therefore adjudge that he is sufficiently capable of carrying out his role as outside audit & supervisory board member.
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**[Independent Directors and Audit & Supervisory Board Members]**

Number of independent directors and audit & supervisory board members	5
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Matters relating to independent directors and audit & supervisory board members

All outside directors and audit & supervisory board members fulfilling the criteria of an independent director or audit & supervisory board members have been designated by the Company as an independent director or audit & supervisory board members. The following is the Company's criteria for independence.

Criteria for the Independence of Outside Officers

The Company shall judge outside officers or candidate outside officers to be independent unless any of the following items apply.

- (1) The party is a business executor of the ESPEC Group\*1, or was a business executor of the ESPEC Group during the past 10 years.
- (2) The party is an entity for which the ESPEC Group is a major business partner\*2, or a business executor of said entity.
- (3) The party is a major business partner of the ESPEC Group\*3, or a business executor of said major business partner.
- (4) The party receives 5 million yen or more per year or other financial compensation, excluding remuneration as a director or audit & supervisory board member, from the ESPEC Group as a consultant, accountant, or lawyer (or an employee of a corporation, cooperative and other organization receiving such compensation).
- (5) The party is a person or corporate business executor receiving contributions or subsidies in the amount of 5 million yen or more per year from the ESPEC Group during the most recent fiscal year.
- (6) The party is a person who falls under 2 through 5 above during the past 3 years.
- (7) The party is the next of kin\*5 of a person who falls under 2 through 6 above (limited to important persons\*4)

- \*1. "A business executor" refers to an executive director, executive officer or equivalent party or employee.
- \*2. "A major business partner" refers to a business partner providing products or services to the ESPEC Group whose transaction amounts exceeded 2% of yearly consolidated net sales in the most recent business year.
- \*3. "The party is a major business partner of the ESPEC Group" refers to a business partner refers to a business partner which the ESPEC Group provides products or services to whose transaction amounts exceeded 2% of yearly consolidated net sales in the most recent business year.
- \*4. "Important persons" refers to officers or employees in upper management with a rank of department head or higher.
- \*5. "Next of kin" refers to a spouse or relative to the second degree.

**[Incentives]**

Incentive policies for directors	Performance-linked Compensation
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Supplementary Explanation

At the 65th Ordinary General Meeting of Shareholders held on June 22, 2018, the Company decided to introduce the Board Benefit Trust (BBT) (hereinafter, the "System") for directors (excluding outside directors; hereinafter "Directors") and executive officers (hereinafter directors and executive officers who do not

concurrently serve as directors are collectively referred to as “Directors, etc.”), a new performance-linked share-based remuneration system separate from the remuneration for directors resolved at the 55th Ordinary General Meeting of Shareholders held on June 24, 2008 (up to 300 million yen annually (including up to 25 million yen annually for outside directors)). The System is a performance-linked share-based remuneration system under which the Company shares are acquired through a trust using funds contributed by the Company (hereinafter, the trust established under the System shall be referred to as "the Trust"), and the Directors, etc. are provided with the Company shares and the money equivalent to the market value of the Company shares (hereinafter referred to as the “Company shares, etc.”) through the Trust in accordance with the Regulations for Delivery of Shares to Officers stipulated by the Company. In principle, Directors, etc. will receive the Company shares, etc. at the time of their retirement.

The System will operate for four fiscal years, from the fiscal year ended March 31, 2019 to the fiscal year ending March 31, 2022 (hereinafter, the “initial applicable period”) with subsequent four fiscal year periods referred to as “applicable periods” with the limit of share-based remuneration set in principle at 412 million yen (including up to 300 million yen for directors) for each applicable period.

Recipients of Stock Options	-
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Supplementary Explanation
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#### [Director Compensation]

Individual disclosure of a director’s compensation	No individual disclosure
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Supplementary Explanation
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The total amount of compensation for directors and audit & supervisory board members for the fiscal year ended March 31, 2021 is as follows.

Officer category / Number of recipients / Monetary compensation (fixed) / Monetary compensation (performance-linked) / Share-based remuneration (fixed) / Share-based remuneration (performance-linked) / Total compensation, etc.

