

# 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” for the purpose of realizing a greater level of sustainable corporate value.

## Mindset

CKD Group endeavors to further enhance corporate governance as a mechanism to realize management that is healthy and efficient, and that has a character of transparency which earns the ongoing trust and goodwill of all stakeholders, with their diverse range of vested interests.

## Status of Internal Control System and Risk Management Structure Development

CKD's basic policy for putting in place an internal control system and risk management structure is determined, and executed, by its Board of Directors. Details of the basic policy are as follows.

- a) Ensuring conformity to laws and regulations, as well as the Articles of Incorporation

To be sure that directors and employees comply with laws and regulations, as well as the Articles of Incorporation in the performance of their duties, we maintain Standards of Conduct and internal regulations, and have put in place a system that prohibits relations with antisocial forces and offers a way to report illegal activities. We have also established a Nomination, Remuneration Advisory Committee to designate directors and determine their compensation, among other duties.

- b) Preserving and managing information

Proposal approval forms, the minutes of various meetings, and other information associated with the execution of duties by directors are appropriately preserved and managed in accordance with laws and internal regulations.

- c) Risk management

In tandem with seeking to raise awareness of compliance among all employees, the risk management sections of each business division work in close cooperation and under the primary authority of the divisions tasked with risk management (General Affairs Department, Information Resource Management Department, Internal Control Audit Office and Legal Department) at headquarters, which promotes companywide risk management. In addition, to respond promptly and with precision to risks that are increasingly complex, we have established the Risk Management Committee under the auspices of the Board of Directors as an entity that manages risks laterally throughout the Company. The Risk Management Committee deliberates and decides upon matters relating to companywide risk management.

- d) Ensuring efficient execution of duties by directors

As a general rule, the Board of Directors convenes once a month, and the Board of Managing Directors, composed primarily of Company officers, convenes on an as needed basis. This enables swift decision making by management. The Company also holds Management conferences for matters that impact operations at each business division. These meetings are attended by officers and division heads who share information through reports and discussions on the analysis of the business environment and the progress of financial planning, and also reflect management decisions. In addition, the introduction of an executive officer system has effectively separated the management decision making, as well as supervisory and operational execution functions, responsibilities that had previously been held by the Board of Directors. This enables precise and prompt decision making, and agility in executing business operations.

- e) Ensuring appropriate operations within the corporate structure

CKD promotes efficient subsidiary management based on regulations for the control of subsidiaries both in and outside of Japan. In tandem with this, as subsidiaries fall under the scope of Standards of Conduct and within the risk management structure, we pursue proper business operations with subsidiaries by having a thorough system of reporting to headquarters and providing advance approval concerning important matters.

- f) Matters related to employees assigned to auditors
- The Company assigns employees to assist the auditors in the performance of their duties, as necessary, and grants such employees the authority to conduct investigations as directed by the auditors. In such cases directors and auditors deliberate in advance concerning human resources.

- g) Reporting to auditors

At the request of auditors, directors and employees of the Company and its subsidiaries shall provide required reporting, and share information regarding Groupwide management conditions and status of business execution, in accordance with laws and regulations and as stipulated by the Audit & Supervisory Board. In addition, employees who are assigned to auditors are not to be the subject of disadvantageous treatment due to sharing information and reporting to auditors.

h) Structure to ensure the effective execution of other auditor audits

To raise the effectiveness of the Group's audit structure, we have established the Internal Control Audit Office under the direct control of management, and ensure opportunities for information exchange by auditors, accounting auditors and the Internal Control Audit Office. In addition, auditors may consult with external experts in the legal, accounting or other fields as necessary, and the payment of related expenses will be the responsibility of the Company.

### Officer Remuneration

The Nomination, Remuneration Advisory Committee, an advisory body to the Board of Directors, deliberates on the remuneration system for officers, and it has established the following basic policies.

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

Remuneration for directors is determined following consultation with the Nomination, Remuneration Advisory Committee, by the representative director who is authorized by the Board of Directors, within the range approved by the General Meeting of Shareholders and in accordance with standards established by the Company. The remuneration for directors consists of fixed remuneration, performance-linked remuneration, and restricted stock remuneration, while outside directors are paid only fixed remuneration, in light of their role to supervise management from an independent perspective. Fixed remuneration is set at a fixed amount for each position, taking into account the level of responsibility and contribution to management.

Performance-linked remuneration is based on consolidated sales, consolidated operating income, ROE, and development investment of the previous fiscal year, which are linked to the Medium-Term Management Plan as key performance indicators. The distribution of performance-linked remuneration is set in a manner such that the higher the position is, the greater the distribution becomes, thereby requiring higher performance and responsibility for performance.

### Criteria for Judging Independence

The Company deems an outside officer or a candidate for an outside officer to be independent from the Company if the officer 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 Principle 4-9 of the CKD Corporation Corporate Governance Report.

### Providing Outside Officers with Information

In order to give our outside officers a deeper understanding of the Company's business, we provide explanations such as a business overview when they are first appointed, followed by opportunities to observe at each of our plants in Japan. We also carry out the following training and information provisions.

- Provision of materials and detailed explanations of key issues before Board of Directors meetings
- Scheduled participation in Audit & Supervisory Board meetings and other opportunities for information sharing
- Observation tours of plants both in Japan and overseas, including those belonging to Group companies
- Setting of opportunities to hear status reports from executive officers at Board of Directors meetings

Total remuneration, total of each type of remuneration, and number of each type of officer (fiscal 2019)

Officer Type	Total Remuneration (millions of yen)	Total Remuneration by Type (millions of yen)			Number of Officers
		Fixed Remuneration	Performance-linked Remuneration	Restricted Stock Remuneration	
Director (excluding outside directors)	202	133	57	11	5
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	17	17	—	—	1
Outside officers	40	40	—	—	6

\* As of the end of fiscal 2019, there are eight directors (including three outside directors) and four Audit & Supervisory Board members (including three outside Audit & Supervisory Board members).

## Promotion Structure

In addition to its responsibilities as determined by laws and regulations, the Board of Directors is positioned as an entity that determines basic policy and important matters concerning management. We believe that it is essential to have leadership driven by top management and decision making that is both transparent and fair. Based on this thinking, as a company that has adopted a board of auditors' system, we entrust to administrative personnel the execution of those routine duties as would be permitted within the scope of the law, and we work toward management that is transparent and objective owing to strengthened management oversight conducted by Audit & Supervisory Board Members. In addition, together with appointing three independent outside directors, 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 convened as needed, and based upon the results of deliberation on matters related to nomination and remuneration, committee members report to the Board of Directors.

## Oversight Functions

The Company has adopted a board of auditors' system, and its Audit & Supervisory Board is composed of four auditors, three of whom are outside auditors. Each Audit & Supervisory Board Member attends Board of Directors' meetings and other important meetings based on the audit policies, formulated by the Audit & Supervisory Board, and audit plans, and conducts audits of directors' execution of duties through surveys on the status of business tasks and financial conditions. Auditors work closely with the Internal Control Audit Office and accounting auditors, and exchange information on an as needed basis.

The Standing 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 organization

