

Corporate Governance

We strive to ensure and strengthen the feasibility of corporate governance from the perspectives of *ensuring transparent, healthy management and appropriate cooperation with stakeholders* to realize a greater level of sustainable corporate value.

Approach Corporate governance in our company is based on our Corporate Commitment. To build good relations with stakeholders with whom we have various interests and become a company that continues to be trusted, we believe it is essential to build a system that functions to enhance management transparency and fairness to enable prompt decision making that leads to sustainable growth and increased corporate value.

Promotion structure

The Board of Directors is positioned as an entity that determines basic policy and important matters concerning management as well as those required by laws and regulations. Currently, the Board of Directors consists of seven Directors, including one female Director and one non-Japanese Director, and the proportion of independent External Directors is set to be one-third or more. In addition, we have established a Nomination, Remuneration Advisory Committee as an advisory body to the Board of Directors to strengthen the independence, objectivity and accountability of Board of Directors' functions associated with director nomination and remuneration. The Committee is comprised of a majority of independent External Directors, and is chaired by an independent External Director.

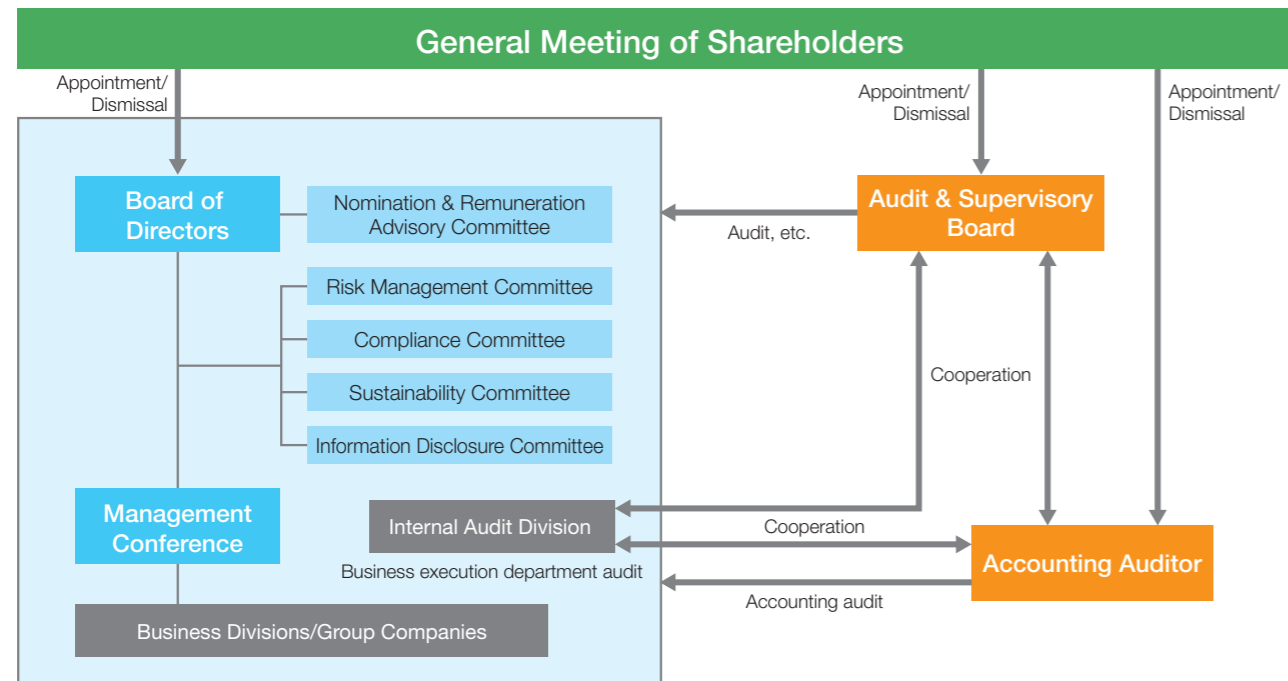
Oversight functions

The Company has adopted an Audit & Supervisory Board system and the Audit & Supervisory Board consists of four Audit & Supervisory Board Members, including three External Audit & Supervisory Board Members. Each Audit & Supervisory Board Member audits the execution of duties by Directors by attending meetings of the Board of Directors and other important meetings, and by examining the status of operations and assets, in accordance with the audit policy and audit plan formulated by the Audit & Supervisory Board. Audit & Supervisory Board Members cooperate with the Internal Control Audit Office and the Accounting Auditor by exchanging information regularly and as necessary.

The full-time Audit & Supervisory Board Member also attends important meetings such as Management Conferences to deliberate on the management matters of each business division, analyze the business climate, and work to understand the status of business planning progress so as to provide appropriate audits.

Accounting audits are conducted under an audit contract with Deloitte Touche Tohmatsu LLC for Companies Act audits and Financial Instruments and Exchange Act audits. We request accounting audits that are fair and unbiased.

Corporate governance structure



Officer remuneration

The Nomination, Remuneration Advisory Committee has been established to ensure objectivity and transparency in the decision-making process regarding the remuneration system for Directors and further strengthen the corporate governance system.

Determination process and details

Remuneration for Directors consists of basic remuneration, performance-linked remuneration, and stock remuneration, while External Directors who are responsible for the oversight function, are paid only basic remuneration, in light of their role.

The ratio of Directors' remuneration by type is designed so that the higher a person's position, the greater the proportion of performance-linked remuneration. To further increase transparency, the determination process and the determination of individual remuneration for Directors are decided based on recommendations of the Nomination, Remuneration Advisory Committee chaired by an

Policy on determining the remuneration for Directors

Basic Policy

- 1 Design the system to motivate officers to contribute to the enhancement of corporate value
- 2 Ensure the appropriateness of the method for determining the remuneration and distribution
- 3 Design the system to allow officers to share the interests with shareholders through stock ownership

independent External Director, within the range approved by the general meeting of shareholders.

