

Governance

Discussion by the Board of Directors

Clarifying our MSV management mission through much discussion by the Board

NPHD's Board of Directors is focused on improving the transparency, objectivity, and integrity of management through lively exchanges of opinions and discussions, mainly by the outside directors who comprise the majority of the Board. These pages explain about the outcomes of the countless discussions held by the Board regarding our management mission of Maximization of Shareholder Value (MSV), as well as the opinions of each Director.

NPHD's stance on Maximization of Shareholder Value (MSV)

The diagram on the bottom-right corner of this page shows the stakeholder relationship for income statement items: customers for revenue, suppliers for operating expenses, employees for personnel expenses, financial institutions for interest expenses, and governments for taxes. Fulfilling our duties to each type of stakeholder is our primary premise for MSV, which clearly separates us from the "shareholder primacy" idea of pursuing earnings for shareholders at the expense of stakeholders. Shareholders are considered lowest in priority when it comes to distribution of earnings and remaining net assets. Furthermore, shareholders are not guaranteed to receive distributed earnings and may not be able to collect any returns at all, which also implies that there is no upper limit to earnings distribution. Consequently, our management mission should be to maximize the value that remains after fulfilling our duties to all stakeholders. This remaining value is how we reward shareholders who invest with an awareness of the associated risks. We believe this philosophy is linked to creating wealth, which is an important role for the executives of private-sector companies within the investment chain.

Clarifying important MSV concepts

- Strictly pursue the maximization of shareholder value in the medium- to long-term
- Primary focus on fulfilling our duties to stakeholders
- Embracing the concept of sustainability

Clarifying the difference from the concept behind "improvement of corporate value"

The concept behind corporate value can be defined in various ways, and may sometimes involve stakeholders. This ambiguous concept blurs the distinction between stakeholders and shareholders and could potentially distort management decisions. Shareholders and stakeholders are fundamentally different in terms of rights and obligations. Stakeholder value can be improved and optimized but is something that is difficult to maximize. In addition, the term "improve" contains ambiguity. Take the following two management decisions for instance: Management Decision A will improve shareholder value by 2 and Management Decision B will improve shareholder value by 10; both decisions, A and B, involve tradeoffs. If Management Decision A contains elements other than shareholder value,

such as satisfying management's eagerness for fame, the term "improve" will also mean that the management will be allowed to choose Management Decision A, which is a risk. On the other hand, "maximization" is an accurate criteria that takes fully into account other options and opportunity losses.

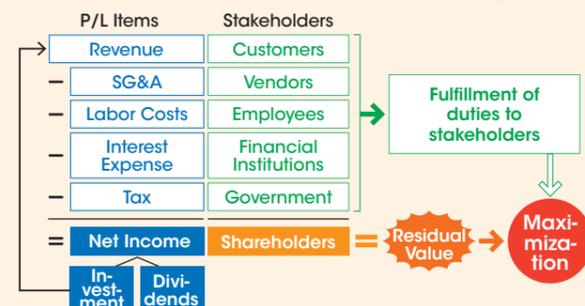
Clarifying the difference from "shareholder primacy"

Shareholders are considered lowest in priority among stakeholders when it comes to distribution of earnings and remaining net assets. In fact, the term "shareholder primacy" is contradictory to begin with. Most importantly, corporate management must fulfill its limited duties, including legal contracts as well as social and ethical duties, to each stakeholder, and the remaining net assets will be the shareholder value.

Correction of shareholder primacy comes from our regret at failing to fulfill our duties to each stakeholder and is not intended as a revision of the MSV. Creating wealth after fulfilling duties to stakeholders is the main mission of private-sector companies, and contributes to society.

Also, if "stakeholder capitalism" refers to "We should NOT ONLY focus on shareholders but must ALSO pay attention to stakeholders," it has failed to understand the appropriate structure of a corporation. In corporate management, stakeholders are always taken into consideration. For this reason, the interests of shareholders do not essentially conflict with the interests of stakeholders. The concept of stakeholder capitalism even entails the risk of creating a logic for retaining management that is not capable of generating earnings.

Strength of NPHD: Maximization of Shareholder Value
Maximization of shareholder value as a mission, creating wealth



With SDGs and ESG at the core of management, NPHD places Maximization of Shareholder Value ("MSV") as its paramount mission. MSV is predicated on fulfillment of our duties to customers, employees, suppliers and society, setting us apart from the concept of "Shareholder Primacy"



Comments from Directors that led to the concept of MSV (excerpts)

Outside Directors

"I believe the Company is moving in the right direction, but how are the employees seeing the MSV initiative?"

"We should continue to deliberate and discuss more about the maximization of shareholder value. We will leave it to President & CEO Tanaka and the other executive teams to communicate with external parties; still, maximization of shareholder value is often confused with the so-called shareholder primacy from an outsider's perspective. For this reason, we must continue to explain the difference until we establish a solid understanding of MSV. Once we are all on the same page, I believe NPHD's presence will improve considerably. In addition, if the Company can deliver results that do not undermine our reputation, we will be undefeatable."

"The phrase 'maximization of corporate value' has become popular. What's unique about NPHD is that it upholds 'maximization of shareholder value'. These two concepts do not essentially contradict each other, but we should emphasize that 'maximization of shareholder value' is a concept that goes one step beyond 'maximization of corporate value'."

"The satisfaction level (of stakeholders) is an important measure. Meanwhile, contracts can be quantified objectively and rationally and are clear in substance. So, instead of maximizing contracts with stakeholders, the Company must be able to properly handle contracts with stakeholders. Meanwhile, the Company should clarify its stance of maximizing remaining net assets."

"What companies are required to do in order to satisfy stakeholders is changing. For instance, when environmental issues get public attention, companies need to conduct corporate activities to address such issues. In that sense, we may use expressions that can be interpreted in various ways. For instance, using the phrase 'deliver satisfaction' towards customers."

"I support the expression of 'fulfilling our duties to stakeholders' as long as it is clearly based on the concepts of rationality, objectivity, and adequacy."

Inside Directors

"The most important phrase to include in the MSV concept is 'with SDGs and ESG at the core of management'. In addition, 'setting us apart from the concept of Shareholder Primacy' is also an essential phrase. The addition of 'remains' will give a unique touch to the concept, demonstrating the Company's characteristics."

"Providing value to customers should be done within the scope of contracts, and the Company should not pursue limitless maximization of shareholder value. Instead, we should focus on fulfilling contracts—our duties—which is crucial."

"What were mentioned in our discussion are examples that are clear to understand. The important thing is to fulfill our duties to stakeholders. Meanwhile, if we explicitly refer to legal contracts as these duties, they will evoke written contracts which seem too impersonal; therefore, we should state that we will properly consider other duties as well."