

Basic Policy on Corporate Governance

KITZ Corporation

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Chapter I. General provisions

[1] Purpose

The Company has established the KITZ Group Corporate Philosophy Structure (KITZ' Statement of Corporate Mission, Long-term Management Vision and Action Guide). This Basic Policy on Corporate Governance is intended to contribute to the Company's sustained growth and increase in corporate value over the medium to long term based on the KITZ Group Corporate Philosophy Structure. It establishes the Group's basic thinking, attitude, and framework for corporate governance.

■ KITZ' Statement of Corporate Mission

We strive to build a robust global environment and sustainable future by supporting societal infrastructure through our advancements in fluid control technologies and materials.

■ Long-term Management Vision

**Beyond New Heights 2030
Change the 'Flow'**

■ Action Guide

Do it KITZ Way (Do it True • Do it Now • Do it New)

[2] Basic thinking on corporate governance

The Group recognizes the effective functioning of corporate governance to help fulfill our corporate social responsibility and contribute to increasing management efficiency and transparency and to sustained increases in corporate value. For this reason, we aim to realize effective corporate governance through a focus on compliance, maintenance, and continuous operation of top management and business execution systems capable of responding to changing business conditions in swift and appropriate ways while also rewarding the trust of various stakeholders and fulfilling our social missions and responsibility.

[3] Disclosure, establishment, amendment, and abolition of the Basic Policy on Corporate Governance

- (1) The Basic Policy on Corporate Governance is disclosed on the Company website.
- (2) Decisions on the establishment, amendment, and abolition of the Basic Policy on Corporate Governance are made by the board of directors.

Chapter II. Relations with shareholders

The Company strives to secure effective equality among all shareholders and to maintain an environment in which shareholders can exercise their rights smoothly and appropriately.

[1] Securing rights of shareholders and equality among them

We act appropriately to effectively secure the rights of all shareholders, including minority shareholders and foreign shareholders.

- (1) We treat all shareholders fairly in accordance with the numbers of shares they hold.
- (2) We disclose information in a timely and appropriate manner to prevent information disparities among shareholders.
- (3) We establish in the rules on handling of stock such matters as methods of exercise of shareholders' rights and disclose these rules and information concerning stock procedures on the Company website.

[2] General meetings of shareholders

We maintain the following environment to ensure that shareholders can exercise their rights properly in general meetings of shareholders:

- (1) In scheduling the dates of general meetings of shareholders, we strive to avoid dates on which numerous companies hold general meetings of shareholders and to reflect such perspectives as enhancement of dialogs with shareholders and the provision of accurate information to shareholders.
- (2) To enable shareholders to exercise voting rights appropriately, we strive to send out notices of the convocation of general meetings of shareholders no later than 18 days in advance of the date of holding the general meeting, and we publish such notices on TDnet and on the Company website before sending them out.
- (3) In addition to disclosing in the convocation notice brief career histories of candidates for directors and audit and supervisory board members, any concurrent posts, and reasons for choosing them as candidates, we also disclose reasons for dismissal of any directors and audit and supervisory board members to be dismissed.
- (4) We employ an electronic voting rights exercise platform to enable the electronic exercise of voting rights.
- (5) If there has been a significant number of votes in opposition to a resolution submitted by the Company, we take steps to analyze the reasons for such opposition and consider responses.
- (6) In principle, the results of voting on resolutions are submitted to the Financial Services Agency on the day after the date of the general meetings of shareholders as an extraordinary report and posted on the Company website.
- (7) Institutional investors whose shares are held in the names of trust banks or similar organizations are, in principle, not permitted to exercise voting rights and ask questions themselves in general meetings of shareholders instead of through the trust banks. However, we will consult with the trust bank if such an institutional investor has expressed a desire to exercise voting rights in a general meeting of shareholders.
- (8) Based on laws, regulations, and the articles of association, decisions related to the purchase of treasury stock, dividends from surplus, and exemption from liability of directors and audit and supervisory board members, which are included among matters to be submitted to general meetings of shareholders, are delegated to the board of directors.

[3] Dialogs with shareholders

We stress dialogs with shareholders and implement the following measures to provide timely and appropriate information and encourage understanding among shareholders.

