

CORPORATE GOVERNANCE

The OKI Group recognizes sustainable growth and increases corporate value over mid- and long-term as its most important management priorities in earning the trust of its various stakeholders. To this end, we are working to bolster and enhance corporate governance based on our fundamental policies, including “enhancement of management fairness and transparency,” “timely decision-making processes,” and “full compliance and fortification of risk management.”

Corporate Governance Structure

OKI maintains a corporate auditor system, with the Board of Directors and the Audit & Supervisory Board. With an executive officer system in place, it strives to promote timely decision-making processes by separating business execution and oversight. It endeavors to improve the fairness and transparency of management by nominating outside directors to the Board as well as setting up a voluntary committee on nomination, remuneration, etc. so as to ensure effective supervision from an independent and objective standpoint. In addition to objective audits by Audit & Supervisory Board members and the Audit & Supervisory Board, OKI seeks to bolster risk management and ensure rigorous compliance via the Risk Management Committee, which includes outside directors.

•Board of Directors, Audit & Supervisory Board

The Board of Directors in principle meets once a month but can call extraordinary meetings when necessary, and is responsible for deciding fundamental management policies and other important matters and overseeing business execution. To enhance management fairness and transparency, two of the Board’s seven members are outside directors with a high level of independence. The chairman presides over meetings of the Board of Directors. To clarify management responsibility for each fiscal year, directors are appointed for single-year terms.

The Audit & Supervisory Board comprises four Audit & Supervisory Board members, two of which are outside Audit & Supervisory Board members with a high level of independence. Based on audit policies, methods, etc. decided at Audit & Supervisory Board meetings, Audit & Supervisory Board members attend Board of Directors’ meetings and other important meetings, verify the content of reports received from directors etc., and conduct investigations into matters concerning the Company’s operations, financial status, etc. Collaborating closely with outside directors, the internal Auditing Division, and the accounting auditors, Audit & Supervisory Board members audit the performance of duties by directors.

•Executive Officer System

OKI appoints executive officers to implement operations in accordance with management policies determined by the Board of Directors so as to separate the functions of business execution and oversight of management and promote timely decision-making processes. Moreover, to assist the president in making decisions, the Company has established the Management Committee.

•Utilization of Voluntary Committees

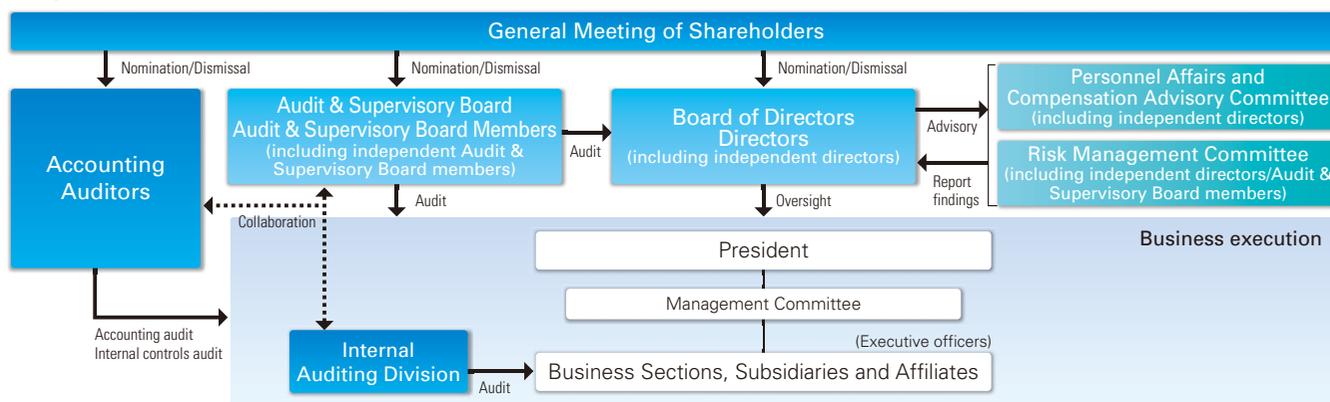
OKI has established the Personnel Affairs and Compensation Advisory Committee as a voluntary committee to secure transparency in the decision-making processes for appointments of board members and executive officers and remuneration for them. Outside directors play leading roles on the committee. After deliberating from an objective perspective on appointments or dismissals of board members and executive officers as well as the structure and level of their compensation etc., the committee reports their findings to the Board of Directors.