In fiscal 2020, the achievement rate for each of the performance indicators for performance-linked remuneration ranged from 30% to 70% of the evaluation indicators, i.e. consolidated net sales, consolidated operating income, ROE, and development investment for the previous fiscal year, which are linked to the Medium-Term Management Plan.

Types of remuneration (composition ratio)	Remuneration details
Basic remuneration (about 30 to 70%)*	<ul style="list-style-type: none"> The amount is fixed by position according to responsibilities determined upon comprehensive consideration while referring to the levels of employees' salaries and remuneration levels at other companies.
Performance-linked remuneration (about 20 to 40%)*	<ul style="list-style-type: none"> To raise awareness on improving performance each year, performance-linked remuneration are paid in cash in an amount reflecting the results of the performance indicator in the previous fiscal year. The target performance indicator and its amount are consulted with the Nomination, Remuneration Advisory Committee as necessary in accordance with changes in the environment and are reviewed based on its recommendations. Officers other than those with titles are eligible for bonuses, to be paid at a certain time each year in an amount obtained reflecting the degree of targets achieved for each individual.
Restricted stock remuneration (about 5 to 20%)*	<ul style="list-style-type: none"> Restricted stock remuneration consists of restricted stock intended to further raise motivation to contribute to sustainably improving corporate value and shareholder value over the medium to long term within the range approved at the general meeting of shareholders. The number of shares to be granted to Directors are resolved in advance at a Board of Directors meeting. The restrictions on shares are lifted when the Director retires.

* If there is a pronounced decline in performance, performance-linked remuneration and stock remuneration may fall below the stated range. Therefore, basic remuneration may surpass the stated range.

Remuneration for Audit & Supervisory Board Members

Remuneration for Audit & Supervisory Board Members is determined by the Audit & Supervisory Board within the range approved at the general meeting of shareholders, and only basic remuneration is provided to ensure independence from management.

Total remuneration, total of each type of remuneration, and number of recipients by type of officer in fiscal 2020 (¥ million)

Officer type	Total remuneration	Total remuneration by type			Number of officers
		Basic remuneration	Performance-linked remuneration	Restricted stock remuneration	
Directors	212	149	47	16	8
Audit & Supervisory Board Members	41	41	—	—	6
Total	253	190	47	16	14

*1 Of the amount paid above, the total remuneration for three External Directors and four External Audit & Supervisory Board Members is ¥40 million.

*2 As of March 31, 2021, there are seven Directors (including three External Directors) and four Audit & Supervisory Board Members (including three External Audit & Supervisory Board Members).

Criteria for Judging Independence

The Company deems an External Director or a candidate for External Director to be independent of the Company if the Director or the candidate are judged to have no risk of generating conflicts of interest with ordinary shareholders of the Company.

* For details of our Criteria for Judging Independence, see "Corporate Governance" in our website.

Evaluating the effectiveness of the Board of Directors

The Company regularly 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.

The results of the survey confirmed that the Board of Directors conducts free, open and constructive discussions and exchanges views not as mere formality, information necessary for Directors and Audit & Supervisory Board Members to execute their duties is being provided appropriately, and the Board's overall effectiveness is secured. On the other hand, the Company recognizes that there is room for improvement in training officers, timing to distribute Board of Directors' materials, for External Directors to mutually exchange information and opinions, as well as opportunities for deliberation and provision of information on management strategies and plans.

The Company aims to further increase the effectiveness of the Board of Directors referring to these evaluation results.

Main contents of the survey	
● Respondents	All members of the Board of Directors (Seven Directors and four Audit & Supervisory Board Members)
● Evaluation method	Anonymous questionnaire
● Summary of questions	Management of the Board of Directors meetings Discussion at the Board of Directors meetings Monitoring function of the Board of Directors Support system for Directors and Audit & Supervisory Board Members Training Self-improvement Summary
● Aggregation of results	Outsourced to ensure objectivity

Cross-shareholdings

In principle, the Company does not hold cross-shareholdings, except in cases where the Company judges that it 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. If the Company determines that it is necessary to hold shares, the Board of Directors examines the objectives and rationale for holding the shares by examining the stock

every year to determine the need for business strategies, business alliances, and the maintenance and strengthening of business relationships. When exercising voting rights pertaining to these shares, the Company will consider 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.

In the event that a company holding shares of the Company indicates its intention to sell the shares, the Company will not prevent such sale.

Internal control

In order to ensure the appropriateness of business operations, the Board of Directors has established a basic policy on internal control systems and we are working on them.

- 1 We have established regulations to address conduct guidelines and related laws and regulations. In parallel with the internal reporting contact point, we have also established an external reporting contact point, staffed by an independent attorney-at-law as systems to prevent and correct violations of laws and regulations.
- 2 For the purpose of facilitating the execution of duties by Audit & Supervisory Board Members, whenever necessary, the Company appoints a dedicated employee to assist the Audit & Supervisory Board Members in their duties and authorize that employee to conduct investigations at the direction of the Audit & Supervisory Board Members. In such cases, Directors and Audit & Supervisory Board

Members discuss the personnel matters in advance. Directors and employees of the Company and its subsidiaries provide necessary reports and information upon request of Audit & Supervisory Board Members in accordance with laws and regulations and provisions as stipulated by the Audit & Supervisory Board.

- 3 In order to improve the effectiveness of the Group's auditing system, the Internal Control Audit Office has been established, and opportunities for Audit & Supervisory Board Members, the Accounting Auditor and the Internal Control Audit Office to exchange information are secured. In addition, Audit & Supervisory Board Members may consult with external experts in the fields of law, accounting, etc., as necessary, and the Company bears the cost of such consultations.

