

Message from the Chairperson of the Board of Directors

**Aiming to be a company
trusted by all stakeholders,
we will work to further
strengthen our governance
system**

Kazunori Kajimoto
Chairperson of the Board of Directors

We asked Chairperson Kajimoto about the characteristics of the CKD's corporate governance and his intention to further strengthen it.

**Free and open exchange of opinions without
regard for internal or external boundaries
Fair decision-making and transparent disclosures**

As resolved at the 2024 General Meeting of Shareholders, I have passed the CEO baton to President Okuoka and now serve on the Board of Directors as a chairperson without representation rights. CEO bears the responsibility for raising corporate value, and I have always felt that the process of handing over the position should ensure smooth, seamless transition of management without any stagnation in business operations.

To use a metaphor, I believe that the transition should be like runners passing the baton at top speed in a 400-meter relay, never slowing down. Since the establishment of the CEO-COO system in 2021, COO Okuoka and I have steered the management while picking up pace. Although it has only been a short time since the start of the new system, I am confident we passed the baton at the best possible time.

Forging ahead, the Company will move forward toward its next growth stage under President Okuoka's leadership. I will further focus on strengthening governance as Chairperson of the Board of Directors to support the reforms that will be implemented by the new top management.

The basis of our corporate governance is thinking in accordance with CKD's Values. We believe in the importance

of creating appropriate mechanisms and ensuring they function for the purpose of creating good relationships with stakeholders, maintaining sustained growth, and working to raise corporate value.

I became a member of the Board of Directors in 2004. After being appointed president I served as chairperson for 16 years, during which I worked to build a governance system and strengthen it.

The Corporate Governance Code, a set of basic principles, was established in 2015. Two years later, in 2017, we increased the number of Independent Directors by three and began evaluating the effectiveness of the Board of Directors through a questionnaire administrated by a third-party organization. In 2018, we established the Nomination & Remuneration Advisory Committee to discuss matters related to decisions on appointment and dismissal of executives and executive remuneration. In 2020, we established the Compliance Committee and in 2021 launched the Sustainability Committee. We steadily implemented PDCA cycles, step by step, for the issues raised and worked to ensure the effectiveness of governance.

In 2022, we established a corporate officer system. The Board of Corporate Officers, made up of corporate officers, is empowered to make resolutions internally, while the Board of Directors is for the purpose of deepening discussions on more important themes. Instituting this

system has made the Board of Directors more effective and has enabled quick management decisions and flexible business execution.

One characteristic of the Company's governance system is the free and open exchange of opinions at board meetings. This is because as an independent company without an owner-manager or parent company, we have an open and accepting corporate culture. In addition, on themes where the Independent Directors offer their objective opinions, lively debate takes place, which leads to fair decision-making and transparent disclosure, which are strengths of the Company.

The existence of Independent Directors with varied backgrounds and knowledge is what underpins the increasing effectiveness of the board. Currently, of the Company's six directors, three are independent, accounting for 50%. The makeup of the board is diverse. Along with their various different areas of specialty, there is a female member and a foreign national.

We were not necessarily deliberately aware of numbers like a female ratio. Before the word "diversity" became popular, I personally thought about building a strong management foundation to ensure the sustained growth of the company. To do this, it is important to hire diverse people and have them demonstrate their individuality. We conducted such infinitives from early on, and, as a result, it has led to strengthening our governance system.

Lively debate also takes place on the Nomination & Remuneration Advisory Committee. It currently meets five or six times a year and Independent Directors constitute a majority. Moreover, to ensure even greater objectivity, the committee is chaired by an Independent Director. Regarding the structure of officer remuneration as well, we have made many changes in line with the times, such as incorporating non-financial indicators like environment, for raising corporate value over the medium- to long-term.

With the values of society and the business environment changing to a dizzying degree, the honest opinions, observations, and information of independent directors from an outside perspective is extremely important, and functioning with a good balance between oversight and execution is also an important point.

**Instilling the importance of governance into
each and every employee to be a company
needed by society**

In order to further evolve the Company's governance system and to fulfill my duties as board chairperson, going forward, we will engage in the following two issues.

This first is strengthening global governance system, centered on internal controls. Overseas Group companies operate under different laws and regulations and different customs and ways of thinking, depending on the country. It is essential that they operate their businesses based on local conditions while also receiving oversight from Japan.

In particular, small-scale local affiliates do not have sufficient governance personnel and systems, so support from Japan is essential.

Currently, the governance mechanisms we do have include dispatching executives from the head office, risk management via management divisions and checking and follow-up for information security, etc., but with overseas business accelerating, we believe it is important to have local companies deepen their understanding of governance starting with the fundamentals.

To this end, we hold online meetings and meet face-to-face because we need to accurately convey our basic policies and thinking on corporate governance. I myself take trips and when executive-class personnel visit local sites, meetings are held on governance to keep in close communication.

The second issue is instilling the importance of governance internally. Having formed various committees, I think the governance awareness of upper management and executive-class personnel is now high. Going forward, to strengthen corporate governance in the true sense, the understanding of each and every employee working at the Company is essential.

The key to instilling this awareness within the Company is face-to-face communication. It is important to convey the message in ways that encourage all executives and employees to take ownership of governance. We are devising measures to carefully communicate the importance of governance in the form of town hall meetings at each location, breaking down issues related to risk management, information security leaks, and such into examples that are relevant to daily work. Through these steady measures, I think we will be able to grow into a company that embodies its stated Purpose.

Along with reinforcing the governance system, we are currently focused on promoting active communication with Independent Directors and training new executives. To further deepen their understanding of the Company's businesses, we are continuing measures such as taking visits to domestic or overseas plants, explaining plant functions, touring the plants, and holding board meetings at local sites.

Moreover, we plan to hold one-on-one meetings with each Independent Director to enhance communication and increase opportunities to hear their frank opinions. With various perspectives required of corporate management to align with changes in the times, including investment in human capital and sustainability considerations, for CKD to develop business globally and grow into a company that is trusted by diverse stakeholders, strengthening the governance system to conduct fair and transparent business management is essential. To this end, it is crucial that we foster a corporate culture that listens sincerely to critical and opposing opinions that sometimes come from outside and incorporates them into management decisions.

As Chairperson of the Board of Directors, I will continue to further enhance the board's deliberations, bolster the oversight function with respect to directors fulfilling their duties, and work to raise corporate value.

Roundtable Discussion with the Independent Directors

We will promote human resources who will excel globally, advance branding, and make



CKD has expanded its business globally on the strength of its abundant technological capabilities and diverse product lineup to help resolve social issues in two areas, automatic machinery and component products. CKD's CEO changed in June 2024, and going forward as it enters a new phase of growth, what are CKD's strengths and how can they be enhanced? What are the challenges involved? We spoke with the three Independent Directors about these issues.

Expectations for reform for new growth and a new message from the change in CEO

— As of June 21, 2024, Chairperson Kajimoto became Chairperson of the Board with no representation rights and President Okuoka assumed the post of CEO. What are your hopes and recommendations for this new order?

Hayashi: After becoming President, Chairperson Kajimoto had led the Company's management for 16 years as CEO. He truly played a key role in building a foundation for CKD's growth. The 10-Year VISION, the Company's long-term management vision, will end next fiscal year, and under the Fifth Medium-Term Management Plan facilities have been established overseas. The Company will enter a new growth stage and the organization is at a stage where change is needed. I think it is a good time to pass the baton to the next generation.

President Okuoka is the first person who came out of the production division to lead the Company. At a company whose

strength is in technology, having a new CEO who has practical experience in manufacturing can also be expected to lead to new change and development.

Sacré: I see this change in CEO as a very important step for the Company. As Mr. Hayashi said, Chairperson Kajimoto managed the Company for a very long time and he became the face of CKD both, internally and externally.