Moreover, with the establishment of the Risk Management Committee, where outside directors and Audit & Supervisory Board members attend as advisors, to grasp the risks attendant with business execution and respond to them unerringly, OKI strives to promote rigorous compliance and reinforce risk management.

Internal Controls

In accordance with Japan’s Companies Act and the Ordinance for Enforcement of the Companies Act, the Board of Directors passed a resolution concerning the Basic Policy for the Establishment of an Internal Control System and OKI has been developing a system to secure appropriate business operations. Pursuant to the Financial Instruments and Exchange Act, we also have an internal control reporting system in place, through which we submit internal control reports to the Kanto regional bureau of the Ministry of Finance and disclose assessment results of the effectiveness of our internal controls related to financial reporting.

Corporate Governance Structure



Response to Corporate Governance Code

•Japan's Corporate Governance Code

Adoption of Japan's Corporate Governance Code at the Tokyo Stock Exchange commenced from June 2015. The code establishes fundamental principles for transparent, fair, timely and decisive decision-making by companies with due attention to

the needs and perspectives of their various stakeholders. In its preamble, the code promotes self-motivated actions by companies to seek sustainable growth and increase their corporate value over mid- and long-term via appropriate implementation of the principles. In this way, adoption is expected to contribute to the development and success of companies, investors and the Japanese economy as a whole.

Corporate Governance Code: Overview of General Principles

1. Securing the Rights and Equal Treatment of Shareholders

Companies should take appropriate measures to fully secure shareholder rights and develop an environment in which shareholders can exercise their rights appropriately and effectively. In addition, companies should secure effective equal treatment of shareholders. Adequate consideration should also be given to minority shareholders and foreign shareholders.

2. Appropriate Cooperation with Stakeholders Other Than Shareholders

Companies should fully recognize that their sustainable growth and the creation of mid- to long-term corporate value are brought as a result of the provision of resources and contributions made by a range of stakeholders, including employees, customers, business partners, creditors and local communities. As such, companies should endeavor to appropriately cooperate with these stakeholders. The board and the management should exercise their leadership in establishing a corporate culture where the rights and positions of stakeholders are respected and sound business ethics are ensured.

3. Ensuring Appropriate Information Disclosures and Transparency

Companies should appropriately make information disclosure in compliance with the relevant laws and regulations, but should also strive to actively provide information beyond that required by law. This includes both financial information, such as financial standing and operating results, and non-financial information, such as business strategies and business issues, risk, and governance. The board should ensure that such disclosed information is useful.

4. Responsibilities of the Board

Given its fiduciary responsibility and accountability to shareholders, in order to promote sustainable corporate growth and the increase of corporate value over mid- to long-term and enhance profitability and capital efficiency, the board should equally and appropriately fulfill its roles and responsibilities, including:

- (1) Setting the broad direction of corporate strategy;
- (2) Establishing an environment where appropriate risk-taking by the senior management is supported; and
- (3) Carrying out effective oversight of directors and the management from an independent and objective standpoint.

Such roles and responsibilities should be equally and appropriately fulfilled regardless of the form of corporate organization.

5. Dialogue with Shareholders

In order to contribute to sustainable growth and the increase of corporate value over mid- to long-term, companies should engage in constructive dialogue with shareholders even outside the general shareholder meeting, and work for developing a balanced understanding of the positions of shareholders and other stakeholders and acting accordingly.

•Status of Response to Corporate Governance Code

OKI filed a "Corporate Governance Report" presenting its response to the Corporate Governance Code to the Tokyo Stock Exchange in December 2015 and has since filed updates as appropriate.

In recognition of ongoing responsibilities to all of its stakeholders and in keeping with the spirit of the Corporate Governance Code, OKI is working to achieve sustainable growth and increase corporate value over mid- and long-term.

Main Disclosure Items Based on Principles in the Corporate Governance Code

Cross shareholdings

Apart from stocks held for pure investment purposes, OKI works to strengthen, maintain, and built relationships with business partners and alliance partners and, on this basis, OKI holds shares in those parties where it recognizes it is conducive to increasing corporate value over mid- and long-term. As for voting rights as to its cross shareholdings, OKI exercises them on the basis of whether actions are suitable for the investee company as well as whether doing so increases OKI's corporate value over mid- and long-term.