- (1) We appoint an executive officer in charge of IR to encourage shareholder dialogs.
- (2) To provide timely, accurate, and fair information to all shareholders and investors, we have formulated a Disclosure Policy, which is posted on the Company website.
- (3) In principle, briefings on financial results are held quarterly for institutional investors and analysts and annually for individual investors. These briefings are led by the president or the executive officer in charge of IR. As necessary, directors, including outside directors, and audit and supervisory board members also attend to encourage dialogs with shareholders.
- (4) In principle, the general manager of the section in charge of IR responds to requests for meetings from shareholders. However, the president or the executive officer in charge of IR may handle such a meeting depending on such factors as the subject of the meeting and the number of shares held by the shareholder.
- (5) To prevent insider trading, information is managed appropriately in dialogs with shareholders.
- (6) Such matters as the Group management vision and medium-term management plans are explained in clear, understandable ways.
- (7) We employ organic cooperation among the Publicity and IR Promotion Office, the Corporate Planning Department, the Accounting and Finance Department, the Sustainability Promotion Office, the General Administration Department, the Legal Department, and other organizations as necessary to assist in shareholder dialogs.
- (8) The opinions and requests received through dialogs with institutional investors and analysts are reported to the president and the executive officer in charge of IR periodically. As necessary, the president reports on the details to the board of directors and the Management Conference and we utilize them in improving management.
- (9) In addition to information on financial results, such as summaries and securities reports, IR information, such as management information and information on stock and general meetings of shareholders, is posted to the Company website as well.
- (10) We ascertain the structure of shareholders at the end of June and the end of December each year.

[4] Capital policies

Since trends in capital policies can have a major impact on shareholders' interests, we employ the following matters and explain such policies through disclosure on the Company website and elsewhere.

- (1) Capital policies are based on management with an awareness of capital costs, maintaining an optimal capital structure to enable investment in growth and responding to business risks, and returns to shareholders.
- (2) To maintain and increase shareholder value over the long term, we set targets for levels of capital productivity, such as return on equity (ROE), and employ management that is conscious of capital costs.
- (3) We set levels of the equity ratio and other indicators to enable us to be ready for investing in growth and responding to sudden changes in the business environment or other conditions, to secure financial soundness, and to maintain a credit rating that enables us to raise funds regardless of financial market conditions, and we strive to optimize capital in line with these levels.
- (4) We establish dividend policies and set targets in medium-term management plans for the consolidated payout ratio.
- (5) The purchase of treasury stock is considered in a timely manner with consideration for such matters as trends in the stock market and share prices and the states of financial stability, liquidity on hand, and investment funding.

[5] Cross-shareholdings

The Company handles shares of stock in listed companies held as cross-shareholdings through the following measures:

- (1) The Policy on Cross-Shareholdings is established and posted on the Company website.
- (2) In principle, we do not hold cross-shareholdings for the purposes of forming stable shareholders.
- (3) Each year, the board of directors verifies and reviews cross-shareholdings from the perspectives of both economic rationality (quantitative perspectives) and the qualitative significance of such holdings, and share issues judged not to satisfy the Policy on Cross-Shareholdings are sold.
- (4) Voting rights on cross-shareholdings held are exercised through comprehensive judgment of whether to support or oppose individual resolutions based on the perspective of increasing the Group's corporate value, in addition to the business conditions of the issuer companies, development of appropriate governance structures in the issuer companies, and whether they would contribute to increasing their corporate value over the medium to long term.
- (5) We do not engage in actions that would impede the sale of stock by a shareholder of cross-shareholdings in Company stock who has indicated an intention to sell its holdings of Company stock through such means as suggesting that transactions would be curtailed as a result.

[6] Responses to large-scale acquisitions of Company stock

Acts involving acquisition of quantities of Company stock large enough to enable control of decisions on Company financial and business policies (hereinafter "large-scale acquisitions") are responded to as follows:

- (1) We do not employ defensive measures against takeover bids, instead leaving final decisions on whether or not to accept large-scale acquisitions to the wishes of shareholders.
- (2) We strive to provide shareholders with the time and information needed to consider whether or not to accept a large-scale acquisition by asking the party attempting a large-scale acquisition to provide the necessary and sufficient information for judging the propriety of the large-scale acquisition from the perspectives of securing and improving the Company's corporate value and the joint interests of shareholders and announcing the views of the Company board of directors regarding the large-scale acquisition. We also implement the appropriate measures in accordance with the Financial Instruments and Exchange Act, the Companies Act, and other applicable laws and regulations.