Messages from External Directors



Noriko Asai
Director

As we shift toward a CPS*/IoT society, where the real world and cyberspace are interconnected, society is becoming increasingly borderless, while the global agenda that humanity is tasked with, such as resolving conflicts over technological hegemony and tackling climate change, is becoming more deeply entrenched. Viewing DX and the transition to carbon neutral as growth opportunities, CKD is taking on the challenge of innovation based on automation and fluid control technologies, and is working to solve global issues with an eye on the SDGs.

I have visited more than 3,000 sites in Japan and overseas, examining and overseeing changes in the manufacturing industry from the two axes of technology and corporate management. Based on this expertise, I have been involved in technological innovation and work-style reform in the contexts of reviewing new technology and deliberating on policy. I want to leverage this experience to ensure objectivity and transparency from a viewpoint independent from the Company, and by raising issues and providing advice, I intend to do my best to contribute to enhancing CKD's corporate value.

* Cyber-Physical Systems: Systems that merge physical and digital aspects



Kazumasa Uemura
Director

The COVID-19 pandemic that began last year has destroyed various social systems around the world. Prior to my appointment as an External Director, I was an assistant to the hospital director at a national university hospital, so I have been working with the human resources division, including industrial physicians, to help combat infection within the Company. As I look around Japan, I am heartbroken to see that increasing rates of psychological disorders and suicide is becoming a major social problem, as human beings have become more isolated from one another.

The Company contributes to the creation of social value in the industrial world, especially by supplying component products and parts that form the foundation of the manufacturing industry. However, these social contributions are only possible if the mental and physical health of each employee is maintained. I will contribute to management from the perspective of industrial safety and health, including mental health and engagement among employees.



Stefan Sacré
Director

The global business environment is more dynamic than ever before: rapidly growing computing power and connected devices are the drivers behind the enormous amount of data which is created every second. This reality has a profound impact on the market: new products, services, and business models appear – and possibly replace existing solutions. New competitors from outside the industry may bring disruptions as well.

These radical changes are also reflected in new regulations and higher expectations from customers and society in general. Topics such as "sustainability" and "data privacy" need to be addressed to the satisfaction of all stakeholders.

As external director of CKD, I can provide an independent opinion and guidance to better navigate the complex business environment. More than 20 years in management positions of global high-tech companies have provided me with broad international experience. That includes the direct responsibility for international marketing & sales, engineering, quality management, and human resource management.

With this experience I will take part in the CKD board's decision process and contribute to CKD's value creation by expressing my external and independent view.

A Conversation with External Audit & Supervisory Board Members



Takeshi Sawaizumi
External Audit & Supervisory Board Member

Koichi Hayashi
External Audit & Supervisory Board Member

Shuzo Hashimoto
External Audit & Supervisory Board Member

Becoming a company that listens to its stakeholders and is open to society—CKD has been pursuing management reform through active discussions with outside experts, drawing on their experience and knowledge. In this section, we share the frank opinions from the External Audit & Supervisory Board Members who participate in those discussions.

About CKD

— Have your impressions of CKD changed compared with prior to you taking up your posts?

Hayashi: This is my twelfth year in the position, but my knowledge of CKD was almost zero at first as I was in a different industry. In the beginning, I had the impression that CKD was a Japanese company from the so-called “good old days,” but later, the Company’s business started to expand overseas and diversity increased. Now, I think the Company still has a lot of room for growth.



Sawaizumi: I have known about CKD since the days when it was called Chukyo Electric. It’s been seven years since I took up this post, and I believe that CKD is a company that operates in a field with promising growth potential. As a B-to-B company, it

obviously has a lower public recognition than B-to-C companies, but it has the potential to become a giant in the B-to-B field.

Hashimoto: This is my second year in the post, and since I am from Nagoya, I was aware that the Company is a leading machinery manufacturer in the region.

Adequacy of information disclosure

— Receiving appropriate information disclosure is essential if you are to express opinions. What’s the current situation?

Hashimoto: We receive a lot of useful materials. With some of them, I would like to receive them a little sooner, but I guess that’s unavoidable as their content needs to be properly considered. Some of them feature explanations with

diagrams, and I feel that they are prepared with care and are easy to understand.

Sawaizumi: I believe that with information, the three key points are timing, quality, and quantity. In terms of timing, there is no real problem, but there are sometimes cases where information is provided just before a meeting of the Board of Directors.

Hayashi: Information disclosure is much better than it was ten years ago.

Measures to be taken before and after growth

— What do you think the Company should focus on to achieve sustainable growth?

Hayashi: The Company cannot be number one if we compete in terms of cost because rivals with larger scale have an advantage. That is why we are currently focusing on semiconductors. However, this is a field in which it is difficult to make investment decisions because of the volatility of the market. It is important to decide which markets to tackle next.

Sawaizumi: Amid the struggle for supremacy between the U.S. and China, companies in the high-tech field are being asked how they are countering the need for economic security. As the Company steers dramatically toward globalization, its sales are currently concentrated in Japan and East Asia, but its U.S. plant will start operations in the second half of fiscal 2021. I hope that the Company will be able to maintain the blue-ocean status of the businesses where it enjoys superiority, while at the same time accelerating its shift toward multi-polarization.

Hashimoto: Remote working has become more widespread with the COVID-19 pandemic. Initially, I found it all a bit confusing, but now I can exchange information in a timely manner with people overseas without feeling any distance or time difference. If the Company can turn this experience into a positive one, I think it will change the way it manages its business.

Human resources who can work autonomously

— Companies that keep on winning have great people.

What do you think about human resource development?