Directors / 8 people / 142 million yen / 33 million yen / 15 million yen / 44 million yen / 235 million yen  
 (Of which, outside directors) / (2 people) / (12 million yen) / (-) / (-) / (-) / (12 million yen)  
 Audit & supervisory board members / 4 people / 34 million yen / (-) / (-) / (-) / 34 million yen  
 (Of which, outside audit & supervisory board members) / (3 people) / (16 million yen) / (-) / (-) / (-) / (16 million yen)  
 Total / 12 people / 177 million yen / 33 million yen / 15 million yen / 44 million yen / 269 million yen  
 (Of which, outside officers) / (5 people) / (28 million yen) / (-) / (-) / (-) / (28 million yen)

Note: The above listed amount of share-based remuneration is the provision for share awards for directors (and other officers) recorded in the fiscal year under review.

Policy and calculation method for determining compensation amounts	Established
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Disclosure of Policy and Calculation Method for Determining Compensation Amounts
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- (1) Policy for determining individual compensation for directors and audit & supervisory board members  
 The Company's policy on determining the individual compensation content of directors and audit & supervisory board members was resolved at the Board of Directors meeting held on December 7, 2015. An overview of the determination policy is as follows.

· As a basic policy, the Company ensures that its decisions regarding the compensation of directors are fair and rational. At the same time, the compensation structure provides directors with suitable incentives for raising their motivation to achieve sustainable growth and improve corporate value over the medium to long term for the Company.

· Compensation of internal directors shall consist of a fixed amount of basic compensation set based on considerations such as rank and tenure, and a performance-linked compensation set based on the Company's business performance in each fiscal year. Outside directors receive only a fixed amount of basic compensation because of their non-executive status and from the standpoint of ensuring independence. The Board of Directors decides the amount of compensation for each director following a review by the Nomination and Compensation Advisory Committee.

· Audit & supervisory board members receive only a fixed amount of basic compensation from the standpoint of ensuring independence. The Board of Directors decides the amount of compensation for each audit & supervisory board member following a review by the Nomination and Compensation Advisory Committee.

(2) Policy regarding type and ratios of compensation, etc. for directors

The types of compensation for directors and the ratios in principle are as follows: monetary compensation (fixed) 60%; monetary compensation (performance linked) 20%; share-based remuneration (fixed) 8%; and share-based compensation (performance-linked) 12%.

Moreover, outside directors and audit & supervisory board members receive only a fixed amount of monetary compensation because of their non-executive status and from the standpoint of ensuring independence.

(3) Matters related to financial compensation, etc.

1. Fixed compensation

The fixed compensation component of monetary compensation is determined in accordance with the "Payment Standard for Director Compensation," which is deliberated by the Nomination and Compensation Advisory Committee. The payment is made by paying 1/12 of the fixed compensation component as basic monthly salary on a fixed day each month.

2. Performance-linked compensation

The performance-linked component of monetary compensation is determined by the consolidated operating profit margin for each fiscal year, which served as an indicator of the Company's earning capability consistent with its medium-term management plan. The calculation is made by multiplying the basic monthly salary by a payment multiple deliberated by the Nomination and Compensation Committee.

The payment is made by paying 1/12 of the performance-linked component on a fixed day each month starting from July of the following fiscal year.

(4) Matters related to share-based remuneration (non-monetary compensation, etc.)

For share-based remuneration (non-monetary compensation, etc.), the Company has introduced the Board Benefit Trust (BBT), a performance-linked share-based remuneration system, in accordance with the resolution of the 65th Ordinary General Meeting of Shareholders, held on June 22, 2018.

The system is intended to realize a healthy incentive for sustainable growth, as required under the corporate governance code.

1. Fixed compensation

The fixed compensation component of share-based remuneration is calculated based on position points determined in accordance with position. The points allotted to each director are exchangeable at the rate of one of Company's common shares per point when payment of the Company's shares, etc. is made.

2. Performance-linked compensation

The performance-linked compensation component of share-based remuneration is calculated by multiplying the basic points determined based on position by a performance-linked coefficient. The performance-linked coefficient is calculated based on a simple average of the achievement rates on consolidated net sales and operating profit targets for each business year (figures announced in the

consolidated performance forecast in the Company's consolidated financial results), as indicators of the Company's earning capability consistent with its medium-term management plan.