[7] Capital policies that could impede the interests of shareholders

The necessity and reasonability of implementation of capital policies that would result in changes in Company control or large-scale dilution are discussed fully by the board of directors based on the views of independent outside directors and independent outside audit and supervisory board members. When implementing such policies, we swiftly disclose information on the objectives, necessity, and reasonability of their implementation and, as necessary, fully explain them in such venues as the general meetings of shareholders or briefings on financial results.

[8] Transactions among related parties

When engaging in transactions among related parties, we employ the following structure to ensure that such transactions will not be detrimental to interest of the Company and the joint interests of the shareholders:

- (1) Before the Company engages in an act qualifying as a transaction involving a conflict of interest with a director or an audit and supervisory board member, a corporation effectively controlled by a director or an audit and supervisory board member or a major shareholder, it obtains the approval of the board of directors. It also reports to the board on the results of the transaction after the fact.
- (2) To identify transactions among related parties, each year we conduct a written survey of Company directors, audit and supervisory board members, and executive officers and of managing directors of Group member companies, check the results of the survey, and implement any necessary measures.
- (3) When engaging in transactions among related parties, we employ transaction conditions at the same level as those of transactions with third parties.
- (4) We disclose transactions among related parties in securities reports and other documents.

Chapter III. Cooperation with stakeholders other than shareholders

Based on the Group Corporate Philosophy Structure, the Group strives to realize sustained growth and increases in corporate value over the medium to long term through cooperation with a wide range of stakeholders that include employees, customers, suppliers, lenders, and local communities and fulfills its corporate social responsibility by meeting the expectations of these stakeholders.

[1] Responding to sustainability issues

To address social, environmental, and other sustainability issues proactively and dynamically; we have established a Company-wide Sustainability Promotion Committee consisting of managing executive directors, executive officers, and presidents of Group member companies; we share information on the Policy on Promotion of Sustainability and materiality concerning the environment, society, and governance (ESG); we establish and share indicators for evaluation; and we manage the progress of related promotion plans.

[2] Relationships with customers

Together with striving to satisfy customers by providing products and services to meet a wide range of their needs, we also endeavor to maintain fair and sound transaction relationships through the following means:

- (1) Striving to maintain and improve quality while continually improving our quality control and quality assurance structures, including the quality management system, in order to deliver stable supplies of products, on time, and at competitive prices.
- (2) Complying with laws, regulations, and rules on fair competition applicable to each country and never acting in ways that would impede free and fair competition.
- (3) Establishing a Security Trade Control Committee to implement appropriate management of security trade controls in exports.
- (4) Together with complying with the laws, regulations, and rules of each country and region in which we do business, striving to ensure employees are aware of the need to prevent improper acts and raising awareness of compliance.
- (5) Thoroughly prohibiting improper gains and striving to maintain fair and appropriate transaction relationships through the KITZ Group Compliance Code of Conduct.

[3] Relationships with suppliers

We implement the following measures to build and maintain sound and positive partnerships with suppliers:

- (1) Engaging in fair and appropriate transactions based on comprehensive judgment of quality, price, delivery time, and support, after first considering suppliers in such terms as legal and regulatory compliance, environmental protection, and respect for human rights.
- (2) To engage in fair and appropriate transactions with suppliers, formulating Supplier Guidelines and posting them on the Company website, while also striving to obtain the cooperation of suppliers.

[4] Initiatives to address global environmental issues

Fully cognizant of the fact that initiatives to address global environmental issues are essential preconditions of corporate survival and business activities, we implement the following environmental initiatives:

- (1) Identifying the Group's promotion of Environment-Responsive Management as an important part of enhancing its management foundations in medium-term management plans.
- (2) Establishing an Environmental Action Policy and publicizing it within the Group and posting it on the Company website.
- (3) Operating a global environmental management system based on ISO 14001.
- (4) Developing and supplying eco-friendly products and services.
- (5) Carrying out green procurement targeting materials, parts, packaging, and other components with low environmental impacts and promoting reduction and elimination of use in products of chemical substances that could have negative effects on the environment.
- (6) Collecting and analyzing the necessary data concerning the effects of risks and profit opportunities related to climate change on the Company's business activities and financial results, and systematically enhancing the quality and quantity of information disclosure based on the Task Force on Climate-related Financial Disclosures (TCFD) framework.

