

Corporate Governance Initiatives

Topcon has established the TOPCON Corporate Governance Guidelines, in pursuit of the sustainable growth and medium- to long-term enhancement of the corporate value of the Topcon Group (hereinafter, referred to as the "Group"), comprising the Company and its affiliates. The Guidelines are based on the TOPCON WAY, which forms a set of fundamental values, evaluation standards, and basic principles of conduct that are to be shared by directors, executives, and all other employees of the Group to achieve effective corporate governance.

Outline of the Corporate Governance Structure

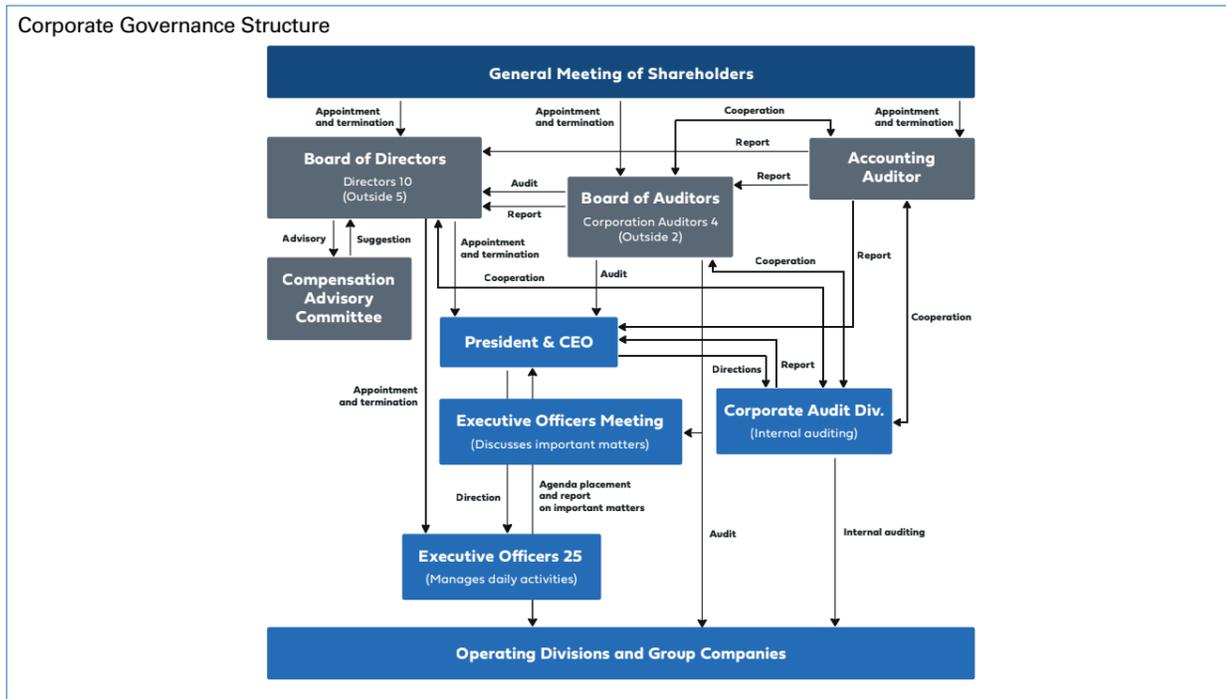
Corporate Organization

Topcon has adopted the corporate structure of a Company with a Board of Corporate Auditors under the Companies Act.

The Board of Corporate Auditors and the Corporate Audit Division (internal audit department) mutually discuss audit plans and policies, and work in mutual cooperation by regularly sharing

information throughout the fiscal year, in order to increase the efficiency and effectiveness of the work of the Corporate Auditors.

In addition, the Company has established the Nomination and Compensation Advisory Committee as an advisory body to the Board of Directors, which is chaired by an Independent Outside Director, and the majority of whose members are Independent Outside Officers.



* Reports to the Board of Directors, the Board of Corporate Auditors, and President & CEO in a timely manner if any significant issue is discovered.

Board of Directors

Roles and responsibilities of the Board of Directors

The Board of Directors recognizes its fiduciary responsibility to the shareholders, towards the sustainable growth and medium- to long-term enhancement of the corporate value of the Group. Based on such recognition, the Board of Directors works to achieve improved management efficiency, in addition to maintaining management soundness, ensuring transparency in management, and fulfills its responsibilities towards all stakeholders of the Group.