The time for receiving the share-based remuneration described above in 1. and 2. is upon the retirement of the director, in principle. The total number of allotted points up to that time are converted into a number of shares, which is paid to the director. To secure funds for payment of taxes, 25% of the paid shares are converted into cash at market value at the time of retirement, and paid to the director.

- (5) Matters related to the resolution of the general meeting of shareholders regarding compensation, etc. for directors and audit & supervisory board members

The amounts of monetary compensation for directors of the Company was resolved at the 55th Ordinary General Meeting of Shareholders, held on June 24, 2008, as a total amount of up to 300 million yen annually for directors and a total amount of up to 80 million yen annually for audit & supervisory board members. The number of directors as of the end of the Ordinary General Meeting of Shareholders was seven (including two outside directors) and the number of audit & supervisory board members was four (including two outside audit & supervisory board members).

In addition, the 65th Ordinary General Meeting of Shareholders, held on June 22, 2018, resolved to introduce a performance-linked share-based remuneration systems for directors (excluding outside directors), separately from the above compensation limit for directors. Based on the Regulations for Delivery of Shares to Officers under the system, the Company has contributed 300 million yen (for a period of four fiscal years). The number of directors (excluding outside directors) as of the closing of that Ordinary General Meeting of Shareholders was five.

- (6) Matters related to delegations concerning determination of individual compensation, etc. of directors

In the fiscal year under review, the Board of Directors meeting held on February 10, 2021 resolved to delegate the determination of the fixed compensation component of individual monetary compensation of each director to the representative director and president, Masaaki Ishida, in accordance with the determination policy deliberated by the Nomination and Compensation Advisory Board.

The reason for delegating this authority is that the representative director and president is deemed to be the most suitable person for evaluating the businesses overseen by each director while taking an overall view of the Company's performance.

The compensation of the Company's officers is disclosed in the business report of the convocation notice for the Ordinary General Meeting of Shareholders and the Annual Securities Report.

Convocation notice of the 68th Ordinary General Meeting of Shareholders

[https://www.espec.co.jp/ir/event/pdf/shareholder2021\\_01.pdf](https://www.espec.co.jp/ir/event/pdf/shareholder2021_01.pdf)

The 68th Ordinary Annual Securities Report

<https://www.espec.co.jp/ir/library/pdf/security2020.pdf>

#### **[Support System for Outside Directors and/or Outside Audit & Supervisory Board Members]**

- The Company provides an appropriate budget and establishes secretariats to the Board of Directors and Audit & Supervisory Board to ensure that the outside directors and outside audit & supervisory board members are able to perform their duties appropriately. The Corporate Control Headquarters carries out the secretarial duties.
- The Company has a system in place to promptly communicate important matters such as minutes of the Executive Officers' Meeting through e-mail and other means, in conjunction with providing supplemental explanations as needed.
- The Company strives to efficiently implement meetings of the Board of Directors and the Audit & Supervisory Board by having the director in charge of Administration explain in advance the important proposals on the agendas of these meetings to the outside director. Moreover, the director in charge of Administration and the standing audit & supervisory board members explain the same in advance to the outside audit & supervisory board members.

- The Company determines the compensation level of the outside director and outside audit & supervisory board members based on an amount deemed to be fair and appropriate taking into account factors such as the nature of their duties, the Company's consolidated business performance, and generally accepted compensation practices.

