

# **Basic Policy on Corporate Governance**

## **Chapter 1 Basic Views**

CKD Corporation (the “Company”) views corporate governance as a system that creates and facilitates a mechanism through which it seeks to achieve sustainable growth and increase corporate value by enhancing the transparency and fairness of management and making swift decisions, with the goal of building a good relationship with stakeholders who have diverse interests and of continuing to be a trustworthy company, guided by its Corporate Commitment.

## **Chapter 2 Securing the Rights and Equal Treatment of Shareholders**

### **1. General Meetings of Shareholders**

Mindful that general meetings of shareholders are opportunities to have constructive dialogue with shareholders, the Company sets appropriate dates for those meetings and associated events. To provide shareholders with sufficient time to consider the proposals submitted to the meeting, the Company sends out the Notice of the General Meeting of Shareholders as early as possible and discloses it on the corporate website or elsewhere prior to sending it out. In regard to the exercise of voting rights, the Company participates in an electronic voting platform and implements other measures to create an environment in which all shareholders, including those unable to attend the meeting, can exercise their voting rights appropriately.

### **2. Cross-shareholdings**

#### **(1) Policy for and approach to the reduction of cross-shareholdings**

In principle, the Company does not hold cross-shareholdings, except in cases where the Company judges that they will contribute to the enhancement of its corporate value from the perspective of business strategies, business alliances with business partners, and the maintenance and strengthening of business relationships. If the significance of the shares held by the Company has diminished, the Company will sell them in a phased manner, taking into account the circumstances of the company concerned.

#### **(2) Examination on whether or not to hold shares**

In cases where the Company determines that it is necessary to hold shares, the Board of Directors annually examines the objectives and rationale for holding the shares to determine the need for business strategies, business alliances, and the maintenance and strengthening of business relationships.

(3) Criteria for exercising voting rights

When exercising voting rights pertaining to the shares it holds, the Company considers whether or not the exercise of voting rights will lead to an increase in the corporate value of the issuing company and shareholder value, for example, by opposing any proposal in the event where the financial health of the issuing company is adversely affected or if an illegal act occurs.

(4) How to respond if entities holding shares in the Company indicate their intention to sell or otherwise dispose of the shares

If entities holding shares in the Company indicate their intention to sell or otherwise dispose of those shares, the Company does not hinder the sale.

### **3. Transactions between Related Parties**

The Board of Directors must approve transactions between the Company and its officers in accordance with the provisions of laws and regulations and internal regulations to ensure that the interests of shareholders are not damaged. In addition, officers who have conducted such transactions are required to report material facts about the transactions to the Board of Directors without delay.

## **Chapter 3 Appropriate Cooperation with Stakeholders Other Than Shareholders**

### **1. Corporate Commitment and Code of Conduct**

The Company endeavors to instill its Corporate Commitment thoroughly with a view to ensuring the appropriateness of operations. In addition, the Company establishes regulations for the control of subsidiaries both in and outside of Japan to promote efficiency in the management of its subsidiaries.

Furthermore, to fulfill its corporate social responsibility, the Company seeks to deepen communication with stakeholders by engaging in environmental preservation activities even more actively, contributing to society, helping employees volunteer, and taking other actions. At the same time, to augment these efforts, the Company

develops code of conduct and other internal regulations.

## **2. Whistleblowing System**

As part of its whistleblowing system, the Company has established a reporting contact point through which employees working at the Company or other persons can report wrongdoings. In addition to this internal reporting contact point, the Company has an external reporting contact point in place that is operated by an independent attorney. Through these measures, the Company strives to secure the anonymity of whistleblowers and the confidentiality of the information reported, to protect the whistleblowers, and to detect and correct compliance violations at an early stage.

## **Chapter 4 Ensuring Appropriate Information Disclosure and Transparency**

### **1. Basic Thinking**

The Company is fully aware that timely and appropriate disclosure of corporate information to shareholders forms the basis of a sound securities market, and it provides timely and appropriate corporate information to shareholders through means such as enhancing its internal systems, to ensure that corporate information is appropriately disclosed in a prompt, accurate, and fair manner from a shareholder perspective at all times.

