

Corporate Governance

In the rapidly changing semiconductor industry environment, Shinko works to ensure management transparency and to facilitate swift and appropriate decision making in response to changing situations, giving top priority to compliance and aiming to improve and develop our corporate value.

Note: Please refer to our Corporate Governance Report for details. (Japanese version only)

<https://www.shinko.co.jp/english/corporate/governance/>

Corporate Governance System

Outline

Shinko adopted the structure of a company with an Audit and Supervisory Committee, in which a majority of committee members are Outside Directors. The audit and supervisory system is centered around the supervision of the execution of duties by the Board of Directors, including Directors who are Audit and Supervisory Committee Members, in addition to audits and supervision by the Audit and Supervisory Committee. We have appointed three Outside Directors to ensure management transparency and to strengthen our function for supervising the fairness of the execution of our operations. Moreover, we have introduced a Corporate Officer system with the goal of building a flexible structure for the execution of operations, by speeding up decision making by the Board of Directors, strengthening the supervisory function, and clarifying authority and responsibilities. Based on this structure, we have striven to further bolster corporate governance and improve corporate management efficiency.

■ The Board of Directors

The Board of Directors decides basic policy, matters specified in laws, regulations and our Articles of Incorporation, and important management issues, and supervises the status of the execution.

Regular meetings are convened once a month and extraordinary meetings are convened when necessary. The Board of Directors is chaired by Representative Director of Board, Chairperson, and is comprised of five Directors who are not Audit and Supervisory Committee Members and three Directors who are Audit and Supervisory Committee Members.

Note: We strive to improve the effectiveness of the Board of Directors, by asking Directors to respond to a survey regarding its constitution and operation in order to analyze and evaluate its effectiveness.

■ The Audit and Supervisory Committee

In addition to investigating the state of our operations and finances in accordance with our audit policy and audit plan, the Audit and Supervisory Committee audits the execution of duties by Directors and others through the attendance of committee members at important meetings, including meetings of the Board of Directors, and by receiving reports from Directors who are not Audit and Supervisory Committee Members, Corporate Officers, and the internal auditing division, and so on. The Audit and Supervisory Committee is comprised of three members: one standing Audit and Supervisory Committee Member and two Audit and Supervisory Committee Members who are Outside Directors. We have also established an Audit and Supervisory Committee's office as an organization for assisting the Audit and Supervisory Committee's duties.

■ Nomination and Remuneration Advisory Committee

The Nomination and Remuneration Advisory Committee is responsible for examining matters related to the nomination and remuneration of Directors and reporting their recommendations to the Board of Directors. The Committee is comprised of Representative Director of Board, Chairperson, Independent Outside Directors who are not Audit and Supervisory Committee Members, and Directors who are Audit and Supervisory Committee Members. Members are selected by resolution of the Board of Directors.

■ Special Committee

The Special Committee is responsible for deliberating and reviewing material transactions or actions that conflict with the interests of the controlling shareholder and minority shareholders and reporting their recommendations to the Board of Directors. The Committee is comprised of independent persons, including Independent Outside Directors and members are selected by resolution of the Board of Directors.

■ Management Council

Management Council meetings are generally held three times a month with the goal of discussing, examining, reporting, and managing the progress of important matters and challenges facing management, and having free and open dialogue among high-level executives. The Management Council is comprised of Representative Directors, Directors who are also Corporate Officers, and Corporate Officers who are in charge of divisions such as manufacturing, sales, and accounting & finance.

■ Corporate Officers' Meeting

Corporate Officers' Meetings are held monthly to deliberate and report on general management matters, including the situation in each division and at Group companies as well as the state of compliance and risk management initiatives. The Corporate Officers' Meeting is chaired by Representative Director of Board, President and is comprised of all Corporate Officers.

Additionally, meetings comprised of and attended by the relevant Corporate Officers and division managers are held regularly and as occasion demands regarding the state of profit and loss, sales, production, development, and other matters. In this and other ways, we have put in place a system that can respond flexibly and swiftly to a drastically changing semiconductor market environment, including by considering responses based on quick assessment of the situation and reflecting them in management decisions.

Outside Directors

Shinko has three Outside Directors, one of whom is a Director who is not an Audit and Supervisory Committee Member and two of whom are Directors who are Audit and Supervisory Committee Members.

We have established Independence Standards and Qualification for Outside Directors aimed at securing effective independence of Outside Directors. Three Outside Directors satisfy the requirements of these standards.