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

- For details on the current corporate governance system, please see Reference Materials: Schematic Diagram.
- As of the filing date of this report, the Company's Board of Directors consists of eight members, two of whom is an outside director. The Board of Directors deliberates and decides matters provisioned by laws and regulations and the Company's Articles of Incorporation as well as business strategies, management plans, and other important management issues while supervising the execution of business duties by directors. The tenure of a director is set at one year to clarify responsibility for management.
- The Board of Directors held meetings 13 times in fiscal 2020 and the attendance rate of directors and Audit & Supervisory Board members at all 13 meetings was 100%.
- The Company believes the roles of the outside directors are to advise management, as well as to strengthen the Board of Directors' supervision of management by monitoring the directors' appropriate execution of business duties. These roles are directed at realizing the Company's sustainable growth and improving its corporate value over the medium to long term.
- Candidates for directors are approved by the Board of Directors following a fair and rigorous review by the Nomination and Compensation Advisory Committee.
- Compensation for directors shall be approved by the Board of Directors following a review by the Nomination and Compensation Advisory Committee, within the scope approved by the Shareholders Meeting.
- In addition to the Board of Directors, the Company has established an Executive Officers' Meeting, comprised of the executive officers responsible for executing each of the Company's business duties, to speed management decision-making and business execution.  
The Executive Officers' Meeting passes resolutions on matters delegated from the Board of Directors, and discusses and examines ways to implement matters approved by the Board of Directors. In addition, the Company has established a Headquarters Chief Officers' Meeting, comprised of the directors (other than the outside directors) and Headquarters Chief Officers. The Headquarters Chief Officers' Meeting communicates, discusses and facilitates inter-departmental coordination of the resolutions and instructions of the Board of Directors and the Executive Officers' Meeting.
- As of the filing date of this report, the Company's Audit & Supervisory Board consists of four members, three of whom are outside Audit & Supervisory Board members, and meets once monthly in principle. An audit policy and audit plan were stipulated at the beginning of the fiscal year and corporate auditors abide by these while implementing audits of directors' execution of duties, the internal control system and financial statements. All of the audit & supervisory board members attend monthly meetings of the Board of Directors. The standing audit & supervisory board members endeavor to strengthen auditing functions by attending important meetings such as the Executive Officers' Meeting.
- Candidates for Audit & Supervisory Board member are approved by the Board of Directors following a fair and rigorous review by the Nomination and Compensation Advisory Committee.
- Deloitte Touche Tohmatsu LLC is the Company's accounting auditor from December 1980. The engagement partners are Shinichi Ishihara and Yasunori Yamagishi. Thirteen certified public accountants and fourteen other individual assisted with the auditing duties.

- In November 2020, the Company established an Internal Control System Committee chaired by a director. The Internal Control System Committee discusses the evaluation of the effectiveness of internal control as well as basic policies concerning internal control and important matters concerning corporate governance, along with putting forward and reporting matters to the Board of Directors as necessary.

### 3. Reasons for Adoption of Current Corporate Governance System (Updated)

By resolution of the Board of Directors meeting held on December 10, 2021, the Company will transition from a Company with Audit & Supervisory Board to a Company with Audit & Supervisory Committee, subject to approval at the 69th Annual General Meeting of Shareholders to be held in June 2022. For details, please see the Company's disclosure materials.

[https://www.espec.co.jp/english/news/2021/1222\\_01.pdf](https://www.espec.co.jp/english/news/2021/1222_01.pdf)

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

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

	Supplementary Explanations
Early Notification of General Shareholders Meeting	To assure convenience for shareholders, the Company strives to send convocation notices to shareholders as early as possible before the statutory deadline. The notice for convening the 67th General Shareholders Meeting held on June 23, 2020 was mailed to shareholders on June 1, seven days before the statutory deadline. The convocation notice was disclosed early at the Tokyo Stock Exchange and on the Company's website before it was mailed on May 25, 2020.
Scheduling AGMs Avoiding the Peak Day	Since the 50th General Shareholders Meeting on June 25, 2003, the Company has scheduled its Shareholders Meeting on days other than Japan's peak days for holding Shareholders Meeting. The Company scheduled the 68th General Shareholders Meeting on June 23, 2021, four business days before Japan's first peak day for Shareholders Meeting.
Electronic voting	The Company adopted the exercise of voting rights by electric means starting with the 63rd Ordinary General Meeting of Shareholders on June 24, 2016.
Utilization of electronic voting platform and other methods of improving the environment for institutional investors' voting	The Company adopted ICJ Inc's electronic proxy voting platform starting with the 68th Ordinary General Meeting of Shareholders on June 23, 2021.
Provision of convocation notice summaries written in English	The Company translated a summary of the convocation notice to the 63rd Ordinary General Meeting of Shareholders on June 24, 2016 in English for disclosure at the Tokyo Stock Exchange and on its website.
Other	Since the 52nd General Shareholders Meeting, the Company has made its convocation notices available on its corporate website to assure convenience for individual investors and other shareholders.

