

Corporate Governance Report

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CKD Corporation

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Securities Code: 6407

<https://www.ckd.co.jp/english/>

The corporate governance of CKD Corporation (the “Company”) is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

To build a good relationship with shareholders, business partners, financial institutions, local communities, and other stakeholders, which have various interests in the Company and its affiliates (collectively, the “Group”), and to continue to be a trustworthy company, the Group will further enhance corporate governance as a mechanism for achieving sound and efficient management and increasing the transparency of management.

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

[Principle 4-1. Roles and responsibilities of the Board of Directors (1)]

Regarding the determination of the Company’s successor, the Nomination, Remuneration Advisory Committee, which includes Outside Directors, deliberates on whether the successor candidate has the qualifications to serve as the President of the Company, expresses its opinion and advice at the Board of Directors, and the Board of Directors decides on the successor. In addition, a succession training plan for the purpose of training officers including the President, Executive Officers, and top management is an important part of the Company’s management strategy, and the Board of Directors and the Nomination, Remuneration Advisory Committee will continue to discuss this matter.

[Disclosure Based on the Principles of the Corporate Governance Code] UPDATED

[Principle 1-4. 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 market value, ROE, and dividend yields of each stock it holds 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.

[Principle 1-7. Transactions between related parties]

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

[Principle 2-6. Roles of corporate pension funds as asset owners]

In order to enhance the Company's asset management expertise and make sure that its corporate pension funds perform their role as an asset owner, the Company appoints a person with specialized skills and knowledge of pension management as the chairperson and develops human resources by participating in various training programs. In addition, the Company strives to create an appropriate investment environment by regularly monitoring the management status of its pension assets.

[Principle 3-1. Enhancing information disclosure]

- (1) The Company has established the following corporate philosophy: "With creative knowledge and technology, we shall innovate fluid control and automation, thus contribute to build rich society." Based on this, it will strive to appropriately fulfill its social responsibilities and continue to develop its business.
- (2) For the basic approach to and basic policy on corporate governance, please refer to "I. 1. Basic Views" in this report.
- (3) Regarding the policies and procedures for determining the remuneration of Directors and Audit & Supervisory Board Members, the Nomination, Remuneration Advisory Committee holds discussions, taking into account such factors as the balance between salaries and bonuses of employees and their performance, within the limits of total remuneration determined by the General Meeting of Shareholders, and remuneration for Directors is determined by the Board of Directors. In addition, remuneration for Audit & Supervisory Board Members is determined by the Audit & Supervisory Board within the limits of total remuneration determined by the General Meeting of Shareholders. In fiscal 2018, the Company introduced a restricted stock plan, which provides monetary compensation receivables to Inside Directors who are allottees of restricted stock within the amount and number of shares determined by the General Meeting of Shareholders, separately from the limits of total remuneration. The Board of Directors will determine the specific allottees and the amount of monetary compensation receivables, after consultation with the Nomination, Remuneration Advisory Committee.

- (4) The policies and procedures for nominating candidates for Directors and Audit & Supervisory Board Members are set forth in internal regulations, and the selection criteria are based on factors such as excellent character and insight, and extensive knowledge and experience in corporate management. Directors and Audit & Supervisory Board Members are subjected to dismissal if they are not deemed to be contributing to the improvement of corporate value, or if there is misconduct in the execution of duties from the perspective of corporate governance or a material violation of laws and regulations. Such decisions are made by the Board of Directors after consultation with the Nomination, Remuneration Advisory Committee. Candidates for Audit & Supervisory Board Members are determined with the consent of the Audit & Supervisory Board in advance.
- (5) Please refer to the “Reference Documents for the General Meeting of Shareholders” in the Notice of the General Meeting of Shareholders for the reasons for the selection of individual candidates for Directors and Audit & Supervisory Board Members.

[Principle 4-1. Roles and responsibilities of the Board of Directors (1)]

Supplementary principle 4-1-1

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

[Principle 4-8. Effective utilization of Independent Outside Directors]

The Company’s Board of Directors has elected three Independent Outside Directors to enhance the oversight function of the Board of Directors.