President Okuoka is from a completely different generation and has a very different background as well as character. I will be important that he announces the future direction for CKD as well as his priorities as soon as possible. Employees and external stakeholders look forward to listen to his message as top management.

Shimada: Chairperson Kajimoto indicated that he would pass the baton at top speed as in a 400-meter relay when the CEO changed. I was impressed that the two men were planning to pick up speed, as if they were running through the finish line.

I was appointed an Independent Director in fiscal 2023 so I have only worked with President Okuoka for one year. He has a serious,

recommendations from multifaceted viewpoints to create value for the medium to long term.

straightforward personality but also a sense of humor. I have high expectations for what he will present as the new image of CKD.

Opinions are exchanged freely on the Board of Directors regardless of the area of expertise, making it highly effective

— Please give us your opinion on the effectiveness of the Board of Directors in fiscal 2023, an evaluation of its governance, and the system for promoting the board.

Hayashi: Including my time as an Audit & Supervisory Board Member, I have participated on the Board of Directors for a long time, but as business and performance have expanded, I have seen significant progress in the board's effectiveness.

The atmosphere of free and open discussion that greatly characterizes the board remains unchanged. Fairness and transparency are at extremely high levels. It is also good that for important matters, opportunities for discussions are provided prior to board meetings. It is my impression that there continues to be a growing expectation that Independent Directors vigorously voice their opinions.

Sacré: Ms. Shimada joined the board last fiscal year, and this has further improved diversity. All members get to engage on all topics and actively make recommendations regardless of their area of expertise, which is a unique feature of CKD and stimulates discussion.

Shimada: During this past year of participation in discussions, I worked to provide recommendations on the Company's social contributions and provision of social value and on training and recruiting human resources, drawing on my many years of experience in the public sector, including at government agencies, and my career in executing policies related to human resources and developing laws and regulations.

At the same time, my contact with private-sector companies was limited, so as Mr. Sacré has said, there is an open atmosphere that encourages you to actively state your opinion even if it is outside your field of expertise. There is an extremely good balance in the skills matrix of board members as well. My impression is that the Board of Directors is highly effective.

I have also visited several plants and have talked with people directly involved in manufacturing, which I refer to when making recommendations.

Technological capabilities for helping solve social issues and a competitive advantage from an extensive product lineup

— What are your opinions on CKD's strengths and issues (business, management, financial foundation, human

capital, etc.) based on its results for the fiscal year ended March 31, 2024. Also, what are your thoughts on areas that have been strengthened and improved in recent years?

Sacré: With our technological capabilities in target industries, semiconductors and rechargeable batteries, high growth is anticipated over the medium to long term. This is a competitive advantage that will not change and is a tailwind for the Company.

The business environment in fiscal 2023 continued to be highly uncertain as the semiconductor market stagnated and supply chains were disrupted. Amid such circumstances, another of CKD's strengths is its ability to make bold investments into expansion of production in Japan and overseas. Growth trends, for semiconductors in particular, will not change over the long term, and I think the Company has a major advantage in having been able to build a production foundation that will lead to future growth.

Hayashi: New discoveries were made which have potential outside of core industries like semiconductors at a technology exhibition the Company participated in in February 2024. The exhibition presented various technologies not normally made public, and the Company came away feeling that there are still possibilities for new business from a long-term perspective. The engineers actually in charge did their best to explain and I realized once again that the Company has many serious employees who really like manufacturing, which is a strong point.

Shimada: These days an issue common to Japanese companies is an increasingly acute sense for the growing severity of Japan's shrinking population. I hear daily stories of not being able to meet orders due to a lack of labor.

From this perspective, the assistance devices I saw in CKD'S showroom, which help people work, seemed promising for the future. The Company also has an extensive lineup of products that help solve social issues, and the fact that they are competitive is a competitive advantage other companies can't match. Another significant point is the fact that the Company has built trust with its customers by valuing them each day and responding to their needs, which has served as the basis for creating a variety of products that address social issues.

Vital to create human resource and promotion systems that balance the Head Office and overseas bases

Sacré: On the other hand, recruiting and promoting human resources is a long-term challenge and not an issue that can be solved in a day. The Company recognizes that it will be necessary to continue to engage in this challenge. In particular,

Roundtable Discussion with the Independent Directors

as our bases expand globally and our overseas business becomes full-fledged, focus will be placed on initiatives for the globalization of human resources taking on responsibilities and a global human resource system.

Up to now, members of the Head Office have been sent to serve as top management at overseas bases because of their expertise. However, the Company has entered a phase in which it must think about the relationship between the Head Office and overseas bases, their roles, and the promotion and balance of human resources.

If the Company is aiming to be a truly global company, I think it needs to consider the necessity of implementing a Future Human Resources Project on a global scale.

Hayashi: The Company is probably ready to consider its next strategy after this first phase of globalization in which human resources are sent from the Head Office and promoted to top or executive management at overseas bases.

If the Company is to enter the stage of directly competing against its overseas rivals, it needs to promote members well versed in local rules and negotiations. It will likely be necessary as well to accelerate the exchange of personnel.



“ I would like the Company to accelerate the promotion of women, foreign, and senior employees as members that create value together. ”

Shimada: I brought this up previously at a board meeting, but regarding the project for training future human resources internally, I feel it is an issue that the recruitment and promotion of women and foreign human resources is still stalled at the phase of “personnel that should be considered.” As noted by Mr. Sacré, in addition to overseas personnel, women and senior employees as well should be recruited and promoted equally. For the Company to move from the phase of “considering” to “creating value together” it still has some hurdles to overcome as an organization.

There used to be the view that promoting seniors would impede the promotion of young employees, but this will change going forward. The Company needs to solidify its human capital while having everyone compete regardless of age and work for rejuvenation. Also, going forward, the

Company will have to create indices related to human capital and disclose them publicly. Setting forth target values will not be enough. It will be essential to explain the thinking behind them as well to the satisfaction of employees.

Sacré: Another long-term issue is actively communicating to familiarize people with the CKD brand. Last fiscal year, the Company updated its Purpose, Values and Brand Slogan as its new principles. This may seem like I’m taking a harsh view of the decision-making process, but let me raise the issue.

The Company can be commended for the project being driven by employees and for surveying the Group as a whole, including overseas bases, before the new principles were formulated, and the fact that engagement was increased in doing so. However, I was left with the impression that the process was somewhat inwardly focused and did not involve external stakeholder. Especially, if the Company is advocating “co-creation,” it would have been a perfect opportunity to incorporate an outside perspective into the process and gather valuable feedback.

Hayashi: The Company is a B2B business, its products and components addressing needs at many production and manufacturing bases are put to use globally, and going forward, semiconductor and rechargeable battery markets, where growth is promised, are expected to expand. On this point, even if the Company does not actively engage in external branding, it may not be problematic to take the stance of “known to those in the know.”

But the problem with that is recruitment, which President Okuoka also cites as a top management issue. The Company is currently evolving into one that is thoroughly loved by its existing employees, and this is one way to strengthen referral recruiting in which employees make introductions. At any rate, familiarizing people with CKD and attracting future employees will be an issue going forward as well.



“ Technology treasures still lie dormant. I hope to see innovation created by combining diverse technologies. ”

Sacré: Along with recruiting, branding and marketing are important issues for newly expanding markets overseas. The

Company’s name recognition must be increased if it is to compete with foreign companies. From this standpoint as well, it is important that the Company recruits local talents and builds a strong global network.

Shimada: A new showroom was established at the Head Office/Komaki Plant last fiscal year. I think it is effective as a place not only for interaction and co-creation with customers but also for raising recognition for recruitment. The Company should invite local children, junior high, high school and technical college students so that they can learn about CKD’s appeal. There is no reason not to use it extensively for PR for future generations.