[5] Relationships with local communities

To realize coexistence with society and local communities, we advance the following social contribution activities:

- (1) Establishing, and posting on the Company website, a Basic Policy on Social Contribution Activities.
- (2) Proactively promoting the Company's own activities to contribute to our communities and society.
- (3) Striving to create an environment in which all Group employees take part in activities to contribute to their communities and society.

[6] Relationships with employees

To achieve the sustained growth of the Group and increase its corporate value over the medium to long term, we will take appropriate measures to respect human rights and ensure diverse human resources as outlined below:

- (1) Disclosing on the Company website the Group's basic thinking on respect for human rights and the state of related progress
- (2) Implementing the following measures to realize human resource strategies and diversity:
 - (i) Promotion of human resource system reforms in response to changing times and business conditions.
 - (ii) Formulating the KITZ Group Global HR Policy and disclosing it on the Company website.
 - (iii) Disclosing on the Company website the basic policy on human resource development to secure diverse human resources and the state of related initiatives.
 - (iv) Disclosing on the Company website the basic policy on promotion of women, non-Japanese employees, and midcareer hires to management positions and autonomous and quantifiable targets.
 - (v) Reflecting the importance of human capital, promoting diverse work-style reforms to improve efficiency and productivity, ensuring occupational safety, promoting health management, promoting a sound work-life balance, improving working environments, promoting efforts to encourage employees to take paid vacation and to reduce overtime, and other initiatives to enable individual employees to demonstrate their abilities, to increase their motivation, and to develop workplace environments to generate maximal results, and disclosing the state of these initiatives on the Company website.
 - (vi) Providing various training opportunities including guidance on joining the Company, various training programs for new hires, human resource training for specific levels, and learning specialized abilities.

[7] Our roles as an asset owner

We implement the following measures to fulfill the roles expected of us as an owner of assets in activities such as operation of the corporate pension plan:

- (1) Employing in the Company's retirement pension plan a structure based on two foundations: a defined-benefit corporate pension plan managed by the Company independently (i.e., managed by an asset management subcontractor chosen by the Company based on the Company's asset-management policies) and a defined-contribution pension plan (under which employees are responsible for asset management of prepaid retirement benefits).
- (2) Implementing the following measures in managing the defined-benefit corporate pension plan:
 - (i) Systematically hiring and training human resources with specialized abilities related to asset management and similar activities to enable the Company to demonstrate the functions expected of it as an asset owner in light of the scale of its organization and the specialized nature of its businesses.
 - (ii) To secure continuity and stability in asset management, periodically monitoring and verifying the state of asset management by the asset-management subcontractor.
 - (iii) Holding annual study meetings on management of pension assets to study and make decisions on the makeup of the pension assets portfolio and any changes to it.
 - (iv) To avoid conflicts of interest, leaving selection of individual issues included in pension assets and exercise of voting rights to the discretion of the asset-management subcontractor.

Chapter IV. Appropriate disclosure

Together with properly disclosing information based on laws and regulations, the Company also strives to enhance the quantity and quality of disclosure of management strategies, management topics, business risks and opportunities, and information on such nonfinancial subjects as sustainability and governance, taking care to ensure that such information provides high levels of added value to its users.