[Principle 4-9. Criteria for judging the independence of Independent Outside Directors]

The Company deems an outside officer or a candidate for 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. “No risk of generating conflicts of interest with ordinary shareholders of the Company” refers to the case where an outside officer or a candidate for outside officer is deemed not to fall under any of the following items.

- (1) A person for which the Company and/or its affiliate is a major business partner
- (2) A major shareholder (Note 1) of the Company or a person executing the operations (“Executing Person”) thereof (Note 2)
- (3) A person in which the Group holds 10% or more of the total voting rights directly or indirectly, or an Executing Person thereof
- (4) A major business partner (Note 3) of the Group or an Executing Person thereof

- (5) A person who belongs to an audit firm which is an Accounting Auditor of the Company or its consolidated subsidiary
- (6) A consultant, an attorney, a certified public accountant, or a person providing other professional services who has received a large amount of money or other properties (Note 4) from the Group, other than as compensation for being a Director or Audit & Supervisory Board Member (if the recipient of such properties is a corporation, partnership or any other organization, such as a consulting firm, law office and accounting office, this item applies to any person belonging to such organization)
- (7) A person who has received a large amount of donations (Note 5) from the Group (if the recipient of such donations is a corporation, partnership or an organization, this item applies to an Executing Person of such organization)
- (8) An Executing Person of a company that elects an Executing Person of the Group as its officer
- (9) A person that falls under any of the above items 2 to 8 in the past three (3) years
- (10) If a person that falls under any of the above items 1 to 8 is a significant person (Note 6), a spouse or a relative within the second degree of kinship thereof
- (11) Other than the requirements set forth in the above, a person who is at risk of generating conflicts of interest with ordinary shareholders and is reasonably deemed to be in a situation where he/she is unable to perform duties as an independent outside officer

(Notes)

1. "A major shareholder" refers to a shareholder who holds 10% or more of voting rights under the name of itself or another person at the end of the most recent fiscal year of the Company.
2. "Executing Person" refers to an executive director, executive officer, operating officer, and a person equivalent thereto as well as an employee of a corporation or an organization. A non-executive director shall be also included in the above in case of judging the independence of an Outside Audit & Supervisory Board Member.
3. As to "a major business partner," the significance of such transaction for the Group and for the major business partner shall be assessed using an appropriate index, and an outline of the result thereof shall be disclosed, so that the Company may practically determine the degree of risk of generating conflicts of interest.
A major business partner refers to a person who makes payment to the Company that accounts for 2% or more of the Company's annual consolidated net sales in the most recent fiscal year.
4. As to "a large amount of money and other properties," the significance of such money and properties for the Group and for the recipient shall be assessed using an appropriate index, and an outline of the result thereof shall be disclosed.
5. As to "a large amount of donations," the significance of such donation for the Group and for the recipient shall be assessed using an appropriate index, and an outline of the result thereof shall be disclosed.
6. "A significant person" refers to an executive director, executive officer, operating officer or an employee who is in an upper management position such as department manager or higher.

[Principle 4-11. Preconditions for ensuring the effectiveness of the Board of Directors and the Audit & Supervisory Board]

Supplementary principle 4-11-1

In order to respond flexibly to changes in the market environment, including globalization, we are committed to initiatives including diversity management as we work to secure a wide range of human resources with diverse values, including overseas experience and gender, in addition to the background, knowledge, and expertise essential for business development.

The current composition of the Company's Board of Directors is described in "II. 3. Reasons for Adoption of Current Corporate Governance System" of this report.

Supplementary principle 4-11-2

For information on the concurrent positions of Directors and Audit & Supervisory Board Members, please refer to the Business Report and Reference Documents for the General Meeting of Shareholders in the Notice of the General Meeting of Shareholders. The concurrent positions are within a reasonable range.

Supplementary principle 4-11-3

The Company's Audit & Supervisory Board, which includes three Outside Audit & Supervisory Board Members, evaluates the Directors, and a self-evaluation questionnaire by a third-party organization is also conducted for all Directors and Audit & Supervisory Board Members. The evaluation and results are referenced at the Board of Directors to improve the functioning of the Board of Directors.

[Principle 4-14. Training of Audit & Supervisory Board Members and Directors]

Supplementary principle 4-14-2

The Company provides training for its Directors and Audit & Supervisory Board Members so that they can fulfill their expected roles and responsibilities, such as officer training and the provision of information related to the general state of affairs of the Group, including its business, finances, and organization.