The Company has submitted notification to the Tokyo Stock Exchange that each Director has been designated as an Independent Director prescribed by the aforementioned exchange.

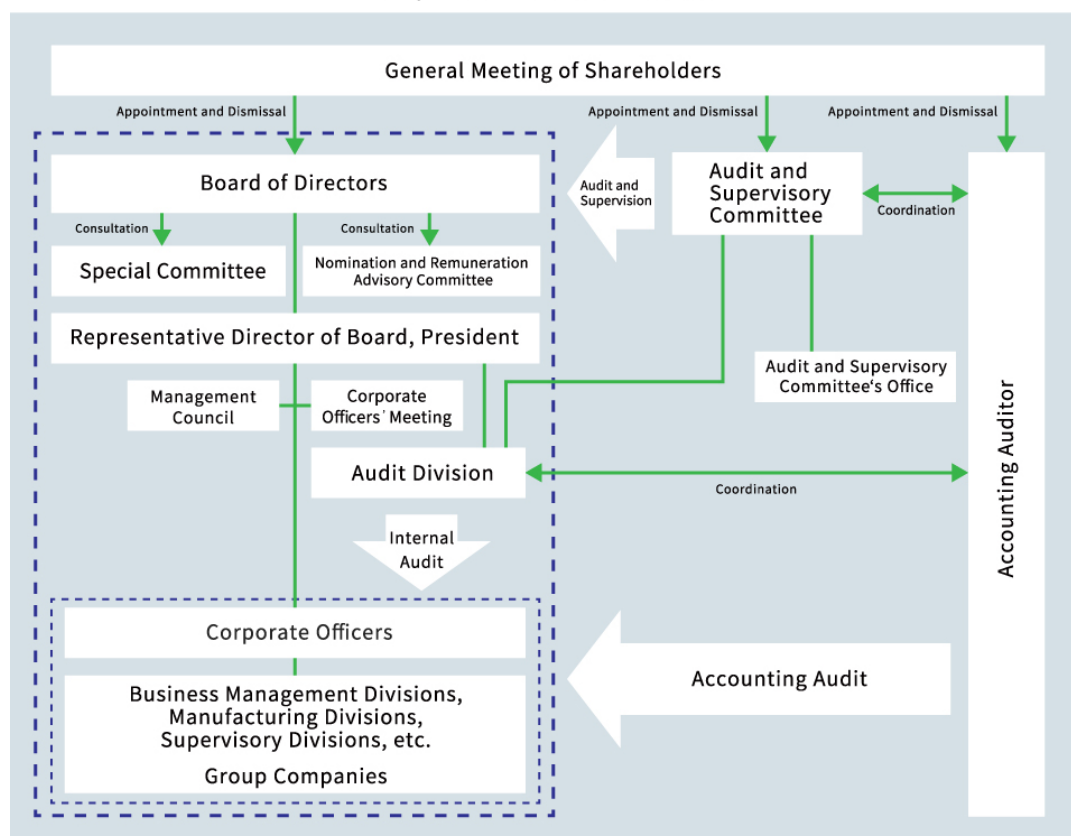
Internal Audit and Accounting Audit Systems

The Audit Division, which is our internal auditing division, conducts internal audits of the Company's overall operations based on our Internal Audit Regulation to contribute to the appropriate and effective implementation of operations, by examining and evaluating systems and the state of execution of operations. Outlines of the results of internal audits are reported to the Board of Directors periodically and as necessary. The Audit Division periodically, and when necessary, reports internal audit plans and results to the Audit and Supervisory Committee so that the Committee can conduct its audits effectively. When the Audit Division receives instructions from the Committee to conduct additional audits and investigations, in response to its report, the Audit Division gives priority to responding to such instructions.

The business management divisions report and submit materials to the Audit Division as needed and cooperate so that the Audit Division can conduct their audits appropriately.

We have appointed Ernst & Young ShinNihon LLC as our accounting auditor to conduct accounting audits, quarterly reviews, and internal control audits.

Corporate Governance Structure



Executive Remuneration

Policy and Procedures for Determining Executive Remuneration

By resolution of the Board of Directors Meeting, the Company has adopted a policy on decisions on the content of the remuneration, etc. for individual Directors. At the time of the resolution, this policy had already been examined by the Nomination and Remuneration Advisory Committee, in which a majority of members are Independent Outside Directors, and considered by the Audit and Supervisory Committee, but no objections were raised.