[1] Enhancing disclosure

The Company discloses information in the following ways:

- (1) In addition to the Group Corporate Philosophy Structure, we also disclose the Basic Policy on Corporate Governance and the State Table of Implementation of the Corporate Governance Code on the Company website.
- (2) We disclose on the Company website medium-term management plans and such information as capital efficiency indicators, financial indicators, and ESG-related indicators.
- (3) We have established a Basic Policy on Internal Controls and disclose it on the Company website.
- (4) We have established a Policy on Appointment and Dismissal of Directors and Audit and Supervisory Board Members, which stipulates the makeup of the board of directors and the audit and supervisory board and appointment and dismissal of executives, and we disclose it on the Company website.
- (5) We have established a skills matrix of directors to visualize director diversity and skills balance, and we disclose it on the Company website.
- (6) We have established Standards for Judging the Independence of Outside Directors and Outside Audit and Supervisory Board Members, and we disclose them on the Company website.
- (7) We disclose the reasons for selecting candidates for directors and audit and supervisory board members in general meetings of shareholders through the notices of convocation of general meetings of shareholders.
- (8) We have established a Policy on Decisions on Remuneration for Individual Directors, and we disclose it on the Company website and in securities reports.
- (9) We have established a Policy on Cross-Shareholdings, and we disclose it on the Company website and disclose the state of shares held in securities reports.

[2] Disclosure in English

The Company discloses on the Company website English-language versions of financial information for foreign shareholders and overseas investors, information on financial results and timely disclosure information judged to require such disclosure, the Integrated Report, KITZ Group Environmental Report Digest, notices of convocation of general meetings of shareholders, and other relevant information.

Chapter V. Governance (governance functions)

Based on its fiduciary responsibility and accountability to shareholders, the Company has established a corporate governance system intended to continually maintain the soundness, compliance, and transparency of management, to promote the Company's sustained growth and increases in corporate value over the medium to long term, and to improve its earning ability, capital efficiency, and other properties.

[1] Organizational design and basic framework

The Company's organizational design and the basic framework for governance are described below:

- (1) As its organizational design under the Companies Act, the Company has chosen the structure of a company with an audit and supervisory board under which it has developed effective corporate governance functions.
- (2) The Company has established its own Standards for Judging the Independence of Outside Directors and Outside Audit and Supervisory Board Members with even stricter requirements than those of the Tokyo Stock Exchange. It discloses these standards on the Company website.
- (3) The Company appoints outside directors and outside audit and supervisory board members who satisfy the requirements therefor under the Companies Act, the Tokyo Stock Exchange's standards for judging the independence of outside directors and outside audit and supervisory board members, and the Company's Standards for Judging the Independence of Outside Directors and Outside Audit and Supervisory Board Members, and it strives to enhance its corporate governance functions.
- (4) The board of directors has established a Nomination Committee to deliberate and advise on the appointment and dismissal of directors, audit and supervisory board members, and executive officers and an Executive Compensation Committee to deliberate and advise on remuneration of directors and executive officers. These are intended to secure objectivity, fairness, and transparency in the relevant processes.
- (5) We have adopted an executive officer system to accelerate decision-making on business execution, and the Management Conference consisting of managing executive directors and executive officers meets monthly to make decisions on important matters related to business execution and deliberate on important management topics.

[2] The board of directors and directors

1. Roles and responsibilities of the board of directors

The basic roles and responsibilities of the board of directors are described below:

- (1) To make decisions from the perspective of securing the interest of the Company and joint interest of the shareholders, based on the Companies Act and the board of directors' regulations and in accordance with its fiduciary responsibility to shareholders.
- (2) To establish the Basic Policy on Internal Controls, carry out swift and efficient business execution based on appropriate internal controls, and periodically verify the functioning of internal controls.
- (3) In consideration of recommendations from the Nomination Committee, making decisions on nomination of candidates for directors and audit and supervisory board members, appointment of executive officers, and the dismissal of directors, audit and supervisory board members, and executive officers.
- (4) In consideration of recommendations from the Executive Compensation Committee, making decisions on remuneration of directors and executive officers.