- To fulfill the above-stated responsibilities, the Board of Directors conducts assessments of performance, appropriate development and implementation of the internal control system and the risk management system, and supervision of the overall business management of the Group, from an independent and objective standpoint.
- The Board of Directors makes decisions on matters provided for in laws and regulations, and the Articles of Incorporation,

as well as on important matters relating to business management. The Board of Directors has adopted the Executive Officer System as a business execution system based on its decision making, and delegates day-to-day business execution to Executive Officers. Executive Officers are appointed by a resolution of the Board of Directors, taking into account their level of knowledge and experience required by the business domains of the Group.

- The Board of Directors has established a system to respond to cases where a Corporate Auditor or the Accounting Auditor discovers misconduct and requests appropriate measures, or identifies any inadequacies or problems.
- The Board of Directors conducts an analysis and assessment of the overall effectiveness of the Board of Directors, and discloses a summary of the results.

Composition of the Board of Directors

- The Board of Directors of the Company comprises ten Directors (including five Outside Directors).

- The Company ensures that there is a system in place to supervise the operation of the Company by appointing at least two Independent Outside Directors, who express their opinions from an independent and objective standpoint at the meetings of the Board of Directors.
- The Board of Directors is composed of Directors with different backgrounds in terms of expertise and experiences, and maintains an appropriate number of Directors to ensure that the Board of Directors can effectively exercise its decision-making and supervisory functions.

Board of Corporate Auditors

Roles and responsibilities of the Board of Corporate Auditors

The Board of Corporate Auditors recognizes its fiduciary responsibility to the shareholders, towards the sustainable growth and medium- to long-term enhancement of the corporate value of the Group. Based on this recognition, the Board of Corporate Auditors ensures corporate soundness and strives for the common interests of the shareholders.

- The Board of Corporate Auditors collaborates with Outside Directors and the internal audit department.

Composition of the Board of Corporate Auditors

- At least half of the Board of Corporate Auditors shall be Independent Outside Corporate Auditors, in order to ensure transparency and fairness.
- The Board of Corporate Auditors of the Company consists of four Corporate Auditors (including two Outside Corporate Auditors).
- Corporate Auditors with the appropriate experience and skills have been appointed.
- The Board of Corporate Auditors appoints Corporate Auditors with the knowledge of finance, accounting, and legal matters necessary to serve on the Board of Corporate Auditors, and in particular, appoints at least one Corporate Auditor with sufficient knowledge of accounting.

Nomination and Compensation Advisory Committee

The Company has established the Nomination and Compensation Advisory Committee, which is independent of the Board of Directors, for the purpose of ensuring objectivity and transparency in the selection of candidates for President and Director and in the handling of compensation for Directors.

- The Nomination and Compensation Advisory Committee is chaired by an Independent Outside Director, and the majority of the committee members are Independent Outside Officers. (Members of the Committee) Kazuyuki Matsumoto (Chairman, Independent Outside Director), Satoshi Hirano (Representative Director, President & CEO), Yoshiharu Inaba (Independent Outside Director), Naoki Hidaka (Independent Outside Director)
- The Nomination and Compensation Advisory Committee makes proposals to the Board of Directors upon receiving consultation from the Board of Directors.

Directors and Corporate Auditors

Directors

Directors recognize their fiduciary responsibility to the shareholders, and execute their duties as Directors towards the sustainable growth and medium- to long-term enhancement of the corporate value of the Group.

- Directors, as members of the Board of Directors, supervise the execution of business operations by Executive Directors and Executive Officers.
- Directors collect sufficient information to execute their duties, while requesting explanations on various matters, proactively expressing opinions, and holding open and constructive discussions at the Board of Directors' meetings.

- Directors proactively collect information to appropriately fulfill their roles and responsibilities, and if necessary, seek the advice of external experts at the expense of the Company.
- Directors set aside time to appropriately fulfill their roles and responsibilities in the Company, by limiting outside executive jobs to a reasonable extent when concurrently serving as executives at other companies.
- As an incentive for Directors (excluding Outside Directors), the Company offers compensation linked to its medium- to long-term business performance, towards the Group's sustainable growth and enhancement of the corporate value of the Group over the medium- to long-term.

Corporate Auditors

Corporate Auditors recognize their fiduciary responsibility to the shareholders and execute their duties as Corporate Auditors, thereby ensuring corporate soundness towards the sustainable growth and medium- to long-term enhancement of the corporate value of the Group.