## **Chapter 5 Responsibilities of the Board of Directors and Other Organs**

### **1. Board of Directors**

#### **(1) Role**

The Company stipulates in the CKD Corporation Regulations for the Board of Directors that matters stipulated by laws, regulations and the Articles of Incorporation, and other matters related to important businesses shall be decided by resolution of the Board of Directors, and the Board of Directors delegates decision-making authority for execution of other businesses to the management team in accordance with internal regulations that clarify decision-making authority.

#### **(2) Appointment**

In regard to the appointment of Directors, the Board of Directors makes decisions upon consultation with the Nomination, Remuneration Advisory Committee, principally from the perspective of actively advancing diversity management to respond flexibly to globalization and other changes in the market environment, and of securing a wide range of human resources with diverse values, including overseas experience and gender, in addition to the background, knowledge, and expertise that are essential for business development.

(3) Dismissal

Directors are subjected to dismissal if they are not deemed to be contributing to the improvement of corporate value, or if there is misconduct in the execution of duties from the perspective of corporate governance or a material violation of laws and regulations. Such decisions are made by the Board of Directors after consultation with the Nomination, Remuneration Advisory Committee.

(4) Evaluation and operation

The Company periodically conducts a survey to evaluate the effectiveness of the Board of Directors by a third-party organization for all Directors and Audit & Supervisory Board Members. The Company examines matters such as the composition of the Board of Directors and its operations as well as the support structure for Directors and Audit & Supervisory Board Members, so that the Board of Directors fulfills its roles and responsibilities effectively.

## **2. Audit & Supervisory Board**

(1) Role

The Audit & Supervisory Board and Audit & Supervisory Board Members bear in mind their fiduciary responsibilities to shareholders and make appropriate decisions from an independent and objective standpoint when executing their roles and responsibilities, which include the audit of the execution of Directors' duties, appointment and dismissal of the Accounting Auditor, and the exercise of authority regarding audit fees.

Audit & Supervisory Board Members seek to gather information proactively by attending important meetings, such as those of the Board of Directors and the Management Conference, and audit the state of business execution at the

Company.

Audit & Supervisory Board Members work hand in hand with the internal audit departments and Accounting Auditor to make sure that audits by Audit & Supervisory Board Members are performed in an effective manner.

### **3. Nomination, Remuneration Advisory Committee**

#### **(1) Role and purpose**

The Nomination, Remuneration Advisory Committee has been established for the purpose of ensuring objectivity and transparency in the determination process for matters such as the nomination of Directors and Audit & Supervisory Board Members and remuneration for Directors, and of further enhancing the corporate governance system.

### **4. Remuneration Systems**

#### **(1) Directors**

##### **(a) Basic policy**

- Design the system to motivate Directors to contribute to the enhancement of corporate value;
- Ensure the appropriateness of the method for determining remuneration and distribution; and
- Design the system to allow Directors to share the interests with shareholders through stock ownership.

##### **(b) Process and details**

Remuneration for Directors consists of basic remuneration, performance-linked remuneration, and stock remuneration. The combination of these three is designed in such a way that the higher a person's position, the greater the proportion of performance-linked remuneration. External Directors, who are responsible for the oversight function, are paid only basic remuneration in light of their role. The determination process and details must follow the range approved by the General Meeting of Shareholders; and must also adhere to recommendations from the Nomination, Remuneration Advisory Committee chaired by an independent External

Director, to further increase transparency.

(2) **Audit & Supervisory Board Members**

Remuneration for Audit & Supervisory Board Members is determined by the Audit & Supervisory Board within the range approved by the General Meeting of Shareholders. Audit & Supervisory Board Members are paid only basic remuneration to secure their independence from management.

## **Chapter 6 Dialogue with Shareholders**

### **1. Basic Thinking**

The Company aims to achieve sustainable growth and increase its corporate value in the medium-to-long term as it actively maintains constructive dialogue with shareholders and investors.

### **2. Initiatives and Frameworks for Dialogue**

- (1) The Company holds briefings to explain its financial results, management initiatives, and management policies, among other matters. In addition, there is a contact point at the Company's website for feedback and questions.
- (2) The content of dialogues with shareholders is provided as feedback to the Board of Directors and other bodies as necessary.
- (3) In order to prevent the leakage of financial information and ensure fairness, the Company observes a quiet period, during which it does not disclose information or comment on questions related to the financial results as a general rule. In addition, the Company has established internal regulations to prevent the leakage of insider information.