[Principle 5-1. Policy on constructive dialogues with shareholders]

The Company's basic policy is to continuously disclose information to all stakeholders, including shareholders and investors in a fair, timely, and appropriate manner with the aim to gain an appropriate evaluation and trust through IR activities.

- (1) The officer in charge of profit and budget oversees dialogue with shareholders and investors, and works proactively to realize various dialogues, including financial results briefings.
- (2) The Company has established a system that enables the corporate planning, general affairs, finance, accounting, and legal departments to work together in an organic manner and exchange opinions based on the expert perspectives of each member.

- (3) The Company holds a briefing to explain its financial results, management initiatives, and management policies once in six months. In addition, there is a contact point on the Company's website for feedback and questions.
- (4) The content of dialogues with shareholders and investors is provided as feedback to the Board of Directors and other bodies through the officer in charge of profit and budget, as necessary.
- (5) In order to prevent the leakage of financial information and ensure fairness, the period from the day following the settlement date (including the quarterly settlement dates) up to the date of the announcement of financial results is designated as a quiet period, during which time the Company will not disclose information or comment on questions related to the financial results, as a general rule. In addition, the Company has established internal regulations to prevent the leakage of insider information.

[Principle 5-2. Formulation and announcement of management strategies and management plans]

The Company is conscious of the cost of capital and considers ROE to be one of the key indicators of sustainable shareholder value creation. Accordingly, we have set our target for ROE as 9% or above. In addition, with the aim of becoming a Total Factory Automation (FA) Worldwide Supplier, the Company has adopted the three basic policies of evolving products from being best in Japan to becoming globally recognized products, challenging new business activities and markets, and strengthening our business foundations.

2. Capital Structure

Foreign Shareholding Ratio	UPDATED	20% or more but less than 30%
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[Status of Major Shareholders] **UPDATED**

Name / Company Name	Number of Shares Owned (shares)	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	7,231,800	11.61
Japan Trustee Services Bank, Ltd. (Trust account)	5,848,900	9.39
CKD Shareholding Association	2,866,233	4.60
SUMITOMO LIFE INSURANCE COMPANY	1,914,000	3.07
CKD Corporative Companies Investment Association	1,668,510	2.68
Sumitomo Mitsui Banking Corporation	1,581,257	2.54
The Dai-ichi Life Insurance Company, Limited	1,400,000	2.25
Japan Trustee Services Bank, Ltd. (Trust account 5)	1,131,800	1.82
Credit Suisse Securities (Japan) Limited	1,033,884	1.66
Mitsui Sumitomo Insurance Company, Limited	1,010,568	1.62

Controlling Shareholder (except for Parent Company)	—
Parent Company	None

Supplementary Explanation

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3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange/First Section, Nagoya Stock Exchange/First Section
Fiscal Year-End	March
Type of Business	Machinery
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	1,000 persons or more
Net Sales (consolidated) as of the End of the Previous Fiscal Year	¥100 billion or more but less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	10 or more but less than 50 companies

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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5. Other Special Circumstances which may have Material Impact on Corporate Governance

There are no listed subsidiaries.

There are no other special circumstances that may have a significant impact on corporate governance.

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board
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[Directors]

Maximum Number of Directors Stipulated in the Articles of Incorporation	10 persons
Term of Office of Directors Stipulated in the Articles of Incorporation	1 year
Chairperson of the Board	President
Number of Directors	7 persons
Election of Outside Directors	Elected
Number of Outside Directors	3 persons
Number of Outside Directors Designated as Independent Directors	3 persons

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*											
		a	b	c	d	e	f	g	h	i	j	k	
Junichi Kagawa	From another company								△				
Noriko Asai	Academic												
Kazumasa Uemura	Academic												

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

- Person executing the operations ("Executing Person") of the Company or its subsidiaries
- Non-executive director or Executing Person of a parent company of the Company
- Executing Person of a fellow subsidiary company of the Company
- A party whose major client or supplier is the Company or an Executing Person thereof
- Major client or supplier of the Company or an Executing Person thereof
- Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/audit & supervisory board member
- Major shareholder of the Company (or an Executing Person of the said major shareholder if the shareholder is a legal entity)
- Executing Person of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- Executing Person of a company, between which and the Company outside directors/audit & supervisory board members are mutually appointed (the director himself/herself only)
- Executing Person of a company or organization that receives a donation from the Company (the director himself/herself only)
- Others