Hayashi: The new showroom has a cheerful atmosphere, including its design. I think it is an extremely good attempt to have people understand CKD. The next question is how to utilize it. It should be used as a place not only for showing to outside customers but as a place for people inside the Company to gather. When people chat in a place like the showroom, the conversation often turns to talk of how to pair different technologies. It would be good for the Company if more conversation like that took place.



“ Human Resources – Key to Global Expansion and Long-Term Success ”

Sacré: If it is going to be place for open innovation, dedicated effort should be made organize frequent events with customers, business partners as well as employees. The place offers a unique opportunity to experience CKD.

Shimada: New breakthroughs from foreign researchers are said to come out of talking with people of diverse backgrounds over a cup of tea in an open space like the showroom. The Company should figure out good ways to use the space.

Conveying important topics and societal needs by making use of the objective viewpoints of Independent Directors

— To solve a variety of issues, what are the roles and responsibilities of Independent Directors and what are your future expectations?

Sacré: As I go about my day-to-day work, urgent problems and topics always arise, but urgent topics and important topics are not the same. As an Independent Director not involved in daily operations, I think my role of reminding the Company of important topics has strategic importance.

A new leadership team has started, preparations are being made with a focus on the recovery in the semiconductor market, and I am very much looking forward to the future from a long-term perspective. However, when becoming busy with everyday work, important topics tend to be forgotten (laughs), so I will contribute to further raising CKD’s corporate value by playing the “reminder role.”

Shimada: One role of an Independent Director is that of an “interpreter.” With the world changing greatly, changes in the environment surrounding the Company and changes in values surprisingly tend to go unrecognized when shut up inside the Company.

So as an “interpreter,” I will communicate why new ways of thinking emerging in society are important and why certain things are being said in society. Conversely, even though CKD’s initiatives and appeal need to be communicated more to the outside, there is a chance that they are being talked about in a kind of “different language” and are not being understood.

I intend to play the role of improving the mutual understanding of society and CKD, make recommendations on revising internal company practices that have continued without a distinct reason, and at the same time, convey things that must not be overlooked. These are the areas I intend to focus on.

I think sincerity is a very valuable asset and a strong point of CKD. Based on this, we need to look up once in while from the work in front of us and think about what kind of people in society are benefiting from what we are doing. By using our imagination and adding some playfulness, I’m sure we can make the Company even more attractive.

Hayashi: When I make recommendations, I’m careful about whether the points being debated are comprehensive. I focus on providing a comprehensive, timeline-based perspective for points that tend to be overlooked even though they shouldn’t be.

As Ms. Shimada has said, having a corporate culture that faces problems sincerely and honestly is important. If everyone can “play,” meaning not only responding to customer requests but also asking oneself questions like “What would happen if we used DX?” and “What about using AI?” it will surely lead to more creative innovation.

Production bases have been established around the world and there are still technological treasures that are lying dormant. If the issues raised thus far can be solved, I firmly believe CKD is a company with high potential that can further promote its existential value to the world. For this reason as well, all board members will provide multifaceted opinions while strengthening supervision.

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

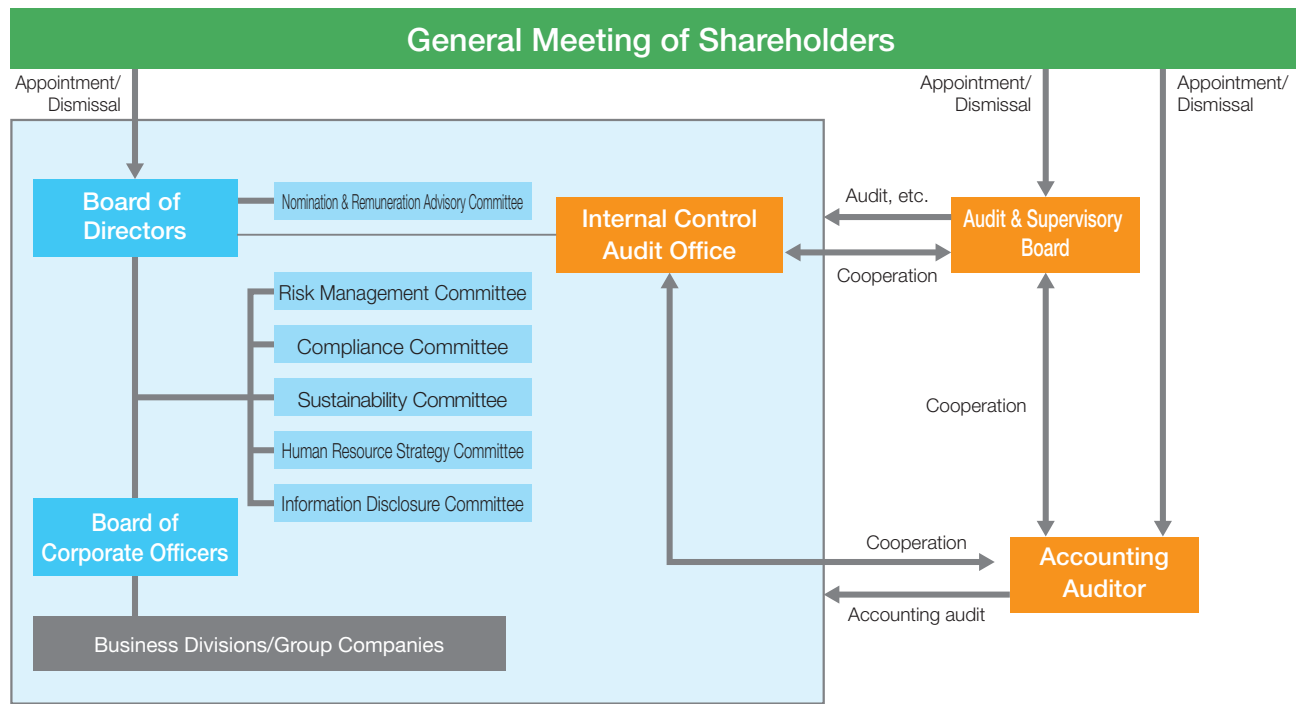
Corporate governance in the Company is based on our Values. To build good relationships with stakeholders with whom we have various interests and become a company that continues to be trusted, we believe it is essential to build a system that functions to enhance management transparency and fairness 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 policies and important matters concerning management as well as those required by laws and regulations. The Board of Corporate Officers promotes prompt management decisions and flexible business execution, and strives to achieve performance targets not only in the short term but also in the medium to long term, and further enhance

corporate value. In addition, the Company has adopted an Audit & Supervisory Board system through which the Audit & Supervisory Board, the Internal Control Audit Office, and the Accounting Auditor collaborate with each other through the exchange of information on a regular basis and whenever necessary, thereby reinforcing the auditing function.