### 2. IR Activities

	Supplementary Explanations	Explanation by representative
Preparation and Publication of Disclosure Policy	The Company publishes its IR policy on the IR site within its corporate website.	
Regular Investor Briefings for Individual Investors	The Company conducts briefings for individual investors approximately once a year. As main speaker, ESPEC's president briefly describes the Company, presents its recent business performance, and discusses shareholder initiatives. Every briefing is attended by large numbers of individual investors.	Yes
Regular Investor Briefings	The Company conducts briefings for analysts and institutional investors after announcing earnings for the	Yes

for Analysts and Institutional Investors	first six months of the fiscal year and for the full fiscal year. As main speaker, ESPEC's president briefly describes the Company, presents its recent business performance, and discusses the future outlook, along with providing an update on progress with the medium-term management plan.	
Posting of IR Materials on Website	The Company publishes information beneficial to investors on the IR site within its corporate website, including preliminary results, preliminary results presentation materials, and documents concerning the Shareholders Meeting. Moreover, the Company's initiatives have earned strong reviews. Notably, ESPEC's IR website was selected as AA Website in the All Japanese Listed Companies' Website Ranking 2020 carried out by Nikko Investor Relations Co., Ltd. and a Bronze Status in the Gomez IR Site Ranking 2020 sponsored by Morningstar Japan K.K.	
Establishment of Department and/or Manager in Charge of IR	The Corporate Communication Department under the Corporate Control Headquarters is responsible for IR activities.	

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

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	In December 1999, the Company formulated THE ESPEC MIND to guide all manner of decision-making and activities. This document systematically codifies the Company's values as a business enterprise based on two key themes: having a high relevance to society and universal appeal. Based on the belief that "A company is a public entity of society," THE ESPEC MIND aims to further enhance the Company's value exchangeability with all stakeholders. Guided by this basic philosophy, the Company is pushing ahead with business activities that respect the position of various stakeholders.
Implementation of Environmental Activities, CSR Activities etc.	Moreover, the Company has established an ESPEC Code of Conduct and Behavior Guidelines, which specifically states the Company's corporate conduct principles and behavior standards applicable to all corporate officers and employees based on the philosophies contained in THE ESPEC MIND. By complying with and proactively practicing these aforementioned philosophies, code, guidelines, principles, and standards, the Company is working to enhance its CSR activities. The Company positions environmental activities as one of its highest corporate management priorities. The Company has formulated a Company-wide Environmental Policy and Environmental Declaration, and is making proactive efforts to protect, preserve and enhance the global environment. The Company announces these activities via its Sustainability reports and its website, in order to clearly convey its activities to all stakeholders.
Development of Policies on Information Provision to Stakeholders	ESPEC aims to deepen understanding of ESPEC among all of its stakeholders and build closer relationships of trust, thereby ensuring that its corporate value is fairly assessed. In its IR Policy and information disclosure rules, ESPEC recognizes that it is an important responsibility of management to disclose information properly and promptly. Accordingly the Company has made a commitment to provide accurate corporate data consistently, in good faith, fairly and in a timely manner, irrespective of whether business performance is favorable or not.

## IV. Matters Related to the Internal Control System



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

### **(1) Basic views**

The Company's basic philosophy on internal control seeks to retain the trust and confidence of stakeholders and society as a whole by developing the necessary systems and frameworks to ensure decision-making and business execution are undertaken appropriately in compliance with laws and regulations as well as the Company's Articles of Incorporation and internal rules. In addition, the Company develops and maintains internal systems that allow for checks and self-correcting mechanisms to function effectively with respect to the operation of the aforementioned systems and frameworks.

Moreover, the Company seeks to develop appropriate internal control systems according to the size and circumstances of each of its Group companies.