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons for Election
Junichi Kagawa	○	Mr. Junichi Kagawa served as Senior Managing Director of NGK SPARK PLUG CO., LTD. before retiring in June 2011. At present, he is concurrently commissioned by NGK SPARK PLUG CO., LTD. The Company and NGK SPARK PLUG CO., LTD. have a business transaction relationship in selling manufactured goods, etc. However, the percentage of the amount of such transaction is less than 0.2% of the consolidated net sales of the Company and NGK SPARK PLUG CO., LTD.	<p><Reasons for Election> Mr. Junichi Kagawa has extensive experience in technology development divisions as well as abundant experience and broad insight as a corporate executive. We believe he will appropriately perform his duties as an Outside Director.</p> <p><Reasons for Designation as an Independent Director> The Company believes that there is no risk of a conflict of interest between him and general shareholders, and has designated him as an Independent Director.</p>
Noriko Asai	○	—	<p><Reasons for Election> Ms. Noriko Asai has high academic knowledge and abundant experience as a university professor specializing in management. We believe she will appropriately perform her duties as an Outside Director.</p> <p><Reasons for Designation as an Independent Director> The Company believes that there is no risk of a conflict of interest between her and general shareholders, and has designated her as an Independent Director.</p>
Kazumasa Uemura	○	—	<p><Reasons for Election> Mr. Kazumasa Uemura has high academic knowledge, as well as abundant experience including cultivating human resources, as a university professor specializing in medicine and medical studies. We believe he will appropriately perform his duties as an Outside Director.</p> <p><Reasons for Designation as an Independent Director> The Company believes that there is no risk of a conflict of interest between him and general shareholders, and has designated him as an Independent Director.</p>

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee UPDATED	Established
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Voluntary Committee's Name, Composition, and Attributes of Chairperson UPDATED

	Voluntary Committee Corresponding to Nomination Committee	Voluntary Committee Corresponding to Remuneration Committee
Committee's Name	Nomination, Remuneration Advisory Committee	Nomination, Remuneration Advisory Committee
All Committee Members	3	3
Full-time Members	0	0
Inside Directors	1	1
Outside Directors	2	2
Outside Experts	0	0
Other	0	0
Chairperson	Inside Director	Inside Director

Supplementary Explanation UPDATED
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The chairperson of the committee is elected by the committee members from among themselves.

[Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in the Articles of Incorporation	4 persons
Number of Audit & Supervisory Board Members	4 persons

Cooperation among Audit & Supervisory Board Members, Accounting Auditor and Internal Audit Departments
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An audit report meeting is held at the end of each fiscal year with the Accounting Auditor and Audit & Supervisory Board Members.

Regular monthly liaison meetings are held with the Audit & Supervisory Board Members, the Internal Control Audit Office, and the officer in charge of internal control.

Appointment of Outside Audit & Supervisory Board Members	Elected
Number of Outside Audit & Supervisory Board Members	3 persons
Number of Outside Audit & Supervisory Board Members Designated as Independent Audit & Supervisory Board Members	3 persons

Outside Audit & Supervisory Board Members' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Koichi Hayashi	CPA													
Takeshi Sawaizumi	From another company							△						
Shuzo Hashimoto	Attorney-at-law													

* Categories for "Relationship with the Company"

- * "○" when the audit & supervisory board member presently falls or has recently fallen under the category;
- * "△" when the audit & supervisory board member fell under the category in the past
- * "●" when a close relative of the audit & supervisory board member presently falls or has recently fallen under the category;
- * "▲" when a close relative of the audit & supervisory board member fell under the category in the past