Corporate governance structure



Boards and committees

| Name | Details |
|--|--|
| Board of Directors | <p>Outline</p> <p>In the Regulations for the Board of Directors, it is stipulated that the 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. The Board delegates decision-making authority for the execution of other businesses to the Board of Corporate Officers in accordance with internal regulations that clarify decision-making authority.</p> <p>Main activities</p> <ul style="list-style-type: none">· The Board of Directors meetings provide a forum for more extensive discussions of important cases as matters to be discussed in addition to matters to be resolved and reported.· Conduct regular reports on the status of business execution from Executive Officers.· Exchange opinions between Independent Directors and External Audit & Supervisory Board Members. |
| Audit & Supervisory Board | <p>Outline</p> <p>Audits the execution of duties by Directors through bilateral communication with the Representative Director, 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.</p> <p>Main activities</p> <ul style="list-style-type: none">· Attend monthly meetings of the Board of Directors, Board of Corporate Officers, and subsidiary management briefings, review documents relating to decision making, etc., and audit the status of operations and assets.· Confirm the status of internal audits by the Internal Control Audit Office, the operating of the whistleblower system, and the activities, etc. of the various committees related to compliance.· Regularly hold discussions with the Accounting Auditor to confirm the audit policy and plan, report on audit results, and receive explanations regarding audit quality.· Exchange opinions with the Accounting Auditor concerning Key Audit Matters (KAM) and the effectiveness of internal controls regarding financial reporting, and consider issues related to audit activities, etc. |
| The Nomination & Remuneration Advisory Committee | <p>Outline</p> <p>The committee has been established to ensure objectivity and transparency in the decision-making process regarding the nomination of candidates for Directors and Audit & Supervisory Board Members and the remuneration system for Directors and further strengthen the corporate governance system.</p> <p>Main activities</p> <ul style="list-style-type: none">· The committee is chaired by an Independent Director. A majority of the committee members are Independent Directors. Meetings are held about four times a year.· Appointment of candidates for Directors is determined in light of the appointment criteria.· The committee determines policies on remuneration for Directors and the amount of individual remuneration, deliberates on the establishment and revision of the remuneration system, and determines the specific details of the stock remuneration. |
| Board of Corporate Officers | <p>Outline</p> <p>The board promotes prompt management decision-making and flexible business execution to achieve company-wide management goals.</p> <p>Main activities</p> <p>In principle, the board meetings are held twice a month. Directors, Audit & Supervisory Board Members, and Corporate Officers attend the meetings to discuss matters to be reported and deliberated from each division, which lead to prompt management decision-making and flexible business execution.</p> |
| Risk Management Committee | <p>Outline</p> <p>As part of business management, the committee establishes basic matters necessary to identify and comprehensively manage risks surrounding the Company and conducts risk management.</p> <p>Main activities</p> <ul style="list-style-type: none">· The committee meetings are held every three months in principle. However, they are held as needed at the chairperson's discretion for risks that need to be addressed immediately.· Individual themes are selected from key risks. The status of each activity is regularly checked with instructions.· In fiscal 2023, initiatives included strengthening the governance of Group companies, promoting human capital management, responding to requirements for ensuring economic security, promoting information security, and formulating strategies for individual businesses. |
| Compliance Committee | <p>Outline</p> <p>The committee ensures that all employees are fully aware of legal compliance and business ethics and promotes compliance with the CKD Group. It also conducts activities to prevent compliance violations within the Company, acts as a contact point in the event of compliance violations, investigate the causes and establishes measures to prevent a recurrence. The committee acts as a contact point for whistleblowing, conducts investigations in cooperation with each division within the Company, reviews necessary corrective measures, and takes immediate action.</p> <p>Main activities</p> <ul style="list-style-type: none">· Hold the meetings every six months in principle.· Review disciplinary action proposals.· Report the results of the harassment consultation contact.· Report the results of compliance inspections (conducted in fiscal 2022).· Report the results of reporting and recommendations to internal and external reporting contact points.· Review harassment prevention measures.· Report to the Board of Directors. |
| Sustainability Committee | <p>Outline</p> <p>The committee consists of the President as chairperson and relevant officers and division heads as committee members. It deliberates on key issues to promote our ESG and SDGs initiatives, contribute to the global environment, and help enrich society through our business activities.</p> <p>Main activities</p> <ul style="list-style-type: none">· Hold the meetings every six months in principle.· Extract key issues.· Review and deliberate on the progress of responses.· Report to the Board of Directors.· Formulate response policies and plans.· Disseminate policies and plans to related divisions and the entire Company. |

Corporate Governance

| Name | Details |
|-----------------------------------|--|
| Human Resource Strategy Committee | Outline In order to realize the Purpose and management strategies, the Company regards the acquisition, development and improvement of engagement of human resources as its most important issues, and is promoting the development of measures and systems to build the "human resources-oriented corporate culture" set forth in the 10-Year VISION. |
| | Main activities · Hold the meetings every six months in principle. · Approval of response policies and plans considered in the Future Human Resources Project. · Consider and determine recruitment policies, training programs, and frameworks for enhancing engagement targeting human capital management. · Consider and determine human resources strategies based on business strategies. · Report to the Board of Directors. |
| Information Disclosure Committee | Outline The committee determines the materiality of information and the appropriateness of disclosure content in statutory and timely disclosure and works to establish a fair and reliable information disclosure system. Main activities · The committee meetings are held every three months, after the settlement date of accounts, in principle. However, they are held as needed at the chairperson's discretion for cases that need to be addressed immediately. · Confirm the status of disclosure in IR, general meetings of shareholders, and business results. Review and determine the method of disclosure of matters to be added. · Review and respond with corrective actions when concerns are identified in disclosing information subject to the Fair Disclosure Rules. · Monitor decisions made by the Information Disclosure Committee. · Report to the Board of Directors. |

Evaluating the effectiveness of the Board of Directors

To enable the Board of Directors to pursue sustainable improvement, a third-party organization is commissioned every year to evaluate the effectiveness of the Board of Directors.

The Board of Directors identifies key issues taken from the results of these evaluations, and discusses initiatives for making improvements, etc.

| Main contents of the survey | |
|-----------------------------|--|
| ● Respondents | All members of the Board of Directors (Six Directors and Four Audit & Supervisory Board Members) |
| ● Evaluation method | Anonymous questionnaire |
| ● Summary of questions | Composition of the Board of Directors Management of the Board of Directors meetings Discussion at the Board of Directors meetings Monitoring function of the Board of Directors Training Dialogue with shareholders (investors) Self-improvement |
| ● Aggregation of results | Outsourced to a third-party organization to ensure objectivity |

| Outline of the Evaluation of the Effectiveness of the Board of Directors for Fiscal 2023 | |
|--|--|
| Initiatives in which a certain level of improvement has been made | · Establishment of an internal control system, including for subsidiaries, and supervision and monitoring of status of operations · Reflect responses to ESG and SDGs initiatives in management strategies, including from the perspectives of risks and opportunities · Follow-up on the progress of management plans · Provide feedback to the Board of Directors regarding the status of dialogue with investors |
| Items for strengthening initiatives targeting identified issues | · Adequate discussion that takes into account profitability, capital efficiency, etc., when deciding management strategies and management plans · Strengthen follow-up procedures for matters determined by a resolution of the Board of Directors, including through use of progress reports, etc. · Ensure the provision of opportunities for independent directors to exchange opinions among one another outside the Board of Directors meetings |

Corporate governance evolution

| | Number of Directors | Ratio of Independent Directors | |
|------|------------------------------------|--------------------------------|--|
| 2020 | 7 Internal: 4 Independent: 3 | 43% | · Compliance Committee (renamed from the Good Value Promotion Committee) established · Restricted stock remuneration introduced for Executive Officers, etc., and employees |
| 2021 | 7 Internal: 4 Independent: 3 | 43% | · Sustainability Committee established · Appointment of an Independent Director as Chairperson of the Nomination & Remuneration Advisory Committee |

| | Number of Directors | Ratio of Independent Directors | |
|------|------------------------------------|--------------------------------|---|
| 2022 | 6 Internal: 3 Independent: 3 | 50% | · Proportion of Independent Directors: 50% · Corporate Officer System introduced |
| 2023 | 6 Internal: 3 Independent: 3 | 50% | · Human Resource Strategy Committee established |
| 2024 | 6 Internal: 3 Independent: 3 | 50% | |

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.