### **(2) Progress with establishment**

1. In regard to the compliance system, the Company formulated THE ESPEC MIND as its corporate philosophy in December 1999 and is promoting activities for complying with laws and regulations as well as the Articles of Incorporation and internal rules of ESPEC and its Group companies. In April 2006, ESPEC established an Internal Control Committee with an eye to developing an internal control system for ESPEC and each Group company, as well as internal rules, an internal desk (audit & supervisory board members and the internal audit division) and external desk (corporate attorney) for internal whistleblowing, in conjunction with the enactment of Japan's Whistleblower Protection Act. Initiatives for strengthening the compliance system further include the formulation of an ESPEC Code of Conduct and Behavior Guidelines in May 2006. Furthermore, a desk for receiving whistleblowing reports from external stakeholders was established in December 2006. To further strengthen Group governance, the Company newly established an Internal Control System Committee in November 2020, dissolving the existing Internal Control Committee. In March 2021, the Internal Control System Committee deliberated on revising the basic policy on establishing an internal control system, which the Board of Directors resolved to partially revise during a meeting held in April 2021.
2. As a part of its risk management system initiatives, the Company established a Risk Management Committee to strengthen risk management in August 2006, after having formulated its internal rules for crisis management in February 2002. To manage information, the Company formulated its administrative rules for information security in April 2005 with the goal of ensuring information security and making effective use of information, and worked to promote appropriate management including for the acquisition, recording, safekeeping, use, and disposal of various information. In December 2019, the Company acquired the international certification standard ISO 27001 in Information Security Management Systems.
3. As for the system for disclosing corporate information, the Company formulated its rules for information disclosure in March 2005 and established an Information Disclosure Committee from the fiscal year ending March 31, 2006 with an eye to enhancing timely and appropriate disclosure. Since then, this committee has met as needed to appropriately manage the use of information, including for discretionary disclosure.

## **2. Basic Views on Eliminating Anti-Social Forces**

### **(1) Basic views**

As a basic policy on the exclusion of anti-social forces, the Company will resolutely stand up against and refuse any involvement with and all illegitimate requests from anti-social forces and groups that pose a threat to social order and safety and obstruct sound economic activities.

### **(2) Progress with exclusion**

1. Establishment of a supervisory department and officer responsible for refusing illegitimate requests  
The Company has designated the Administration Headquarters and the director in charge thereof as the supervisory department and the officer responsible for refusing illegitimate requests, respectively. Furthermore, the Company has deputized several management personnel within the Administration Headquarters as officers in charge of refusing illegitimate requests from anti-social forces and groups. This system is in place to ensure consistent responses under a unified policy in case the supervisory officer is not on hand.
2. Coordination with external specialists  
As a member of the Osaka Prefecture Corporate Defense Council, which aims to defend corporations in coordination with the police, ESPEC is working in unison with other members of the council for the abatement of brute force directed against companies.

3. Collection and management of information

ESPEC is also striving to collect and exchange relevant information with the Osaka Prefecture Corporate Defense Council and its other member companies. The Company has built a database for managing the information on anti-social forces it obtains from the council and other sources or collects by its own means.

4. Formulation of a response manual

Furthermore, in accordance with the basic policy on the exclusion of anti-social forces, ESPEC has formulated a Response Manual for Countering Anti-Social Forces that it has disseminated throughout the Company. The manual sets forth specific response measures against anti-social forces.

5. Implementation of training activities

Moreover, ESPEC provides training as called for to personnel at domestic business operations and Group companies placed in charge of severing ties with anti-social forces, utilizing printed and video teaching materials produced by the Osaka Prefecture Center for Promoting the Banishment of Brute Force.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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#### Supplementary Explanation

ESPEC received the approval of its shareholders at the 55th Ordinary General Meeting of Shareholders held on June 24, 2008 for the introduction of countermeasures against the large-scale purchase of its shares ("anti-takeover measures"). Subsequently, the 61st Ordinary General Meeting of Shareholders held on June 25, 2014 resolved to extend the anti-takeover measures ("the extension"). The period of validity of the extension was up to the time of the conclusion of the 64th Ordinary General Meeting of Shareholders to be held in June 2017. At a meeting held on May 12, 2017, the Board of Directors resolved not to seek another extension after the expiration date, but to abolish it.