- In accordance with the policies and assigned duties set forth by the Board of Corporate Auditors, Corporate Auditors conduct audits on the status of the execution of duties by the Directors and Executive Officers of the Company, through the following activities: attending important meetings of the Company, including the Board of Directors' meetings; receiving reports from Directors on the status of the execution of their duties; receiving materials and information on related matters; and, collaborating with the internal audit department and the Accounting Auditor.
- Corporate Auditors audit the decisions made by the Board of Directors, and the status of development and implementation of the internal control system.
- Corporate Auditors proactively collect the information necessary for audits through such as attending the Company's important meetings, and give appropriate feedback to Directors, as needed.
- Corporate Auditors proactively collect the information for appropriately fulfilling their roles and responsibilities, and if necessary, seek the advice of external experts at the expense of the Company.
- Corporate Auditors set aside time to appropriately fulfill their roles and responsibilities in the Company, by limiting outside executive jobs to a reasonable extent when concurrently serving as executives at other companies.

Independent Outside Directors and Independent Outside Corporate Auditors

Independent Outside Directors and Independent Outside Corporate Auditors supervise the execution of business operations, provide advice for the sustainable growth and the medium- to long-term enhancement of the corporate value of the Group, and manage conflicts of interest, while ensuring that the opinions of stakeholders, including minority shareholders, are reflected in the Board of Directors.

- The Company has four Independent Outside Directors and three Independent Outside Corporate Auditors.
- Independent Outside Directors share information regarding matters related to the business and corporate governance of the Group, and exchange opinions with each Director, Executive Officer, and Corporate Auditor.
- The Company appoints Outside Directors and Outside Corporate Auditors who meet the criteria for independence set forth by the Financial Instruments Exchange.
- Independent Outside Directors and Independent Outside Corporate Auditors strive to exchange information and share perspectives based on an independent and objective standpoint, by holding regular meetings and other occasions.

Support system for Directors and Corporate Auditors

The Company has established an effective and sufficient support system for Directors and Corporate Auditors, to assist them in fulfilling their roles and responsibilities, as described below.

- The Company runs the meetings of the Board of Directors to enable sufficient discussion at Board meetings, as follows.

Corporate Governance Initiatives

- 1) The Company prepares an annual schedule of the Board meetings and an annual plan of the matters for discussion.
 - 2) The Company sets aside time for sufficient discussion at the Board meetings.
 - 3) The Company distributes materials on matters for discussion of the Board meetings, well in advance.
 - 4) In addition to the above, the Company provides information that the Directors need for decision making and information that the Corporate Auditors need to execute their duties, as necessary.
- The Company appoints an assistant to help in the duties and other activities of the Corporate Auditors, as necessary, in order to provide the corporate information that the Corporate Auditors need, and to coordinate in-company collaboration.
 - The Company proactively provides information when Outside Directors and Outside Corporate Auditors request information necessary for the execution of their duties.
 - The Company secures the budget necessary for the execution of duties by Directors and Corporate Auditors.

Training Policy for Directors and Corporate Auditors

The Company provides information and knowledge on business activities necessary for Directors and Corporate Auditors to fulfill their roles and responsibilities appropriately, as follows.

- When Directors or Corporate Auditors are newly appointed, the Company provides training on laws and regulations related to the business of the Group and corporate governance, and continues to provide such training even after they have assumed office.
- In addition to the above, when Outside Directors or Outside Corporate Auditors are newly appointed, the Company provides information regarding the Group's business and overall organization, as well as necessary information on an ongoing basis regarding the Group's business strategies and issues, even after they have assumed office.

Evaluations of the Effectiveness of the Board of Directors

Once a year, the Company conducts a questionnaire survey of each Director and Corporate Auditor regarding the matters including composition and operation of the Board of Directors, and based on the results, the Board of Directors analyzes and evaluates the effectiveness of the Board of Directors as a whole.

In FY2021, the Board of Directors, at its meeting held in May 2022, assessed the effectiveness of the Board of Directors as a whole.

On the other hand, there were some opinions regarding strengthening the decision-making and supervisory functions of the Board of Directors.

We will continue to make further improvements to enhance the effectiveness of the Board of Directors as a whole.

In addition, the Board of Directors has determined that the said compensation is in line with the policy on compensation for Directors, as the Nomination and Compensation Advisory Committee has conducted in advance a multifaceted review of the compensation for Directors, including the assessment of its consistency with the policy on compensation for Directors.