- a. Person executing the operations ("Executing Person") of the Company or its subsidiaries
- b. Non-executive director or accounting advisor of the Company or its subsidiaries
- c. Non-executive director or Executing Person of a parent company of the Company
- d. Audit & supervisory board member of a parent company of the Company
- e. Executing Person of a fellow subsidiary company of the Company
- f. A party whose major client or supplier is the Company or an Executing Person thereof
- g. Major client or supplier of the Company or an Executing Person thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an audit & supervisory board member
- i. Major shareholder of the Company (or an Executing Person of the said major shareholder if the shareholder is a legal entity)
- j. Executing Person of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the audit & supervisory board member himself/herself only)
- k. Executing Person of a company, between which and the Company outside directors/audit & supervisory board member are mutually appointed (the audit & supervisory board member himself/herself only)
- l. Executing Person of a company or organization that receives a donation from the Company (the audit & supervisory board member himself/herself only)
- m. Others

Outside Audit & Supervisory Board Members' Relationship with the Company (2) **UPDATED**

Name	Designation as Independent Audit & Supervisory Board Member	Supplementary Explanation of the Relationship	Reasons for Election
Koichi Hayashi	○	—	<p><Reasons for Election> Mr. Koichi Hayashi has professional knowledge and experience as a certified public accountant. We believe he will appropriately perform his duties as an Outside Audit & Supervisory Board Member.</p> <p><Reasons for Designation as an Independent Audit & Supervisory Board Member> Although he concurrently holds a position as an Executing Person at another company, there is no business relationship between that company and the Company. Therefore, the Company believes that there is no risk of a conflict of interest between him and general shareholders, and has designated him as an Independent Audit & Supervisory Board Member.</p>
Takeshi Sawaizumi	○	Mr. Takeshi Sawaizumi is a former employee of Sumitomo Mitsui Banking Corporation, which is a major business partner of the Company, and although the Company has loans from this bank, approximately 17 years have passed since he retired from the bank, and he is not in a position to be influenced by the bank's intentions. Furthermore, the Company has transactions with a number of financial institutions and the bank holds approximately 2% of the Company's shares, so we are not particularly dependent on the bank.	<p><Reasons for Election> Mr. Takeshi Sawaizumi has extensive experience and insight as a corporate executive. We believe he will appropriately perform his duties as an Outside Audit & Supervisory Board Member.</p> <p><Reasons for Designation as an Independent Audit & Supervisory Board Member> The Company believes that there is no risk of a conflict of interest between him and general shareholders, and has designated him as an Independent Audit & Supervisory Board Member.</p>
Shuzo Hashimoto	○	—	<p><Reasons for Election> Mr. Shuzo Hashimoto has abundant experience and professional expertise as an attorney-at-law. We believe he will appropriately perform his duties as an Outside Audit & Supervisory Board Member.</p>

			<Reasons for Designation as an Independent Audit & Supervisory Board Member> The Company believes that there is no risk of a conflict of interest between him and general shareholders, and has designated him as an Independent Audit & Supervisory Board Member.
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[Independent Directors/Audit & Supervisory Board Members]

Number of Independent Directors/Audit & Supervisory Board Members UPDATED	6 persons
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Matters relating to Independent Directors/Audit & Supervisory Board Members

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[Incentives]

Incentive Policies for Directors UPDATED	Performance-linked Remuneration / Other
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Supplementary Explanation **UPDATED**

The Company has introduced a restricted stock remuneration plan.

Recipients of Stock Options	
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Supplementary Explanation

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[Director Remuneration]

Disclosure of Individual Directors' Remuneration	No Individual Disclosure
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Supplementary Explanation

The total amount of remuneration for Directors is disclosed in the annual securities report and business report.

Policy on Determining Remuneration Amounts and Calculation Methods UPDATED	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

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 (Note 1) 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 for the previous fiscal year, which are linked to the Medium-Term Management Plan, as key performance indicators, and 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.

For fiscal 2019, achievement by evaluation indicators ranged from 25% to 80%, and the ratio of performance-linked remuneration to overall monetary remuneration (total amount of fixed remuneration and performance-linked remuneration) ranged from 25% to 45%.

Restricted stock remuneration has been granted since fiscal 2018 within the range approved by the General Meeting of Shareholders (Note 2) with the aim of further increasing awareness of contributions to the sustainable enhancement of corporate value and shareholder value over the medium to long term. In fiscal 2019, 11,500 shares were granted to five Directors, with the restriction on transfer to be lifted upon retirement.