Sawaizumi: Engagement is key, where each and every employee feels an attachment toward CKD and grow together with the Company. But right now, I have the impression that there are still a lot of people who just work according to instructions from the top. To compete globally, I think it is essential to find out how to develop and increase the number of self-driven, autonomous people.

Hayashi: Waiting for instructions has long been the norm in Japanese companies. It takes a lot of time and energy to change that. The quickest way is to send people to overseas subsidiaries, where they are exposed to different cultures and learn to think and act on their own. If you work with people who have a completely different mindset from yours, you will have no alternative but to change.

Hashimoto: To secure high-caliber talent, I think it would be a good idea to have more active contact with universities and other institutions from the initial stage of recruitment.

Preparing for accelerated change

— Society and the ways people work are changing dramatically.

Hayashi: People in their 50s and those in their 20s have completely different values when it comes to work. Our generation, which grew up watching the behavior of our bosses, was the generation that would respond, “Let’s fight,” when asked if we would be willing to fight for 24 hours nonstop. But nowadays simply making such a request would get companies blacklisted. The work style of the future will be about having people from different backgrounds leverage their individuality while taking action together toward a common goal, and at the same time, generating profit.

Hashimoto: As it relates to diversity, I am concerned about the low percentage of women in management positions. It is vital to hire and nurture women, starting at the recruitment phase. It’s also important to create an atmosphere in which



women have no qualms about raising their hands for managerial positions. CKD has taken a pioneering approach in this regard, going the length of setting up a day care center in the Head Office. If women can become established not only in sales positions but also in engineering positions, the range of technologies that the Company can offer will expand.

Hayashi: If remote working becomes even more widespread after COVID-19, it will be easier for women to work in the Company. I think this will be especially good for women who are raising children. As an organization, the Company needs to unify its values and firmly define the roles of departments and individuals. If proper communication is possible remotely, I think it’s okay for some operations to be allocated to so-

called *job-based* personnel (i.e. personnel who work under fixed conditions in terms of hours, pay, etc. and are not subject to transfers, promotions, etc.).

Sawaizumi: The question is how to balance the job-based and membership-based (i.e. conventional) approaches. As Japanese companies will inevitably maintain their culture to a certain extent, I think it is a possibility that future key personnel be developed in the membership-based approach, while specialists be nurtured through job-based, performance-oriented treatment.

Improving governance

— We frequently see scandals related to corporate governance in corporate settings. How is CKD’s governance?

Hayashi: At CKD, three of the four Audit & Supervisory Board Members, and three of the seven directors are externally appointed. It’s a structure that makes it easy for external voices to be heard inside the Company. There is no particular problem in communication between the management team and External Audit & Supervisory Board Members.



Hashimoto: I think governance is functioning well. I think it is a question of how to increase effectiveness while ensuring transparency.

Sawaizumi: CKD’s management and employees are all truthful in character, and I think the risk of a brazen violation of the rules is very low. However, in the future, various risks such as infectious diseases, cyber-terrorism, intellectual property issues and economic security are expected to emerge and intensify, so steps need to be taken quickly, including the establishment of necessary frameworks.

Becoming a Total FA Worldwide Supplier

— How would you sum up your expectations for CKD?

Sawaizumi: CKD has many excellent products with both social and economic value. The next step is to maximize the creation of added value to these products.

Hashimoto: For manufacturers, it is important to harmonize products, facilities, funds, and the human resources to support them. If the Company can manage these factors correctly, I expect that it can grow into a much larger enterprise.

Hayashi: From the perspective of an accountant, I would like to see it become a company that can aim for 20% or more in operating income. I have a feeling that the Company has due potential if it develops its human resources.

Sawaizumi: To get there, I think it will be crucial to further strengthen *non-price competitiveness*, which means the ability to develop products that can add new value (useful functions and attributes) for users in the process of converting raw materials into products. Now is the time to start creating the foundation for that cause.

Board of Directors and Audit & Supervisory Board Members

Kazunori Kajimoto

Chairperson & CEO



Apr. 1980 Joined the Company
 Jun. 2004 Director & Executive Officer
 General Manager, Sales and Marketing
 Division
 Jun. 2005 Director & Managing Executive Officer
 Jun. 2008 President
 Jun. 2021 Chairperson & CEO (to present)

Katsuhito Okuoka

President & COO



Apr. 1991 Joined the Company
 Jun. 2015 Executive Officer
 General Manager, Components
 Business Division
 Jun. 2016 Director & Executive Officer
 Jun. 2018 Director & Managing Executive Officer
 Jun. 2019 Representative Director and Senior
 Managing Executive Officer
 Jun. 2020 Representative Director and Senior
 Managing Executive Officer,
 General Manager, Corporate Planning
 Department
 Jun. 2021 Representative Director
 President & COO (to present)

Masafumi Kokubo

Full-time Audit & Supervisory Board Member



Apr. 1983 Joined the Company
 Oct. 2008 Chairman and President,
 TAIWAN CKD CORPORATION
 Jun. 2015 Executive Officer, General Manager,
 Corporate Planning Department
 Jun. 2018 Director & Executive Officer
 Jun. 2019 Director & Managing Executive Officer
 Jun. 2020 Full-time Audit & Supervisory Board
 Member (to present)

Koichi Hayashi

External Audit & Supervisory Board Member



Oct. 1990 Joined KPMG LLP, New York Office
 Apr. 1997 Registered as a certified public
 accountant
 Mar. 2008 Representative Director, Attax Co., Ltd.
 (to present)
 Jun. 2010 Audit & Supervisory Board Member,
 the Company (to present)
 Jun. 2013 External Audit & Supervisory Board
 Member, Plaza Create Co. Ltd.
 Jun. 2018 External Director, Plaza Create Co. Ltd.
 (to present)