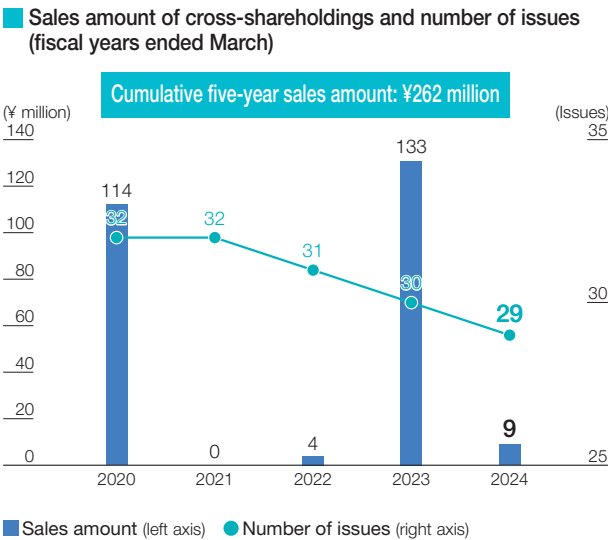
Officer remuneration

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. At the same time, Independent Directors, who are responsible for the oversight function, are paid only basic remuneration considering their role.

The ratio of Directors' remuneration by type is designed so that the higher a person's position, the more significant the proportion of performance-linked remuneration. The Board of Directors determines the amount of remuneration for officers based on consultation of the Nomination & Remuneration Advisory Committee, which is chaired by an Independent Director and the majority of which members are Independent Directors, within the range approved by the General Meeting of Shareholders. The Board of Directors also decides on the



Policy on determining the remuneration for Directors

Basic Policy

- 1 Design the system to motivate Directors 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 Directors to share their interests with shareholders through stock ownership

determination policy based on consultation with the Nomination & Remuneration Advisory Committee.

The achievement rate for each of the performance indicators for performance-linked remuneration ranged from 66% to 96% of the evaluation indicators, i.e. consolidated net sales, consolidated operating profit, ROE, development investment, environmental initiatives, and initiatives toward health and productivity management for the previous fiscal year, which are linked to the Medium-Term Management Plan.

Corporate Governance

| Type of remuneration (composition ratio) | Remuneration details |
|--|---|
| Basic remuneration (about 30 to 70%)* | <div>● The amount is fixed by position according to responsibilities determined upon careful consideration while referring to employees' salaries and remuneration levels at other companies.</div> |
| Performance-linked remuneration (about 20 to 40%)* | <div>● The performance-linked remuneration is paid in cash in an amount reflecting the results of the performance indicator in the previous fiscal year to raise awareness on improving performance each fiscal year.</div> <div>● The target performance indicator and its amount are consulted with the Nomination & Remuneration Advisory Committee as necessary in accordance with environmental changes and are reviewed based on its recommendations.</div> <div>● Officers other than those with titles are eligible for bonuses, to be paid at a specific time each year in an amount obtained reflecting the degree of targets achieved for each individual.</div> |
| Restricted stock remuneration (about 5 to 20%)* | <div>● Restricted stock remuneration consists of restricted stock intended to raise further motivation to sustainably improve corporate value and shareholder value over the medium- to long-term within the range approved at the General Meeting of Shareholders.</div> <div>● The number of shares to be granted to Directors is resolved by the Board of Directors</div> <div>● The restrictions on shares are lifted when the Director retires.</div> |

* 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.

Proportion of basic remuneration, performance-linked remuneration, and restricted stock remuneration

| | | | |
|---|--------------------------------|---|--|
| Internal Directors | Basic remuneration (30 to 70%) | Performance-linked remuneration (20 to 40%) | Restricted stock remuneration (5 to 20%) |
| Independent Directors and Audit & Supervisory Board Members | Basic remuneration (100%) | | |

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.

The total amount of remuneration, etc., by officer category, the total amount of remuneration, etc., by type, and number of eligible officers in fiscal 2023

| Category | Total amount of remuneration, etc. | Total amount of remuneration by type | | | Number of eligible officers (Persons) |
|-----------------------------------|------------------------------------|--------------------------------------|---------------------------------|-------------------------------|---------------------------------------|
| | | Basic remuneration | Performance-linked remuneration | Restricted stock remuneration | |
| Directors | 253 | 138 | 81 | 33 | 7 |
| Audit & Supervisory Board Members | 51 | 51 | — | — | 4 |
| Total | 305 | 189 | 81 | 33 | 11 |

*1 Of the amount paid above, the total remuneration for four Independent Directors and three External Audit & Supervisory Board Members is ¥56 million.
*2 As of March 31, 2024, there are six Directors (including three Independent Directors) and four Audit & Supervisory Board Members (including three External Audit & Supervisory Board Members).

Criteria for judging independence

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

* <https://www.ckd.co.jp/en/company/govern/>

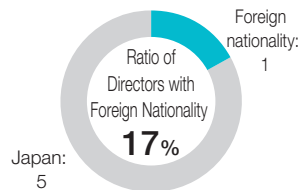
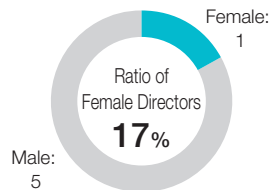
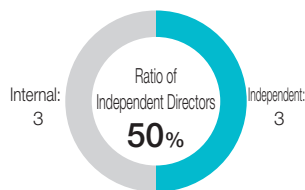
Skill set matrix

| | Name | Job title | Gender | Age | Years in office | Significant concurrent positions | | Committee affiliations | Expertise and experience | | | | | | | | |
|------------------------|-------------------|---|--------|-----|-----------------|----------------------------------|--|------------------------|--|----------------------|---|--------------------|---------------------|------------------------|-----------------------------------|-----------|--------------------------------|
| | | | | | | The number of companies | (Of which, the number of listed companies) | | Nomination & Remuneration Advisory Committee | Corporate management | Manufacturing, technology, research and development | Quality and safety | Sales and marketing | Finance and accounting | Legal affairs and risk management | DX and IT | Sustainability and environment |
| Internal | Kazunori Kajimoto | Chairperson of the Board | Male | 67 | 20 | | | ● | ● | | ● | ● | ● | | | ● | ● |
| Internal | Katsuhito Okuoka | President and Chief Executive Officer | Male | 56 | 8 | | | | ● | ● | ● | | ● | ● | ● | ● | |
| Internal | Yoshiyuki Amano | Director Executive Officer | Male | 61 | (New election) | | | | ● | ● | ● | | ● | ● | | | |
| External (Independent) | Stefan Sacré | Independent Directors | Male | 61 | 3 | 1 | | ● | ● | ● | ● | | | | ● | | ● |
| External (Independent) | Koichi Hayashi | Independent Directors | Male | 59 | 2 | 2 | 1 | ● Chair | ● | | | | ● | ● | | | ● |
| External (Independent) | Hiroko Shimada | Independent Directors | Female | 60 | 1 | 2 | 1 | | | | | | ● | | | ● | ● |
| | | | | | | | | | | | | | | | | | |
| Internal | Toshiaki Sugiura | Standing Audit & Supervisory Board Member | Male | 63 | (New election) | | | | ● | | | ● | | ● | | ● | |
| External (Independent) | Shuzo Hashimoto | External Audit & Supervisory Board Member | Male | 68 | 4 | 1 | | | | | | | ● | | | | |
| External (Independent) | Kiyoshi Miura | External Audit & Supervisory Board Member | Male | 66 | 2 | 1 | | | ● | | | ● | ● | ● | ● | ● | |
| External (Independent) | Tsuyoshi Takeuchi | External Audit & Supervisory Board Member | Male | 65 | 2 | 3 | 1 | | ● | | | | ● | ● | | | ● |