The amount of remuneration for Audit & Supervisory Board Members is determined by the Audit & Supervisory Board within the range approved by the General Meeting of Shareholders (Note 1), and to ensure their independence from management, they are only paid fixed remuneration.

The retirement benefit system for Directors and Audit & Supervisory Board Members was abolished on June 28, 2007.

(Notes)

1. According to a resolution passed on June 28, 2007 at the 87th Annual General Meeting of Shareholders, the maximum amount of remuneration is set as follows:
Directors: Up to 600 million yen per year
Audit & Supervisory Board Members: Up to 80 million yen per year
2. According to a resolution passed on June 22, 2018 at the 98th Annual General Meeting of Shareholders, the maximum amount separate from the existing monetary remuneration framework is set as follows:
Directors: Monetary compensation receivables of up to 120 million yen per year

[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]

Outside Directors and Outside Audit & Supervisory Board Members are reported to appropriately at the Board of Directors' meeting once a month.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) UPDATED

(1) Overview of the current system

- (a) In principle, the Board of Directors is held at least once a month, and Management Conference composed mainly of officers is held as needed, to facilitate rapid management decision-making. The Company recognizes that rapid management decision-making is one of the most important issues for responding to rapid changes in the business environment and continuously increasing corporate value. The Board of Directors is positioned as an organization that decides on the basic management policies and important management matters, in addition to matters required by laws and regulations.
- (b) The Company has adopted an Audit & Supervisory Board Members system and the Audit & Supervisory Board consists of four Audit & Supervisory Board Members, including three Outside Audit & Supervisory Board Members. Each Audit & Supervisory Board Member audits the execution of duties by the 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.
- (c) At the Monthly Business Review, which is monthly held with the participation of officers and division heads, information is shared and reflected in management decisions by discussing management issues in each business division, analyzing the business environment, and reporting on the progress of business plans.
- (d) Accounting audits are conducted under an audit contract with Deloitte Touche Tohmatsu LLC for audits under the Companies Act and the Financial Instruments and Exchange Act. We request accounting audits that are fair and unbiased.
- (e) The Company has established the Nomination, Remuneration Advisory Committee as a voluntary advisory body. The committee was established in April 2018 to ensure the transparency and objectivity of procedures related to the determination of remuneration for Directors and to further enhance the corporate governance system, and a majority of the committee members are Independent Outside Directors and/or Audit & Supervisory Board Members. In fiscal 2019, the Nomination, Remuneration Advisory Committee was held four times to deliberate on the establishment and revision of policies and remuneration system pertaining to Directors' remuneration, while taking into account an objective perspective.

(2) Efforts to strengthen the functions of Audit & Supervisory Board Members

Audit & Supervisory Board Members cooperate with the Internal Control Audit Office, the officer in charge of internal control and the Accounting Auditor by exchanging information regularly and as necessary.

3. Reasons for Adoption of Current Corporate Governance System

Of the seven Directors, three are Outside Directors, and of the four Audit & Supervisory Board Members, three are Outside Audit & Supervisory Board Members. All six outside officers are independent officers, and the Company believes that the system is fully capable of providing supervision from an objective standpoint. The six outside officers elected include two former corporate officers, a certified public accountant, an attorney-at-law, and two university professors, and the Company believes that there is a system in place where advice and oversight are expected to be provided based on specialized knowledge and experience of each officer.

Please refer to the attached diagram for the details of the business execution and audit/oversight system.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Meeting of Shareholders and Smooth Exercise of Voting Rights

UPDATED

	Supplementary Explanations
Early Notification of Annual General Meeting of Shareholders	The Notice of the General Meeting of Shareholders was sent out two weeks and two days prior to the holding of the Annual General Meeting of Shareholders. The notice was posted on the Company's website and on the voting rights exercise platform of ICJ, Inc. prior to the sending date.
Scheduling Annual General Meeting of Shareholders Avoiding the Peak Day	The Annual General Meeting of Shareholders was held five business days prior to the date on which general meetings of shareholders of other companies were concentrated.
Allowing Electronic Exercise of Voting Rights	The Company uses an Internet-based voting method.
Participation in Electronic Voting Platform and Other Measures to Improve the Environment for Exercise of Voting Rights by Institutional Investors	The Company participates in the voting rights exercise platform for institutional investors operated by ICJ, Inc.
Providing Convocation Notice (abridged) in English	An English notice was prepared and posted on the Company's website and on the voting rights exercise platform of ICJ, Inc. prior to the sending date.
Other	Visualization of the matters to be reported is being implemented.