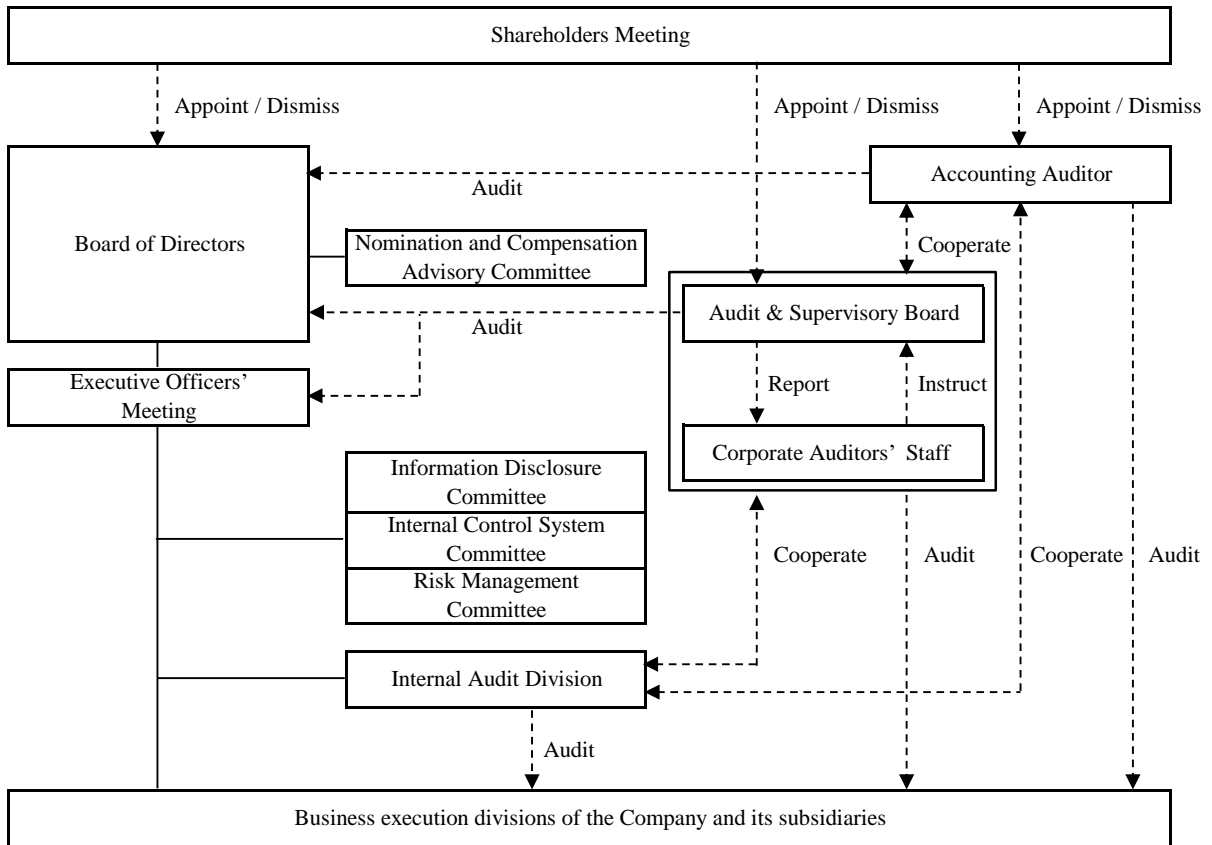
Even after the abolition of the extension, ESPEC will continue to advance and implement its initiative for maintaining and enhancing both corporate value and shareholder returns. In addition, regarding people who intend to make a large-scale purchase of the Company's shares, shareholders are requested to provide necessary and sufficient information to enable the Company to properly determine the acceptability of such people. In parallel, the Company is enacting appropriate measures based on Japan's Financial Instruments and Exchange Act, the Companies Act of Japan, and other relevant laws, including the disclosure of the opinions of the Board of Directors and the securing of sufficient time for shareholders to fully review the situation.

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

No items to report.

**【Reference Materials: Schematic Diagram】**

The following is a schematic diagram of the Company’s internal control system including the corporate governance structure.



The following is a schematic diagram of the Company’s timely disclosure structure.