- (5) Oversight to ensure that disclosure is appropriate and accurate.
- (6) To contribute to the Group's sustained growth and increases in corporate value over the medium to long term, deliberating and deciding on, and periodically reviewing, the Group Corporate Philosophy Structure, basic policies on management, management strategies, medium-term management plans, annual management plans, the Basic Policy on Internal Controls, the Policy on Decisions on Remuneration for Individual Directors, the Basic Policy on Sustainability, risk management, and other important matters concerning the strategic directions of management in line with related Company rules, such as the board of directors' regulations.
- (7) Medium-term management plans are formulated as follows:
 - (i) As steps toward realizing the long-term management vision, medium-term management plans are formulated with consideration for such quantitative targets as growth, profitability, capital efficiency, and payout ratios and the strategies on allocation of management resources and business portfolios, including investment in human capital, R&D, and intellectual property.
 - (ii) The Company and Group member companies draft and implement various measures toward achievement of the medium-term management plans, and the board of directors supports activities toward achievement of targets by all Group companies, as well as verifying the state of progress toward the targets.
- (8) Matters to be submitted to the board of directors are stipulated in the board of directors' regulations, and the board of directors makes decisions on such matters as those stipulated in laws, regulations, and the articles of association, the general meetings of shareholders, financial results, directors and audit and supervisory board members, stock, human resources, labor, and organizational management, businesses, acquisition and disposal of fixed assets, and funding.
- (9) Various internal rules, such as the Rules on Job Authority and the Rules on Internal Applications for Approval, are established to clarify the scope of authority delegated to managing executive directors, executive officers, and business organizations and to accelerate decision-making.
- (10) With regard to taking risks in connection with business execution, instead of excessive risk avoidance, we take an approach of making decisions based on multifaceted and forward-looking consideration from the perspective of whether taking risks would contribute to increases in corporate value, and we provide swift and decisive support for decision-making related to business execution after such decisions.
- (11) To develop successors for the posts of the Chief Executive Officer, we implement executive development programs by providing the necessary selective training, job rotations targeting career formation, and the use of other methods.
- (12) Based on the Rules on Group Member Companies, we promote consolidated management to maximize the value of the entire Group.
- (13) We ascertain the actual state of transactions between the Company and related parties and implement any measures judged appropriate.

2. Structure of the board of directors

The structure of the board of directors is described below:

- (1) The number of directors is not to exceed nine persons as stipulated in the articles of association.
- (2) At least one-third of the membership of the board of directors consists of independent outside directors.
- (3) Based on the Policy on Appointment and Dismissal of Directors and Audit and Supervisory Board Members and the skills matrix of directors, we maintain a healthy overall balance on the board of directors regarding the knowledge, experience, abilities, and specialization necessary to realize

increases in corporate value over the medium to long term. This structure also balances diversity in areas including gender, cosmopolitanism, career history, and age, as well as maintains the appropriate size of the board.

3. Roles and responsibilities of directors

Directors perform the following roles to fulfill their fiduciary responsibility:

- (1) Directors other than outside directors collect sufficient information to perform their duties, proactively express opinions and encourage debate, and engage in mutual oversight of the state of performance of duties of other managing executive directors.
- (2) Outside directors perform the following roles:
 - (i) Management oversight through such means as exercising their voting rights from an independent perspective on important decisions regarding business execution made by the board of directors and striving to ensure that the views of stakeholders, including minority shareholders, are reflected properly in the board of directors.
 - (ii) Management oversight through participation in the decision-making processes on appointment and dismissal of directors, audit and supervisory board members, and executive officers and remuneration of directors and executive officers.
 - (iii) Advising and making proposals to improve management efficiency.
 - (iv) Oversight of conflicts of interest between the Company and related parties.
- (3) In principle, an outside director must not be a managing executive director (including executive directors and executive officers) or a standing audit and supervisory board member of another listed company and must be an outside director of no more than four companies, including the Company. In principle, a director other than an outside director must not serve concurrently as an executive with another corporation outside of the Group.

4. The Nomination Committee and the Executive Compensation Committee

The operations of the Nomination Committee and the Executive Compensation Committee are described below.

- (1) The Nomination Committee and the Executive Compensation Committee are operated in accordance with the Company's Rules on the Nomination Committee and Rules on the Executive Compensation Committee, respectively. Membership in each of these committees consists of the chairman of the board of directors and independent outside directors with a majority of its membership consisting of independent outside directors and its chairman appointed through mutual voting among the independent outside directors. However, the president shall be a member if no chairman is appointed.
- (2) Based on the Company's Policy on Appointment and Dismissal of Directors and Audit and Supervisory Board Members, the Nomination Committee deliberates and recommends the board of directors on matters related to the nomination of candidates for directors and audit and supervisory board members, selection and dismissal of the CEO or representative director, managing executive directors, and executive officers, and succession plans including plans for development of the next-generation CEO.
- (3) The Executive Compensation Committee deliberates and recommends the board of directors on matters related to resolutions submitted to general meetings of shareholders on the revision of remuneration limits for directors and remuneration and other compensation for directors and executive officers.