Policies and procedures for determining compensation for the management and directors

Aiming to promote transparent processes and ensure objective judgments concerning decisions on the selection of directors and executive officers and their compensation, OKI established the "Personnel Affairs and Compensation Advisory Committee" comprising four members, including two outside directors. The committee deliberates on the structure and level of compensation for directors and executive officers and reports its findings to the Board of Directors.

OKI's basic policy for director and executive officer compensation is that it should serve as an incentive to improve earnings performance for the purpose of continuously increasing corporate value and reinforcing in corporate competitiveness of OKI while enabling it to secure exceptional human resources.

Policies and procedures for electing the management and nominating candidates for directors and Audit & Supervisory Board members

The aforementioned "Personnel Affairs and Compensation Advisory Committee" deliberates on personnel decisions involving directors and executive officers and report its findings to the Board of Directors. Regarding personnel decisions involving candidates for the Audit & Supervisory Board, the committee offers its view to Audit & Supervisory Board members.

In nominations and elections, OKI takes into consideration whether candidates satisfy the following requirements as well as legal eligibility: "good character, capacity for insight, high ethical standards, fairness, and integrity as well as a strong law-abiding spirit." OKI seeks those who can "execute their duties toward the realization of the OKI Group's corporate philosophy and continuous improvement of corporate value."

Policies concerning constructive dialogue with shareholders

Recognizing that proper use of input from investors on management and business activities can translate into greater management efficiency and increase corporate value, the president and the chief financial officer are the pillars of dialogue with shareholders, and the dedicated Investor Relations section performs a supporting role. Information disclosure forms the basis of dialogue, and OKI discloses information in a fair, timely and appropriate manner while rigorously disseminating information on strict management of insider information in accordance with rules and regulations.

Two outside directors with a high level of independence on OKI's Board of Directors use their expertise to support strong and effective governance.

Strong and Effective Governance that is Positive and Forward-looking

I have endeavored over the past six years as an outside director to contribute to strong and effective governance using my knowledge as a legal specialist. With the addition in 2015 of Mr. Minoru Morio, who has extensive experience as a corporate executive, the Board has two outside directors who can each draw on their fields of expertise to voice their objective viewpoints. My impression is debate at Board meetings has become much livelier. There were times soon after I joined the Board when I felt perplexed because I could not grasp insider terms unique to OKI used in debates. Now agenda items are explained to us in advance much more thoroughly, and I can come to meetings well prepared for debates.

The word "governance" tends to be seen as imposing "constraints" or "top-down controls" but the sort of governance we should aspire to is one that cultivates a "corporate culture where executive officers do not fear failure" and boldly seek to address challenges with confidence. With a new president at the helm, the OKI Group will need to reinforce the Group's management system so it can fly even further. If, in doing so, it restrains or rejects free speech in the workplace and value creation by those offering a rich variety of ideas, this would put the methods "cart" before the "value creation" horse. I would like to check steadfastly from an objective viewpoint whether decision-making by management is carried out properly while always keeping in mind the notions of "positive and forward-looking."



Outside Director
Takuma Ishiyama



Outside Director
Minoru Morio

Turning an Urgent Sense of Need for "Change" into Seeds for Growth

This is my second tenure as an outside director at OKI. I began my career at a company that was in many ways a pioneer in Japanese corporate governance such as its decision to seat an outside director on its Board, so when I joined OKI's board for the first time in 2001, my first impression was that its culture was quite traditional. Even when I voiced my views as an outside director at Board meetings, this more often than not did not provoke discussion, so I felt more than a few times there were missed opportunities.

OKI's current management team feels a strong sense of urgency on the need for change, and has put into place a framework for change. The operation of the Board of Directors has improved as executive officers provide us with detailed explanations of agenda items in advance so Board members can openly debate them based on the current situation facing those closest to the matter. Even for companies with a conservative governance approach, I believe fostering an environment where employees feel they can openly state whatever they believe to be the truth inside the company—rather than just the Board of Directors—is very important for risk management, etc. The Personnel Affairs and Compensation Advisory Committee was formed in the previous fiscal year. As a member of the committee, I made an effort to offer objective viewpoints as someone outside the Company such as confirming the processes by which the names of executive officer candidates are escalated up to the committee.

I will continue to support further growth at the Group through the sort of strong and effective governance that OKI ought to have.