Executive Compensation

Policy on Determining Details of Individual Compensation for Directors

Compensation for Directors (excluding Outside Directors) consists of fixed compensation and performance-linked compensation (short-term performance-linked compensation, medium-term performance-linked compensation, and stock options). Outside Directors and Corporate Auditors receive only fixed compensation.

The Company has established a Compensation Advisory Committee in order to ensure objectivity and transparency in relation to the handling of compensation for Directors. The Committee is chaired by an Independent Outside Director, and the majority of its members are Independent Outside Officers. The Committee makes proposals to the Board of Directors

upon receiving consultation from the Board of Directors. The policy on compensation for Directors is determined by a resolution of the Board of Directors based on the discussions and proposals of the Compensation Advisory Committee.

The amount of compensation for each individual Director is determined within the total amount of compensation for Directors determined by the resolution of a General Meeting of Shareholders, in accordance with the policy on compensation for Directors based on the discussions at the Nomination and Compensation Advisory Committee. For restricted stock compensation, the specific number of shares is determined by a resolution of the Board of Directors. For other compensation, the Board of Directors delegates determination of the specific amounts to the President and Representative Director (Satoshi Hirano, CEO), considering factors such as that the President and Representative Director has a full view of the Company's overall performance, and the procedures required to have discussions with and obtain proposals from the Compensation Advisory Committee in advance. The President and Representative Director determines the specific amounts of other compensation in accordance with the delegation. In addition, the Board of Directors has determined that the said compensation is in line with the policy on compensation for Directors, as the Nomination and Compensation Advisory Committee has conducted in advance a multifaceted review of the compensation for Directors, including the assessment of its consistency with the policy on compensation for Directors.

The Compensation Advisory Committee held a meeting to determine the amounts of compensation for Directors for the current fiscal year in May 2021, and the Board of Directors held meetings in June 2020 and February 2021, respectively.

The amount of compensation for each Corporate Auditor is determined by discussions among the Corporate Auditors, and is set within the amount of compensation for Corporate Auditors determined by a resolution of the General Meeting of Shareholders.

Fixed compensation

- Fixed compensation for Directors (excluding Outside Directors) is determined according to rank, and is paid monthly.
- Fixed compensation for Outside Directors is determined based on consideration of their roles and other factors, and is paid monthly.

Performance-linked compensation

- Performance-linked compensation for Directors (excluding Outside Directors) is calculated based on prescribed benchmarks for the relevant fiscal year. The indicators used for performance-linked compensation for Directors include consolidated profit attributable to owners of the parent and ROE, in order to boost the motivation and morale of Directors toward higher performance and to ensure the identity of interest between Directors and the shareholders.
- Short-term performance-linked compensation is calculated based on the results of the current fiscal year. Medium-term performance-linked compensation is calculated based on the cumulative results during the period of the mid-term business plan. Each compensation is paid after the end of the period to which it applies.
- Stock acquisition rights are granted as stock options to Directors (excluding Outside Directors) in order to boost motivation and morale toward the enhancement of long-term performance. The number of stock acquisition rights to be allotted to each Director is determined according to rank. Stock acquisition rights are issued by a resolution of the Board of Directors, on the condition that the rights to request compensation of the Directors whom the stock acquisition rights are allocated to shall be offset against the paid-in amount for the stock acquisition rights by an amount equal to the paid-in amount. Details of the stock acquisition rights are as described in "(2) Status of Stock Acquisition Rights, etc." in "1. Status of Shares, etc." on pages 23 to 28 of the Annual Securities Report (Japanese language only).

- The results of indicators serving as the basis of performance-linked compensation for the current fiscal year are as follows: consolidated profit attributable to owners of the parent of ¥10,699 million and ROE of 14.0%. As for cumulative results for the Third Mid-term Business Plan, consolidated profit attributable to owners of the parent was ¥14,011 million, and average ROE was 6.3%.

(3) Restricted Stock Compensation Plan

- The Company grants restricted stocks to Directors (excluding Outside Directors) with the aim of providing an incentive to sustainably increase the Company's corporate value and to promote further shared value with shareholders. The number of restricted stocks allotted to each Director is decided based on rank. Such restricted stocks are issued by resolution of the Board of Directors on the condition that monetary compensation claims equivalent to the amount to be paid to Directors to whom the restricted stocks are allotted are offset against the amount to be paid for such restricted stocks.