Katsunori Hayashida

Director & Managing Executive Officer,
 General Manager, Components Business Division



Apr. 1984 Joined the Company
 Jun. 2018 Executive Officer
 General Manager, Automatic Machinery
 Business Division
 Jun. 2019 Director & Executive Officer
 Jun. 2020 Director & Executive Officer
 General Manager, Components
 Business Division
 Jun. 2021 Director & Managing Executive Officer,
 General Manager, Components
 Business Division (to present)

Shinji Yuhara

Director & Executive Officer,
 Deputy General Manager, Components Business Division,
 General Manager, Components Sales and Marketing Department



Apr. 1986 Joined the Company
 Jun. 2013 Executive Officer
 Apr. 2015 Executive Officer, General Manager,
 Sales and Marketing Division
 Jun. 2018 Director & Executive Officer
 Feb. 2021 Director & Executive Officer,
 Deputy General Manager,
 Components Business Division,
 General Manager, Components Sales
 and Marketing Department (to present)

Takeshi Sawaizumi

External Audit & Supervisory Board Member



Apr. 1974 Joined The Sumitomo Bank, Limited
 (currently Sumitomo Mitsui Banking
 Corporation)
 Jun. 2002 Executive Officer
 Jun. 2003 Executive Director, Sumitomo Mitsui
 Card Company, Limited
 Oct. 2006 President, Alpha REIT Advisors Co., Ltd.
 Jun. 2008 President, SMBC Consulting Co., Ltd.
 Jun. 2014 Audit & Supervisory Board Member,
 the Company (to present)
 Oct. 2014 Advisor, Laox Co., Ltd.

Shuzo Hashimoto

External Audit & Supervisory Board Member



Apr. 1987 Registered as attorney-at-law,
 Joined Oguri Law Office
 Apr. 1992 Established Hashimoto Law Firm,
 Director (to present)
 Apr. 2004 Vice Chairman, Nagoya Bar Association
 (currently Aichi Bar Association)
 Jun. 2020 Audit & Supervisory Board Member,
 the Company (to present)

Noriko Asai

External Director



Apr. 1997 Research Assistant, School of
 Economics, Nagoya University
 Mar. 1999 Received Ph. D. (Economics)
 Apr. 2007 Professor, School of Management,
 Chukyo University (to present)
 Jun. 2015 Director, the Company (to present)
 Jun. 2020 External Director of Ilden Co., Ltd.
 (to present)
 Jun. 2021 External Senior Director of Okuma
 Corporation (to present)
 Oct. 2021 Guest Lecturer,
 Production Management,
 Graduate School of Economics,
 Nagoya University (to present)

Kazumasa Uemura

External Director



Mar. 1990 Received Ph. D. (Medicine) from
 Nagoya University
 Aug. 2005 Professor, Medical Education Center,
 School of Medicine, Nagoya University
 Apr. 2009 Advisor to President, Nagoya University
 Apr. 2017 Professor, Faculty of Health and
 Medical Sciences, Aichi Shukutoku
 University (to present)
 May 2017 Professor Emeritus, Nagoya University
 (to present)
 Jun. 2017 Director, the Company (to present)

Stefan Sacré

External Director



May 1991 Received Ph. D (Engineering) from the
 Technical University of Berlin
 Aug. 1998 Representative Director, SICK Optic-
 Electronic K.K. (Japan)
 Jan. 2006 President, Bosch Rexroth Corporation
 (Japan)
 Jan. 2011 CEO, EagleBurgmann Germany GmbH
 & Co. KG
 Jan. 2017 President, Carl ZEISS Co., Ltd. (Japan)
 (to present),
 President, Carl Zeiss Meditec Co., Ltd.
 (to present)
 Jun. 2021 Director, the Company (to present)

Board of Directors meeting attendance and skill set matrix

	Name	Attendance at Board of Directors meetings	Independence (External)	Expertise and experience						
				Managerial experience	Manufacturing, technology, research and development	Quality and safety	Sales and marketing	Finance and accounting	Legal affairs	International experience
Directors	Kazunori Kajimoto	12/12		●		●	●	●		●
	Katsuhito Okuoka	12/12		●	●	●		●	●	
	Katsunori Hayashida	12/12			●	●	●			●
	Shinji Yuhara	12/12					●			
	Noriko Asai	12/12	○		●	●				
	Kazumasa Uemura	12/12	○	●		●				●
	Stefan Sacré	—	○	●	●	●	●			●
Audit & Supervisory Board Members	Masafumi Kokubo	12/12		●			●	●	●	●
	Koichi Hayashi	12/12	○	●				●		●
	Takeshi Sawaizumi	12/12	○	●			●	●		
	Shuzo Hashimoto	10/10	○						●	

* Stefan Sacré assumed the position of Director on June 25, 2021.

* The attendance result for Shuzo Hashimoto is for meetings after he assumed office as Audit & Supervisory Board Member on June 19, 2020.

Compliance

In our compliance regulations and Conduct Guidelines, we make our legal compliance approach clear. We are pursuing a variety of initiatives with the aim of raising awareness of compliance throughout the entire group, including overseas.

Approach We will fulfill our social responsibilities by ensuring every employee adheres to laws, regulations, and business ethics.

Thoroughly enforcing Conduct Guidelines

Our Conduct Guidelines clearly outline our thorough policy regarding legal compliance, comprehensively covering topics including fair transactions, preventing harassment, bribery and illicit benefit sharing, and other dishonest and corrupt acts. Additionally, in order to communicate this policy widely throughout the Company, we provide all employees with a CKD Conduct Guidelines Manual, implement internal compliance training, and share legal compliance information with overseas bases.