2. IR Activities **UPDATED**

	Supplementary Explanations	Explanation by the Representative Directors in person
Preparation and Publication of Disclosure Policy	The Company's basic IR policy is posted on the Company's website in both Japanese and English.	
Regular Investor Briefings for Analysts and Institutional Investors	Financial results briefings are held after the announcement of financial results. The Company holds telephone conferences following the announcement of financial results for the first and third quarters. The Company also participates in conferences organized by brokerage firms and holds individual meetings.	Yes
Regular Investor Briefings for Overseas Investors	The Company actively participates in conferences organized by brokerage firms. In addition, individual meetings and telephone conferences are also held.	Yes
Posting of IR Materials on Website	Quarterly financial results briefing materials, annual securities reports, press releases, integrated reports, and other materials are posted on the Company's website.	
Establishment of Department and/or Person in Charge of IR	Department in charge of IR: Public & Investor Relations Office, Corporate Planning Department	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Provisions in Internal Regulations Concerning Respect for the Position of Stakeholders	The Conduct Guidelines stipulates that the Company values its relationship with all its stakeholders, fulfills its corporate responsibilities through its business activities, and contributes to society.
Implementation of Environmental Preservation Activities, CSR Activities, etc.	<p>With regard to environmental preservation activities, the Company's plants acquired ISO 14001 certification in 2000, and certification was expanded to the sales department in 2001. In terms of overseas production subsidiaries, CKD Thailand and CKD China obtained ISO 14001 certification in 2004 and 2009, respectively.</p> <p>The status of these activities is described in the integrated report and made available on the Company's website.</p> <p>The Public & Investor Relations Office in the Corporate Planning Department has been established to carry out CSR activities.</p>

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of its Development **UPDATED**

The Company has established the following basic policies on systems to ensure the appropriateness of operations.

1. System to ensure compliance with laws and regulations and the Articles of Incorporation in the execution of duties of Directors and employees
 - a. The Company shall establish Conduct Guidelines to fulfill its corporate social responsibility and establish rules and regulations regarding related laws and regulations to ensure compliance thoroughly.
 - b. The Company shall not have any relationship with antisocial forces and it will take a firm stand against them as an organization.
 - c. The Company has established a reporting contact point and put in place a system to prevent and correct violations of laws and regulations.
 - d. The Nomination, Remuneration Advisory Committee has been established to consider important matters related to the nomination of officers and the compensation for Directors, and to report on the results to the Board of Directors.

2. System for retention and management of information concerning the execution of duties by Directors

Information concerning the execution of duties by Directors, including documents for obtaining approval of management and minutes of various meetings shall be stored and managed appropriately in accordance with laws and regulations and internal rules to ensure that the execution of duties by Directors is conducted appropriately.

3. Rules and other systems pertaining to risk management

Regarding risk management, awareness of legal compliance among all employees shall be raised and the risk management departments within each business division shall work in close cooperation to ensure compliance thoroughly, with the risk management departments at headquarters that promote company-wide risk management (General Affairs Department, Information Resource Management Department, Internal Control Audit Office, and Legal Department) playing a central role.

In addition, the Risk Management Committee, established under the Board of Directors as an organization that manages risks company-wide, deliberates and decides on matters related to the development of company-wide risk management in order to respond accurately and promptly to increasingly complex risks.

4. System to ensure that Directors execute their duties efficiently

In principle, the Board of Directors is held at least once a month, and Management Conference mainly composed of officers is held as needed, to facilitate rapid management decision-making.

Regarding management issues in each business division, Monthly Business Review is held with the attendance of officers and division heads to share information and reflect it in management decisions, through analyzing the business environment and reporting on the progress of the performance plan.

An executive officer system has been introduced to separate the business execution functions from the management decision-making and supervisory functions conventionally held by the Board of Directors and reduce the number of Directors to ensure accurate and prompt decision-making and to execute business operations flexibly by delegating authority over business execution to executive officers and clarifying responsibilities.