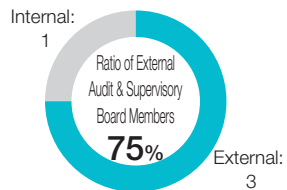
* As of June 21, 2024

| | |
|---|---|
| Corporate management | Experience and knowledge of corporate management and business operation, which are necessary to fulfill medium- to long-term business goals, practice its Purpose of “cultivating a healthy global environment and a prosperous future,” and grow together with society sustainably |
| Manufacturing, technology, research and development | Experience and knowledge of manufacturing, technology, research and development, which are necessary to engage in R&D of automation and fluid control technologies and manufacture products that contribute to solving challenges faced by society |
| Quality and safety | Experience and knowledge of quality and safety, which are necessary to deliver high-quality and safe products to society and create a work environment that gives due consideration to occupational safety and health within the organization |
| Sales and marketing | Experience and knowledge of sales and marketing, which are necessary to develop marketing activities that satisfy customers, strengthen sales capabilities and respond to customers' needs to become the company of choice |
| Finance and accounting | Experience and knowledge of finance and accounting, which are necessary to disclose financial information, raise finance properly and aim to increase the Company's corporate value that satisfies both investing in growth and returning profits to shareholders based on the sound financial standing |
| Legal affairs and risk management | Experience and knowledge of legal affairs and risk management, which are necessary to develop a foundation for sustainable corporate value enhancement by establishing a governance system, improving compliance, and thoroughly managing risks |
| DX and IT | Experience and knowledge of DX and IT, which are necessary to promote the creation of new value, such as improving operational efficiency and optimizing business processes by utilizing newly introduced core systems and integrating digital technologies and data |
| Sustainability and environment | Experience and knowledge of sustainability and environment to actively promote sustainability and environmental initiatives to realize a sustainable society, which are essential for the Company's medium-to long-term development as a company that contributes to society |
| International experience | Experience and knowledge of overseas businesses, management, culture, etc., which are necessary to accelerate globalization and fulfill management strategies for expanding overseas markets |

Composition of Directors




Composition of Audit & Supervisory Board Members



Board of Directors and Audit & Supervisory Board Members

Directors



Kazunori Kajimoto
Chairperson of the Board of Directors and Corporate Officer


94 thousand shares

100% (12/12)

- 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 Representative Director, Chairperson of the Board of Directors and Chief Executive Officer (CEO)
- Jun. 2024 Chairperson of the Board of Directors (to present)

Reason for appointment

Mr. Kazunori Kajimoto has long experience in overseeing sales divisions, as well as abundant experience and broad insight as a corporate executive. We have appointed him as we believe that he will contribute to our management by utilizing the above.



Yoshiyuki Amano
Director, Executive Officer, Corporate Officer, In charge of Administration

2 thousand shares

—

- Apr. 1987 Joined Nippon Telegraph and Telephone Corporation
- Jul. 2010 Senior Vice President
General Manager, Network Business Department
General Manager, Data Center Business Department, NTT PC Communications Incorporated
- Jul. 2015 Senior Vice President (CTO)
Senior Vice President, Service Creation Division Senior Vice President, Technology and Operations Development Division
- Jul. 2018 Executive Counselor, Corporate Planning Department, the Company
- Jul. 2019 General Manager, Information Resource Management Department
- Jun. 2020 Executive Officer
General Manager, Information Resource Management Department
General Manager, Business Advancement Center
- Jan. 2021 Executive Officer
General Manager, Digital Strategy Department
- Jun. 2024 Director & Executive Officer, In charge of Administration (to present)

Reason for appointment

Mr. Yoshiyuki Amano has long experience in overseeing the departments for technology development and service improvement and abundant experience and broad insight as a manager. We have appointed him as we believe that he will contribute to our management by utilizing the above.



Katsuhito Okuoka
Representative Director, President, Corporate Officer, and Chief Executive Officer (CEO)


40 thousand shares

100% (12/12)

- Apr. 1991 Joined the Company
- Jun. 2016 Director & Executive Officer
General Manager, Components Business Division
- 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 President and Chief Operating Officer (COO)
- Jun. 2022 President and Chief Operating Officer (COO)
(job title changed in Japanese only)
- Jun. 2024 President and Chief Executive Officer (CEO) (to present)

Reason for appointment

Mr. Katsuhito Okuoka has long experience in overseeing production divisions, as well as abundant experience and broad insight as a manager. We have appointed him as we believe that he will contribute to our management by utilizing the above.



Stefan Sacré
Independent Director




0 shares

100% (12/12)

- 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 and Representative Director, Carl ZEISS Co., Ltd. (Japan)
President and Representative Director, Carl Zeiss Meditec Co., Ltd.
- Jun. 2021 Director, the Company (to present)
- May 2024 Senior Advisor, Carl ZEISS Co., Ltd. (Japan) (to present)

Reason for appointment

Mr. Stefan Sacré appropriately performs his duties as an Independent Director by making critical managerial decisions and overseeing business execution independently and impartially. Furthermore, he has high academic knowledge as a Doctor of Engineering and abundant experience as a manager in the manufacturing sector in Japan and overseas. We have appointed him as we expect that he will oversee all aspects of the Company's operations and offer advice and opinions from broad management perspectives.

-  Number of shares of the Company held
-  Status of attendance at Board of Directors meetings (Fiscal 2023)
-  Status of attendance at Audit & Supervisory Board meetings (Fiscal 2023)



Koichi Hayashi
Independent Director

0 shares


100% (12/12)

- 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
- Jun. 2013 External Audit & Supervisory Board Member, Plaza Create Co., Ltd. (currently, Plaza Holdings Co., Ltd.)
- Jun. 2018 External Director
Audit and Supervisory Committee Member, Plaza Create Co., Ltd. (currently, Plaza Holdings Co., Ltd.) (to present)
- Jun. 2022 Director, the Company (to present)

Reason for appointment

Mr. Koichi Hayashi appropriately performs his duties as an Independent Director by making critical managerial decisions and overseeing business execution independently and impartially. Furthermore, he has professional knowledge as a certified public accountant and abundant experience as a manager. We have appointed him as we expect that he will oversee all aspects of the Company's operations and offer advice and opinions from broad management perspectives.

Audit & Supervisory Board Members



Toshiaki Sugiura
Standing Audit & Supervisory Board Member

11 thousand shares


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—

- Apr. 1985 Joined the Company
- Oct. 2000 Office Manager, Chiba Sales Office, Sales Department, CKD Tokyo Sales Co., Ltd.
- Apr. 2003 Office Manager, Tokyo Sales Office, Tokyo Sales Department No.1, Tokyo Branch, Sales and Marketing Division, the Company
- Mar. 2005 Group Leader, Secretary Group, General Affairs Department
- Oct. 2009 General Manager, General Affairs Department
- Apr. 2021 Representative Director, CKD Global Services Corporation
- Jun. 2024 Standing Audit & Supervisory Board Member, the Company (to present)

Reason for appointment

Mr. Toshiaki Sugiura has long experience in overseeing the departments for staff workers' affairs and abundant experience and broad insight at sales departments. We have appointed him as we believe that he will appropriately audit management based on such experience and insight.



Kiyoshi Miura
External Audit & Supervisory Board Member

0 shares

100% (12/12)

100% (12/12)

- Apr. 1980 Joined Sumitomo Bank
- Apr. 2010 Executive Officer, General Manager, North Osaka Corporate Banking Division, Sumitomo Mitsui Banking Corporation
- Apr. 2012 Managing Executive Officer secondarily responsible for Corporate Divisions, In charge of Western Japan Region
- Jun. 2014 Representative Director and Executive Deputy President, Kansai Urban Banking Corporation
- Apr. 2019 Representative Director and Executive Deputy President, Kansai Mirai Bank, Limited
- Apr. 2020 Director, Chairperson of the Board of Directors, SMBC Human Career, Co., Ltd.
- Jun. 2022 Audit & Supervisory Board Member, the Company (to present)
- Oct. 2023 Adviser, SAERA Pharmacies, Inc. (to present)

Reason for appointment

Mr. Kiyoshi Miura has experience developed over the years in financial institutions as well as abundant experience and broad insight as a corporate manager. We have appointed him as we believe that he will apply such experience and insight to the Company's audit.