Handling risk of compliance violations


The status of handling matters related to legal compliance as stipulated in the Conduct Guidelines is covered under risk assessments of business operations carried out by the Risk Management Committee under the supervision of the Board of Directors. Procedures for handling these matters are considered in accordance with the importance and priority of the risk involved. When dealing with customers and contractors who may become new business partners, we carry out due diligence as necessary, including screening before any transaction is carried out and confirming whether there have been any instances of inappropriate transactions, fraud or corruption.


Furthermore, our approach to compliance is clearly stated through means such as the Requests for Business Partners posted on our corporate website, and new business partners are informed of this approach.

In fiscal 2020, there were no cases of disciplinary action taken for reasons such as bribery or corruption, nor any instances of expenses occurred, such as fines or settlement payments, in relation to such acts.




Conduct Guidelines





Requests for Business Partners



Whistleblower system

We have established a whistleblower system as a mechanism through which employees and others who work in the CKD Group can make reports. In parallel with this internal reporting contact point, we have also established an external reporting contact point, staffed by an independent attorney-at-law, and in addition to taking care to protect those making reports, including assuring anonymity and confidentiality, we strive to quickly discover and correct compliance problems. Reports can be made regarding a wide range of compliance violations, including violations of the Antimonopoly Act, such as cartels, and violations of criminal laws, such as bribery, corruption,

and embezzlement.

We continuously work to make employees aware of this whistleblower system, and we are making progress on creating a structure which enables reports to be made by overseas-based employees by developing our ability to handle reports in English and multiple other languages. The details of reports are presented to representative directors without delay, and matters are investigated and deliberated on by the Compliance Committee. We take action to correct any problems and ensure that they do not reoccur.

Risk Management

CKD considers risk management as an important operational activity to be a company that continues to earn the trust of society, and develops a structure to that end. At the same time, the Company strives to mitigate material risks and minimize loss that results from risk.

Approach CKD identifies various risks ancillary to business activities so as to ensure business continuity and to raise corporate value, and based upon the proper assessment of such risks, undertakes efficient and effective management activities.

Business continuity plans (BCP)

In preparation for serious damage caused by large-scale earthquakes and such or outbreaks of infectious diseases such as COVID-19, we have formulated BCP to ensure that we can continue our business by taking measures that place the highest priority on the safety of human life.



Online drills on the assumption of large-scale earthquakes

Information security

We are working on information security measures to maintain the confidentiality, integrity, and availability of information.

We clearly state the laws, regulations, and guidelines applicable to information security in relevant procedures, provide education and training to all employees, and conduct internal audits. In particular, we recognize that cyber-attacks are a material risk. We have implemented and updated the latest security equipment and software. In addition, the Information Security Promotion Committee, placed under the Risk Management Committee, monitors trends in external threats, the status of company-wide activities and issues to be addressed to continuously implement necessary measures.

Responses to COVID-19

In response to the spread of COVID-19, we are working to implement measures based on policies of the government and local authorities and to prevent the spread of infection, prioritizing the health and safety of our customers, business partners, and employees. We have established a COVID-19 control headquarters within the Company to promote the following prevention measures against infection.

- Encourage employees to work remotely (teleworking) or in staggered work hours, and to complete outside engagements without showing up at the office
- Control of the seat spacing and installation of partition boards for preventing infection from droplets and hand sanitizer
- Avoid the risk of infection for each employee by encouraging them to wear face masks, wash hands regularly, and check their body temperature every day
- Actively use Web conference systems
- Postpone or cancel training or events, or hold them online
- Restrict unnecessary and unexpected outings and business trips

Except for manufacturing and service divisions, we strive to reduce the number of employees coming to work by 70% by actively using teleworking for sales and staff divisions in areas subject to the emergency declaration. We also recommend employees in manufacturing and service divisions who need to come to work to use private cars instead of general public transportation. In addition to making physical visits, sales activities are conducted by telephone, e-mail, and web conference according to customer specifications and requests.

We also engaged in volunteering activities, donating face masks to local communities and hospitals and working with a local NPO to donate face masks to welfare facilities.



Face mask donations

Environment

CKD is engaged in corporate-wide efforts to improve the environment, including efforts in regard to pollution and in ensuring compliance with product-based environmental regulations, such as the European RoHS Directive. We recognize that the realization of carbon neutrality is indispensable to the needs of the international society, and believe that not only should business be conducted to enable harmonious co-existence with the beautiful environment, but that the environmental activities undertaken by each of our employees can produce significant positive results. CKD will continue to contribute to the preservation of the global environment by supplying to our customers environmentally friendly products that comply with relevant laws and regulations thanks to our years of experience in automation and fluid control technologies.

Policy

We have established our environmental policy as our commitment to ensure that CKD's business activities, products, and services have adequate consideration for environmental impact, and strive for ongoing improvement and the prevention of pollution.

Environmental Policy

- 1 Promote development and sales of low environmental load products.
- 2 Identify and comply with environmental regulations and their requirements, including the social life of persons working at CKD, suppressing CO₂ emissions and preventing environmental pollution.
 - a) Promote energy saving, resource saving and building energy saving production lines
 - b) Reduce environmental polluting materials
 - c) Reduce waste.

We are developing and expanding sales of low environmental load products, focusing not only on the conservation of energy and resources, but also on the environmental impact of the product throughout its life cycle. While maintaining compliance with all environmental laws and regulations, we are also working to reduce our environmental load as much as possible by conducting our business with our social responsibilities in mind and continually striving to reduce CO₂ emissions and to prevent pollution.

Medium- to long-term targets (reducing CO₂ emissions)

To contribute to the realization of a decarbonized society, the CKD Group is working to reduce CO₂ emissions by setting medium- to long-term reduction targets for CO₂ emissions by backcasting based on the target of virtually zero CO₂ emissions in 2050.