5. System to ensure the appropriateness of business in a corporate group comprising the Company and its subsidiaries

- a. In addition to establishing approval rules for the execution of operations by subsidiaries, the Company shall establish a system to ensure that important management matters of subsidiaries shall be approved in advance by the Company or reported to the Company in accordance with internal regulations.
- b. The scope of the Conduct Guidelines and the risk management system shall include subsidiaries to ensure that the operations of the Group as a whole are appropriate.
- c. The Company shall ensure that its subsidiaries are fully aware of the Company's corporate commitment and ensure the appropriateness of their operations. In addition, the Company shall establish regulations for the control of subsidiaries both in and outside of Japan to promote efficiency in the management of its subsidiaries.
- d. In addition to establishing Conduct Guidelines applicable to the Group as a whole, the Company shall properly understand the actual conditions of its subsidiaries and provide necessary advice and guidance to ensure compliance thoroughly.

6. Matters related to employees who are requested by Audit & Supervisory Board Members to assist in their duties, matters related to the independence of such employees from Directors, and matters related to ensuring the effectiveness of instructions to such employees

Whenever necessary, the Company shall appoint 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 shall discuss the personnel matters in advance.

7. Systems for reporting to Audit & Supervisory Board Members by Directors and employees of the Company and its subsidiaries, and other systems for reporting to Audit & Supervisory Board Members, and systems to ensure that no disadvantageous treatment is received on account of such reporting

Directors and employees of the Company and its subsidiaries shall 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.

The main types of reports and information to be provided are as follows:

- Status of management and execution of business
- Status of activities of the divisions involved in the development of the Group's internal control system

- Status of activities of the Audit & Supervisory Board Members and internal audit departments of the Group's subsidiaries and other entities
- Significant accounting policies and accounting standards of the Group and changes in these matters
- Details of announcements of business results and forecasts, and details of important disclosure documents

In addition, no disadvantageous treatment shall be given to any employee on account of reporting or providing information to Audit & Supervisory Board Members.

8. Other systems to ensure that audits by Audit & Supervisory Board Members are conducted effectively

In order to improve the effectiveness of the Group's auditing system, the Internal Control Audit Office, which reports directly to management, 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.

2. Basic Views on Eliminating Antisocial Forces and the Progress of its Development

The Conduct Guidelines formulated in internal regulations stipulates that the Company shall not have any relationship with antisocial forces and shall reject any unreasonable inducement or coercion, and the Conduct Guidelines Manual is distributed to all employees to ensure that they are fully aware of the Guidelines. The General Affairs Department oversees the response to antisocial forces and works in close cooperation with the police, corporate defense measures councils, attorneys, and other external specialist organizations. In addition, the Company has concluded a memorandum of understanding with its suppliers regarding the elimination of antisocial forces and it has taken measures to eliminate any relationship with antisocial forces thoroughly.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	UPDATED	Not Adopted
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Supplementary Explanation

2. Other Matters Concerning Corporate Governance System **UPDATED**

In order to enhance the internal control and corporate governance system, the Company has established the Legal Department and a person in charge of internal control to promote the system.

In addition, the Company has established the Internal Control Audit Office, which reports directly to management, to enhance the independence of internal audits and strengthen the audit function of internal controls.

<Overview of the timely disclosure system>

1. Timely disclosure policy

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

2. Internal system for information disclosure

The Company's internal system for timely disclosure is as follows:

The contents of disclosures are posted on the Tokyo Stock Exchange's TDnet, as well as on the Company's website.

(1) Decisions

In principle, decisions requiring disclosure are resolved by the Board of Directors. The General Affairs Department (the person responsible for handling information) consolidates the matters submitted to the Board of Directors, considers the content, timing, method, etc. of disclosure, and promptly discloses the information after a resolution by the Board of Directors.

(2) Facts

The Information Disclosure Committee considers the content, timing, method, etc. of disclosure of facts requiring disclosure, and the information shall be disclosed promptly upon approval of the President.

(3) Financial settlement information

In principle, financial settlement information is resolved by the Board of Directors. The Accounting Department prepares disclosure materials and promptly discloses the information after the resolution by the Board of Directors.

Corporate Governance System Diagram