The policy on decisions on the content of the remuneration, etc. for individual Directors is shown below. The basic policy is to set director remuneration at an appropriate level and composition for promoting outstanding talent to handle management of the Group and as an incentive to improve corporate value, and to ensure objectivity and transparency in calculating and determining the remuneration of individual Directors.

■ Remuneration, etc. for Directors (excluding Directors who are Audit and Supervisory Committee Members)

The amount of remuneration, etc. for individual Directors is calculated based on the above-mentioned policy within the range approved by resolution of the General Meeting of Shareholders and is determined by the Board of Directors following examination by the Nomination and Remuneration Advisory Committee and considered by the Audit and Supervisory Committee, and then this committee determines an opinion on the matter. Remuneration for Directors (excluding Directors who are Audit and Supervisory Committee Members and Outside Directors who are not Audit and Supervisory Committee Members) is based on a level derived from executive remuneration survey data of companies in the same industry and on a similar scale compiled by an external investigative agency. It is comprised of base remuneration (fixed remuneration) paid according to

duties and role and incentive remuneration (variable remuneration). Variable remuneration is a combination of performance-based bonuses (short-term incentive) and Restricted Shares (medium- to long-term incentive). From the standpoint of integrated company-wide management, the ratios of these different types of remuneration are set at 5:5 for base remuneration and variable remuneration and 5:3:2 for base remuneration, performance-based bonuses, and Restricted Shares, so that they will function as an effective incentive for steady growth of business performance in each fiscal period and improvement of corporate value over the medium- to long-term. Three evaluation indicators are used for performance-based bonuses: (i) consolidated net sales from the perspective of aiming for the growth and expansion of the Group; (ii) consolidated ordinary profit, which is emphasized as an indicator of profitability; and (iii) ROIC (consolidated ordinary profit/invested capital [average of the sum of net assets and interest-bearing debt during the period]) from the perspective of capital efficiency-conscious management. These are evenly weighted in performance evaluations. In addition, performance-based bonuses are not paid if consolidated profit (profit attributable to owners of parent) is in the red. Restricted Shares are allocated to Eligible Directors (excluding Directors who are Audit and Supervisory Committee Members and Outside Directors who are not Audit and Supervisory Committee Members; the same applies hereafter) based on their duties and role, etc. for the purpose of providing an incentive to sustainably increase the Company's corporate value and to further promote shared value with shareholders. Eligible Directors shall not transfer to a third party, pledge as collateral, create a security interest in, gift before death, bequest, or otherwise dispose of until the date when they retire or otherwise terminate all of his/her positions as a Director, Corporate Officer, and employee of the Company. In addition, as a matter of course, the Company shall acquire all or a portion of the Shares without contribution in the event that an Eligible Director commits an act that causes damage to the Company or that degrades the social credibility or corporate value of the Company, and he/she is subjected to disciplinary action or equivalent treatment by the Company. Given that JICC-04, Ltd. intends to acquire all Company Shares through the Tender Offer for Company Shares and a series of planned subsequent procedures and that the Company Shares will be delisted, the company resolved at its Board of Directors meeting held on June 26, 2024 to change a policy on decisions on the content of the remuneration, etc. for individual Directors and not to allocate Restricted Shares. In this case, the ratio of above remuneration will be set at 5:5:0 for base remuneration, performance-based bonuses, and Restricted Shares. In light of their duties and role of supervising the Company's management from an objective standpoint independent of the execution of operations, Outside Directors who are not Audit and Supervisory Committee Members shall only be paid base remuneration (fixed remuneration) and shall not be eligible for performance-based bonuses or Restricted Shares. The level of base remuneration is determined according to duties and other factors based on a level derived from executive remuneration survey data of companies in the same industry and on a similar scale compiled by an external investigative agency.

■ Remuneration, etc. for Directors who are Audit and Supervisory Committee Members

In light of their responsibilities based on their role of auditing and supervising the Company's management from an objective standpoint independent of the execution of operations, Directors who are Audit and Supervisory Committee Members shall only be paid base remuneration (fixed remuneration) and shall not be eligible for performance-based bonuses or Restricted Shares. The level of base remuneration is determined according to duties and other factors based on a level derived from executive remuneration survey data of companies in the same industry and on a similar scale compiled by an external investigative agency. The amount of remuneration for individual Directors who are Audit and Supervisory Committee Members is determined through discussion with Audit and Supervisory Committee Members based on the prescribed method of calculation and paid in accordance with internal rules established by the Audit and Supervisory Committee within the range approved by resolution of the General Meeting of Shareholders.