Fiscal 2030 Reduce CO₂ emissions per unit of sales by 50% (compared to fiscal 2013)

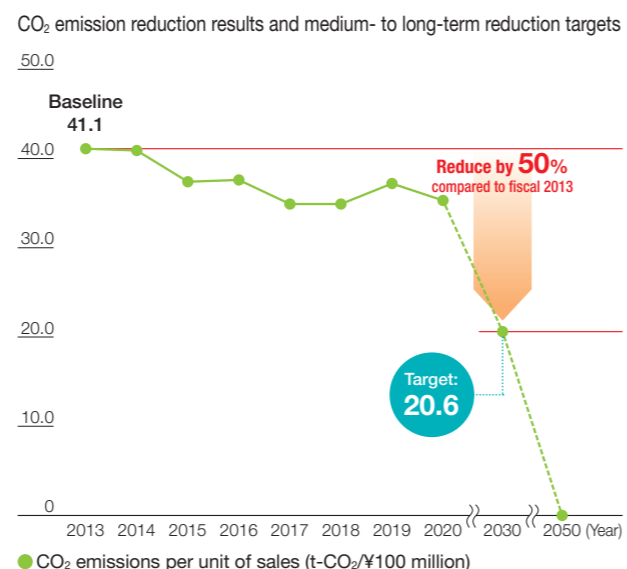
Fiscal 2050 Achieve virtually zero CO₂ emissions

We will promote the following initiatives as specific reduction measures:

- Promote thorough improvements in energy conservation
- Expand renewable energy (introduce solar power generation equipment, etc.)
- Utilize CO₂-free energy (renewable energy-derived electricity, green electricity, etc.)

Sustainability promotion system

To contribute to the global environment and building a rich society through our business activities, we have established the Sustainability Committee and Sustainability Promotion Department. Establishing the system shown below, we are working on activities such as promoting SDGs and disseminating our ESG information outside the Company to improve corporate value.



Renewable energy initiatives

As part of our initiatives to realize a sustainable society, we have introduced solar power generation systems.

The system has been in operation at the Thailand Plant since June 2019, the Head Office/Komaki Plant since July 2020, and the China Plant since November 2020, generating 1,750,000 kWh of electricity in fiscal 2020 and reducing CO₂ emissions by 800 tons per year^{*1}. The system has also been in operation at the Kasugai Plant since August 2021.

We will continue to promote the systematic introduction of this system in our domestic and overseas plants to proactively reduce CO₂ emissions and promote environmental conservation.

In addition, as a new initiative to reduce CO₂ emissions, we have started to offset greenhouse gases emitted by our four plants in the Tokai region by using the J-Credit Scheme^{*2}. The use of renewable energy heat-derived credits will offset



Thailand Plant

Head Office/Komaki Plant

approximately 3,400 tons of greenhouse gas emissions from gas at each plant involved by fiscal 2025.

*1 CO₂ conversion factor: 0.457 t-CO₂ /thousand kWh

*2 J-Credit Scheme: The government certifies the amount of greenhouse gas emissions (such as CO₂) reduced or removed by efforts to introduce energy-saving devices and use renewable energy, as well as sinks through managing forests, as credit.

Water reuse efforts at the China Plant

The China Plant complies with China's strict environmental regulations based on the concept of a warm and environmentally and human-friendly plant.

By recycling production effluents using our in-house environmental treatment equipment, we have achieved zero industrial wastewater. Approximately 100 tons of wastewater are treated every day and reused in production.



China Plant

Received the Golden Award of the AICHI Environmental Award

The HP Series of high-durability components and the NS Series of nitrogen gas extraction units, both developed as low environmental load products, received the Golden Award of the 2021 AICHI Environmental Award^{*3}, the highest of the awards. These products are highly evaluated as "supporting the world's *monozukuri* processes, greatly contributing to the reduction of environmental loads and the achievement of SDGs."

To reduce customers' production loss, we have developed the HP Series based on three concepts of 1) No breakdowns, 2) prior notification at end of service life, and 3) can be quickly replaced. In particular, we focused on "no breakdowns" and achieved high durability by revamping the design of the sliding

parts from scratch. Extending the service life of equipment improves productivity and reduces industrial waste. We will continue to develop products that consider reduced environmental load to contribute to the achievement of the SDGs.

The NS Series makes it easy to obtain nitrogen gas with an appropriate concentration without the need for a power source. It is used for anti-oxidation and explosion-proof applications due to its superiority in space-saving and lower running costs. Because it can easily replace oxygen with nitrogen, it has been adopted by many food manufacturers and contributes to food loss prevention.

*3 AICHI Environmental Award: Aichi Prefecture established the AICHI Environmental Award at the 2005 Aichi Expo. This award invites examples of pioneering and effective technologies, businesses, activities and education, such as resource recycling and reduction of environmental load, from companies and other organizations and commends them for their outstanding effort. The project is being widely introduced all over Japan and its purpose is to ensure that new production and lifestyles are rooted in society and to promote the creation of a resource-recycling society.



HP Series high durability components

NS Series nitrogen gas extraction units



ESG Data

Human Resources

We believe the realization of a “Corporate Culture with Faith in Human Resources” requires us to develop global-based human resources and create a working environment in which employees can challenge themselves and pursue self-fulfillment. We value the potential of each of our employees, regardless of gender, age, or nationality, and are focused on strengthening our human resource development efforts so that each worker with diverse strengths can make the most of his or her abilities.

Promoting health and productivity management

One of our key corporate commitments is creating a “Corporate Culture with Faith in Human Resources.” Human resources are valuable corporate assets, and a key management resource for the sustained development and growth of the Company.

CKD Health Management Declaration

CKD believes the health of employees is a key issue for management and we are working to improve health awareness among employees, building a working environment conducive to healthy minds and bodies in cooperation with health insurance societies and labor unions, and hereby declare that we will promote *health and productivity management*.