Hiroko Shimada
Independent Director


0 shares

100% (10/10)

- Apr. 1986 Joined National Personnel Authority
- Jun. 1990 Long-term overseas researcher in the United Kingdom (University of Oxford)
- Apr. 2000 First Secretary, The Permanent Mission of Japan in Geneva, Ministry of Foreign Affairs of Japan
- Apr. 2017 First Deputy Director General, Remuneration Bureau, National Personnel Authority
- Apr. 2018 Deputy Director General, Human Resources Bureau, National Personnel Authority
- Apr. 2019 Professor, School of Government, Kyoto University (to present)
- Mar. 2023 External Director, SPACE CO., LTD. (to present)
- Jun. 2023 Director, the Company (to present)

Reason for appointment

Ms. Hiroko Shimada appropriately performs her duties as an Independent Director by making critical managerial decisions and overseeing business execution independently and impartially. Furthermore, she has abundant domestic and international experience in human resources policies, laws and regulations, mainly in recruitment and development, diversity, work style reform, and labor-related matters at the National Personnel Authority and the Ministry of Foreign Affairs of Japan. We have appointed her as we expect that she will oversee all aspects of the Company's operations and offer advice and opinions from broad perspectives.



Shuzo Hashimoto
External Audit & Supervisory Board Member

0 shares


100% (12/12)

100% (12/12)

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

Reason for appointment

Mr. Shuzo Hashimoto has abundant experience and broad insight as a lawyer. We have appointed him as we believe that he will apply such experience and insight to the Company's audit.



Tsuyoshi Takeuchi
External Audit & Supervisory Board Member

0 shares

100% (12/12)

100% (12/12)

- Oct. 1983 Joined Peat Marwick Mitchell, Osaka Office (currently KPMG)
- Apr. 1988 Registered as a certified public accountant
- Sept. 1993 Head of ASEAN Japan Center, KPMG Singapore Office
- Jun. 1999 Representative Partner, Century Audit Corporation
- Jun. 2003 Representative Partner, Azsa Audit Corporation (currently KPMG AZSA LLC)
- Jul. 2021 Representative Director, PM Business Solutions Inc. (to present)
- Jun. 2022 Audit & Supervisory Board Member, the Company (to present)
- Dec. 2022 Principal, Takeuchi Tsuyoshi Certified Public Accountant Office (to present)
- Jun. 2023 Outside Auditor, Chugai Ro Co., Ltd. (to present)

Reason for appointment

Mr. Tsuyoshi Takeuchi has professional knowledge as a certified public accountant and abundant overseas experience. We have appointed him as we believe that he will apply such experience and insight to the Company's audit.

Compliance

In our compliance regulations and Standards of Conduct, 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 Standards of Conduct

Our Standards of Conduct clearly outline our thorough policy regarding legal compliance and business ethics, 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, including those overseas, with a CKD Standards of Conduct Manual, implement internal level-specific compliance training, share legal compliance information with overseas bases, have new employees (including employees hired on part-time basis) submit a written pledge on service

rules, and provide all employees with a confidential information management training and have them submit a written pledge.

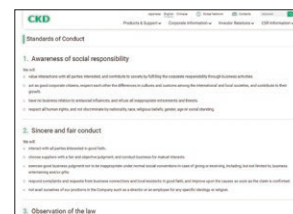


Handling risk of compliance violations

The status of handling matters related to legal compliance as stipulated in the Standards of Conduct 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 suppliers who may become 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.

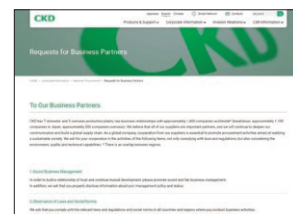
Furthermore, our approach to compliance is clearly stated through means such as the Requests for Business Partners posted on our corporate website, and business partners are

informed of this approach. In fiscal 2023, 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.



Standards of Conduct

<https://www.ckd.co.jp/en/company/mission/>



Requests for Business Partners

<https://www.ckd.co.jp/en/company/sizai/onegai/>

Whistleblower system

We have established a whistleblower helpline as a mechanism through which employees and others who work in the CKD Group can make reports. In addition to the internal whistleblower hotline, we have established an external helpline staffed by an independent lawyer to ensure anonymity and confidentiality of whistleblowers and to protect them as well as to detect and correct compliance violations as early as possible. 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. In fiscal 2023, 12 whistle-blowing cases were reported.

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 other multiple languages. The details of reports are presented to Representative Director (or External Audit & Supervisory Board Members, depending on the nature of the case) 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.

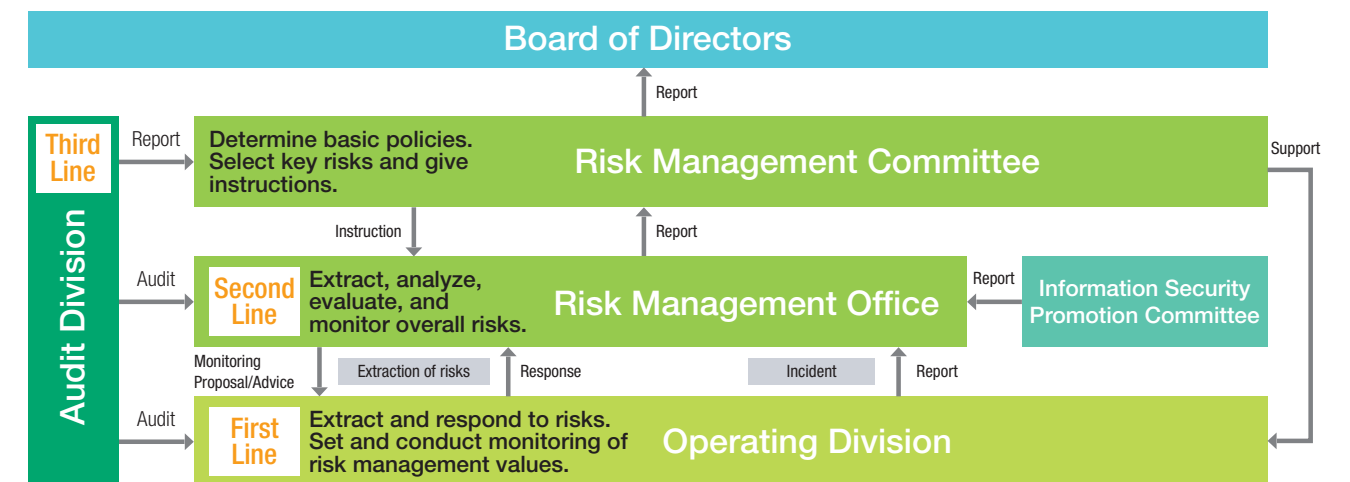
Risk management system

The Risk Management Committee has been established as an organization under the direct control of the Board of Directors. It reports the progress and results of its activities to the Board of Directors regularly to promote risk management.

We established a Risk Management Office as a subordinate organization of the Risk Management Committee and a monitoring system by the Audit Division to strengthen our risk management system.

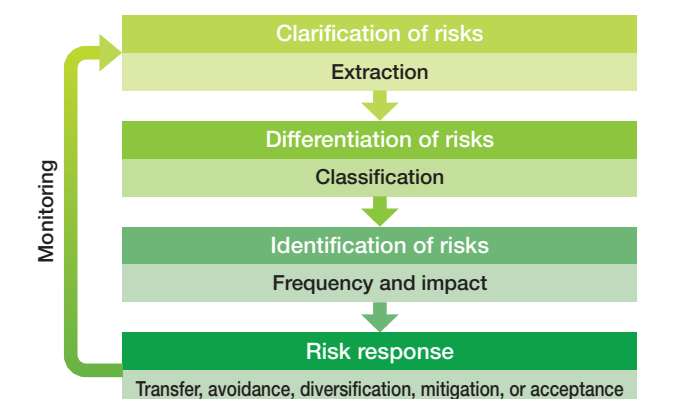
Specifically, the Risk Management Office comprehensively identifies and analyzes the risks for CKD as a whole, checks the status of the Operating Division's efforts to address each risk, and encourages improvements as necessary. It regularly reports to the Risk Management Committee.