<Overview of the Restricted Stock Compensation Plan>

The total annual amount of monetary compensation claims to be paid to Directors (excluding Outside Directors; hereinafter referred to as the "Eligible Directors"), in accordance with the Restricted Stock Compensation Plan, shall be set at ¥200 million or less (the amount does not include employee salaries of Directors who concurrently serve as employees), and the total annual number of shares of the Company's common stock to be issued or disposed of by the Company shall be set at 100,000 shares or less (provided, however, that if the Company performs a split of the Company's common stock (including the allotment of the Company's common stock without contribution) or a consolidation of the Company's common stock, the total number of shares shall be adjusted to the reasonable extent according to the ratio of the stock split or stock consolidation, on or after the effective date of the stock split or stock consolidation).

The Eligible Directors shall pay all the monetary compensation claims to be provided by the Company, in accordance with the Restricted Stock Compensation Plan, in the form of property contributed in kind, and shall, in return, receive shares of the Company's common stock that shall be issued or disposed of by the Company. The amount to be paid in per share shall be determined by the Board of directors based on the closing price of the Company's common stock at the Tokyo Stock Exchange on the business day immediately before each date of resolution by the Board of Directors (if there is no trading on such date, the closing price on the closest preceding trading day) within the extent that the amount will not be particularly advantageous to the Eligible Directors who subscribe such common stock. The specific timing for provision thereof and the allocation to each Eligible Director shall be determined by the Board of Directors after deliberation by the Nomination and Compensation Advisory Committee.

Total Amount of Compensation by Category of Officers and by Type of Compensation, and Number of Officers Receiving such Compensation

Category of Officers	Total Compensation (Million yen)	Compensation by Type (Million yen)			Number of Eligible Recipients (Persons)
		Fixed Compensation	Short- to Medium-term Performance-linked Compensation	Non-monetary Compensation	
Directors (excluding Outside Directors)	427	200	190	36	6
Corporate Auditors (excluding Outside Corporate Auditors)	37	37	—	—	2
Outside Officers	77	77	—	—	7

Notes: 1) Non-monetary compensation is the amount of expenses accrued during the fiscal year for the stock acquisition rights granted as stock options.

2) One Director, who retired at the conclusion of the 128th Annual General Meeting of Shareholders held on June 25, 2021, is included in the number of Corporate Auditors (excluding Outside Corporate Auditors).

Additionally, the issuance or disposal of the Company's common stock (hereinafter referred to as the "Shares") in accordance with the Restricted Stock Compensation Plan shall be subject to the conclusion of an agreement on allotment of restricted stocks between the Company and each Eligible Director that includes (1) the prohibition on the transfer to a third party, creation of a security interest in, or otherwise disposing of the Shares allotted during a certain period (hereinafter referred to as the "Restriction Period"), and (2) the automatic acquisition of the Shares by the Company without contribution, if certain events occur. The Shares are expected to be managed in a dedicated account opened by the Eligible Directors at a securities company during the Restriction Period, to prevent the Shares from being transferred, created a security interest on, or otherwise disposed of.

Compensation composition ratio

- Compensation for Directors (excluding Outside Directors) consists of fixed compensation and performance-linked compensation. The ratio of performance-linked compensation and restricted stock compensation to the total amount of compensation is designed to be a maximum of approximately 60% on average for each rank, in order to boost the motivation and morale of Directors toward higher performance and to enhance corporate value and shareholder value over the medium to long term.

Matters concerning Resolutions of the General Meeting of Shareholders regarding Compensation of Directors and Corporate Auditors

The compensation for the Company's Directors set by the resolution at the 125th Annual General Meeting of Shareholders held on June 27, 2018 is as follows: a total annual amount of up to ¥800 million, consisting of fixed compensation of ¥400 million or less and performance-linked compensation determined by prescribed benchmarks for the relevant fiscal year of ¥400 million or less. The total annual compensation for the Outside Directors set by the resolution is ¥100 million or less (fixed compensation only). In addition, at the same General Meeting of Shareholders, a resolution was also made to introduce a compensation system for granting restricted stock to the Company's Directors (excluding Outside Directors). The total annual amount of such compensation shall be set at ¥200 million or less, in addition to the amount of compensation mentioned above.

Total annual compensation for the Company's Corporate Auditors was set at ¥100 million or less, by the resolution at the 120th Annual General Meeting of Shareholders held on June 26, 2013. The number of Corporate Auditors as of the close of that Annual General Meeting of Shareholders was four (including two Outside Corporate Auditors).