Key initiatives

1 Work-life balance

Workstyle reforms, management of time spent working

2 Prevention of lifestyle-related diseases

Promoting improvement of diet, sleep and exercise habits, and prevention of smoking and passive smoking

3 Creating a comfortable working environment

Promoting mental health, improving the working environment, and supporting the balance of medical treatment and work

Recognized as an Outstanding Organization for Health & Productivity Management in 2021

In 2019, we formulated the CKD Health Management Declaration and have been continuously implementing initiatives that enhance health and productivity. Our efforts were recognized as certified as an outstanding organization for health and productivity management under the large enterprise category of the Certified Health & Productivity Management Organization Recognition Program* in 2020 and 2021.



* Certified Health & Productivity Management Organization Recognition Program: A program operated jointly by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi that gives recognition to organizations carrying out excellent health and productivity management.

Human resource development

In order to better create a fulfilling workplace for employees, CKD supervisors and managers use a Career Planning Sheet as a means of communication in assisting subordinates in their career planning efforts. We are strengthening our efforts to allow our diverse employees to play an active role and make the most of their abilities in line with their career planning.

Level-specified education system

Using a level-specified system for all employees, we are providing educational programs according to each worker’s role in the Company and educational support for optional self-development in line with that worker’s particular business. Moreover, each department engages in programs and initiatives designed to improve the skills of their employees and the environment in which they work.



Level-specified education system

Skill training workshop

We launched a skill training *dojo* (workshop) in fiscal 2016 with the aim of teaching employees how to best use measuring equipment and machine tools for metals processing. In the parts processing division, we aim to further raise the overall level of processing skills by improving the skills of young employees and ensuring that the refined skills of senior employees are passed on to their younger colleagues.



Skill training workshop

Self-improvement support program

We have launched a program to support voluntary learning aimed at realizing career plans for individual employees. We support the costs of training courses, teaching materials, correspondence courses, e-learning, and self-improvement books suited to each employee.

Examples of use of the self-improvement support program

- Covering the cost of external learning classes, such as English conversation classes
- Covering the cost of correspondence courses and language learning apps
- Covering the cost of textbooks, exercise books, and other teaching materials for acquiring qualifications

Promoting diversity

CKD is promoting a workforce that makes the best use of its diversity and does not discriminate on the basis of gender, nationality, or age.

Promoting women’s career advancement

We believe the creation of an environment in which women can play an active role and fully demonstrate their abilities will contribute to a workplace where every employee can provide their best contribution. We have formulated the following action plan and are promoting it to empower women in the workplace.

As part of our system to support women in the workplace and childcare, we opened an on-site day care center in 2018.



On-site day care center ‘Ohana nursery school’ (Komaki Plant)

Outline of the Action Plan for Promoting Women’s Career Advancement

1 Period of the action plan

April 1, 2021 – March 31, 2023 (two years)

2 Our targets

Target 1
Increase the ratio of female workers in managerial positions to 3% by fiscal 2022.

Target 2
Achieve an average of at least 65% paid leave utilization rate for all employees.

Promoting the active participation of non-Japanese employees

In order to further promote diversity and globalization, the CKD Group is actively hiring non-Japanese employees, and 32 foreign nationals are working in Japan. (As of March 31, 2021)

Broadening the re-employment system

With the goal of increasing the number of options available for workers after they reached the mandatory retirement age of 60, we established a lifetime employment program allowing employees to continue working regardless of their age while simultaneously maintaining our existing re-employment system. Using this system, 42 employees aged 65 or older are working actively. (As of March 31, 2021)

Promoting work-life balance

We are working to improve the lives of our workers both at home and in the workplace, as we believe spending an active life in both these locations contributes to creating an attractive working environment in which employees can achieve self-fulfillment.

Reducing working hours

We prevent overwork by implementing work improvement measures. We comply with the agreement based on Article 36 of the Labor Standards Act (700 hours per year, no more than 80 hours per month).

- Reduce overtime labor through the implementation of operational improvements
- Establishment of a set day once a week for workers to leave office after regular work hours
- Setting specified days when all employees use paid leave
- Operating an hourly paid leave system

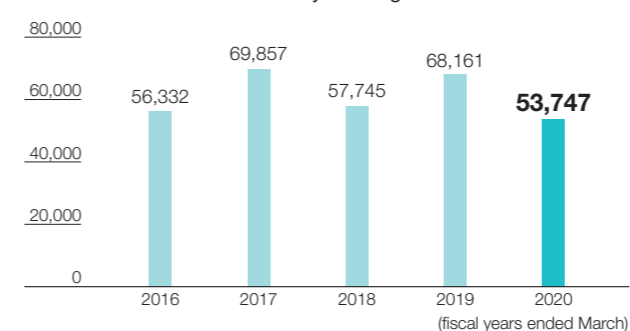
Childcare support system

CKD has created a system for childcare leave that is open to all our employees. We have also extended the use of the reduced working hour system and exemption system where workers can be exempted from overtime work until March 31 of the year their child has reached the sixth grade in elementary school. CKD is creating a working environment in which our female employees can give birth with peace of mind, and where male and female employees raising their children can balance their work and home responsibilities.

Nursing care support system

We have also created an environment in which employees who need to provide long-term care can self-manage this situation while continuing to work. In general, CKD employees may take leave for up to one year to care for their spouses, children, the parents of either the employee or their spouse, as well as grandchildren, siblings or grandparents with whom they are living with or are dependent on them.

Number of overtime and holiday working hours*



Number of overtime and holiday working hours (hours)

* Average number of overtime and holiday working hours per month for CKD employees on a non-consolidated basis