The Audit Division, the third line of risk management, monitors the appropriateness of functions of the Operating Division, the first line of risk management, and the Risk Management Office, the second line.



Risk identification process

Each of the business divisions, Group companies, and the Head Office administration divisions identifies risks that may hinder the improvement of corporate value and the achievement of management goals and their countermeasures. Risks are differentiated, and then evaluated and identified based on the frequency and degree of impact when they occur. Identified risks are reported to and shared at the Board of Directors.



Risks and Opportunities

We have a system in place that allows us to respond to the risks that may affect our corporate value, and review selected risks as necessary. Risks are not always negative factors; some may become opportunities for further growth of the Company. We will continue to capture such risks as opportunities and take bold actions when appropriate. As we conduct risk management and improve our corporate value through business initiatives, we aim to realize a sustainable society.

Approach to risk

We define risks as uncertain events that may affect corporate value such as achieving management goals and social credibility as a result of changes in the external or internal environment. We view the appropriate management of risk as a vital management issue to expand our business globally, and have a risk management system in place.

| Risk factors | Risks | Responses and opportunities | Corresponding materiality P15-16 ▶ Materiality |
|--|---|---|--|
| Society/ Economy | • Stagnation of business conditions in key customers' industries due to the prolonged economic downturn, affecting business performance | <div>Responses</div> • Prompt action to address changes in the market environment | <div>12</div> Risk management |
| Natural hazards | • Impact on production activities due to the suspension of operations at production plants and supply chain disruptions caused by natural disasters such as heavy rain and flooding • Impact on production activities of earthquakes in the Tokai, Tonankai, and Nankai regions | <div>Responses</div> • Establishment of a system enabling local procurement at each production base and decentralization of production bases • Strengthening of response capabilities through our business continuity plans (BCP) and new regulations | <div>12</div> Risk management |
| Politics | • Impact on the Company's business through semiconductor-related customers in the Component Products Business in the event of restrictions on imports/exports and semiconductor-related transactions due to political factors, such as trade frictions • Impact on production activities due to government regulations and import/export restrictions resulting from heightened geopolitical risks | <div>Responses</div> • Promotion of local procurement of products manufactured overseas, production at multiple bases, and placement of inventory centers in various locations by taking into consideration geopolitical risks <div>Opportunities</div> • Increased demand for new capital investment due to the decentralized siting of customers' semiconductor production bases | <div>12</div> Risk management <div>5</div> Supply chain management |
| Management and internal controls | • Impact on business performance from unexpected changes in the business environment • Unexpected losses that can arise from inadequacy of management at bases with short history or small-scale locations | <div>Responses</div> • Continuous review of management strategies and the management of annual policies • Support for overseas Group Companies to strengthen governance • Human resource strategy incorporating strengthened in-house education, including implementation of a global-based human resource development plan | <div>4</div> Challenge to new businesses and markets <div>10</div> Corporate governance <div>16</div> Development of human resources and future generations |
| Legal issues related to business transactions | • Impact of the security export control system • Financial disruption caused by the non-collection of accounts receivable • Impact on production activities stemming from shortages in the supply of materials from suppliers due to business succession issues, etc. | <div>Responses</div> • Thorough company-wide training and rigorous export control • Securing multiple suppliers and conducting evaluation tests of alternative materials • Conducting regular credit checks | <div>5</div> Supply chain management |
| Products/ Technologies/ Services | • Burden of compensation for damages and loss of customer trust in the event that a product causes personal injury or property damage • Intensified price competition with competitors due to the commodification of some products | <div>Responses</div> • Reinforcement of the quality assurance structure from raw materials to shipping inspections • Development of IoT-related components, preventive maintenance, and long service life products • Development of high-value-added products and launch of price-competitive products <div>Opportunities</div> • Increased demand for high-value-added products due to an increase in customers who place emphasis on quality | <div>1</div> Development of low environmental impact products <div>2</div> Products that emphasize safety and quality <div>3</div> Challenge to technological innovation |

| Risk factors | Risks | Responses and opportunities | Corresponding materiality P15-16 ▶ Materiality |
|--------------------------------|---|--|--|
| Employment | • Impact on production activities due to the difficulty of securing labor in Japan under a declining birthrate • Impact on new businesses and global activities due to shortages of global-based human resources and human resources capable of project planning | <div>Responses</div> • Advanced automation in domestic plants and establishment of production systems that do not rely on human labor • Human resource strategy incorporating strengthened in-house education, including implementation of a global-based human resource development plan <div>Opportunities</div> • Increased demand for automation and labor-saving on production lines due to the difficulty of securing labor in Japan | <div>16</div> Development of human resources and future generations <div>17</div> Respect for human rights <div>19</div> Promotion of diversity and inclusion |
| Information security | • Dysfunction in internal systems or information leaks due to computer viruses or cyberattacks and associated loss of social credibility • Impact on deliveries to business partners caused by a suspension of production lines and distribution systems • Stagnation in procurement, production, and distribution due to the shutdown of the ERP software system, and the resulting negative impact on business activities • Impact of computer virus infection on important business partners | <div>Responses</div> • Development of information security management policies and other regulations and implementation of employee training and internal audits • Installment and updating of the latest information security equipment and software • Investigation and remediation of information security management at our significant business partners <div>Opportunities</div> • Increased opportunities for dealings with customers by improving social credibility through strengthening information security systems | <div>5</div> Supply chain management <div>12</div> Risk management |
| Environmental issues | • Impact on business performance due to delays in the development of businesses and products that contribute to the realization of a decarbonized society by the Group • Impact on business activities from tighter regulations on the use and emission of greenhouse gases and under the energy-conservation laws due to worsening global environmental issues • Impact on business activities of stricter regulations on chemical substances in use • Impact on the continuity of the Company's packaging machinery business in the event of delayed response in the packaging business to the global trend toward de-plasticization | <div>Responses</div> • Development of low environmental impact products • Prompt switch away from materials containing regulated substances • Development of packaging machinery adapted to plastic-free packaging materials <div>Opportunities</div> • Sales expansion of low environmental impact products • Expansion of business in packaging machinery adapted to plastic-free packaging materials | <div>1</div> Development of low environmental impact products <div>6</div> Reduction of CO ₂ emissions <div>7</div> Reduction of water consumption <div>8</div> Prevention and reduction of waste <div>9</div> Reduction of chemical substances impacting the environment |
| Occupational safety and health | • Impact on business operations from employees being overworked or stressed • Impact on production activities from industrial accidents • Impact on deliveries to business partners caused by a suspension of operations at domestic and overseas plants or at key supplier plants due to the pandemic | <div>Responses</div> • Implementation of regular surveys in the form of mental health checks • Carrying out occupational safety and health training • Strengthening of non-contact support including remote sales and services • Strengthening of development of sensors and image processing technology for remote control and labor-saving <div>Opportunities</div> • Increased demand for automation and labor-saving such as production equipment that does not rely on humans and remote diagnosis and operation of equipment as measures against infectious diseases and other threats | <div>15</div> Promotion of occupational safety and health <div>18</div> Health and productivity management |
| Facilities/ Equipment | • Impact on production activities from malfunctioning or damaged production equipment | <div>Responses</div> • Keeping equipment running through regular upgrades and maintenance | <div>12</div> Risk management |