5. Operation of the board of directors

The following initiatives are intended to facilitate the operation of the board of directors and stimulate debate in the board:

- (1) In principle, the board of directors meets monthly in regular board meetings, quarterly in board meetings on financial results, and at other times as necessary in extraordinary board meetings.
- (2) The board of directors secures sufficient time for full deliberation on each agenda item through consideration of a healthy balance between the number of agenda items, including both proposed resolutions and reports, and the time of the meeting.
- (3) To facilitate decision-making in the board of directors, in principle, materials related to a board of directors meeting, including notice of its convocation, are distributed no later than three days prior to the meeting date.
- (4) As necessary, outside directors and outside audit and supervisory board members are provided with information on resolutions and other matters, as well as related materials and prior explanations before meetings, as support to ensure that directors and audit and supervisory board members fully understand the management topics that the Company should address and are able to make appropriate decisions regarding them.

6. Assessment of the efficacy of the board of directors

To enhance the efficacy of its corporate governance and improve the functioning of the board of directors as a whole, the Company conducts surveys of the efficacy of the board of directors. Main categories of questions in these surveys include the formulation of management strategies and management of their progress; the structure of the board of directors and its oversight functions; the functions of the Nomination Committee and the Executive Compensation Committee; procedures related to decisions on appointment, dismissal, and remuneration of directors, audit and supervisory board members, and executive officers; development and operation of internal controls; the functions of audit and supervisory board members and the audit and supervisory board and cooperation among audit and supervisory board members, outside directors, and the Internal Audit Office; the roles and independence of outside directors; activation of deliberations in the board of directors; training of directors and audit and supervisory board members; and engagement with shareholders and other stakeholders, including dialogs with investors. Analysis and assessment are conducted based on the results of these surveys, and improvements are made as necessary.

7. Remuneration of directors

We have established a Policy on Decisions on Remuneration for Individual Directors based on the following items, and it is disclosed in securities reports and reports on corporate governance.

- (1) In light of the fact that the main functions of Company directors (hereinafter, this does not include outside directors) are to oversee the Group's management and to serve as core management of the Group, which does business on a global scale, and execution of its individual businesses, the basic policy on decisions on remuneration of directors is to ensure that the Company can secure outstanding human resources as directors and provide effective incentives toward management oversight of the Group and improving business performance over the short, medium, and long term.
- (2) The structure of remuneration paid to directors consists of base remuneration in a fixed amount, performance-linked remuneration (bonuses), and performance-linked stock remuneration. Appropriate levels and shares of each type of remuneration are decided based on surveys of remuneration of management at other domestic and international companies.
- (3) Remuneration of outside directors consists of base remuneration only, with no performance-linked bonuses or stock remuneration.

[3] The audit and supervisory board and audit and supervisory board members

1. Roles and responsibilities of the audit and supervisory board

The basic roles and responsibilities of the audit and supervisory board are described below:

- (1) Preparing audit reports, appointment and dismissal of standing audit and supervisory board members, formulation of audit plans, and deciding on methods of investigating business and financial status and other matters related to the performance of the duties of audit and supervisory board members.
- (2) In accordance with the standards on auditing by audit and supervisory board members, audit plans, and division of responsibilities, overseeing the performance of the duties of directors through attendance in important meetings and exercising the right of investigation, including on-site auditing of business sites and Group member companies, verifying the state of performance of legal obligations, such as the duty of care of a good manager, and engaging in necessary deliberations.
- (3) Appointment and dismissal of the accounting auditor and checking on the quality control structure, independence, and other matters related to the accounting auditor, as well as monitoring the performance of the accounting auditor's duties and verifying the validity of the results of its auditing. Also, deliberating annually on whether or not to reappoint the accounting auditor and discussing the validity of the audit plan and the propriety of audit remuneration.

2. Structure of the audit and supervisory board

The structure of the audit and supervisory board is outlined below:

- (1) In accordance with the articles of association, the audit and supervisory board consists of no more than five audit and supervisory board members
- (2) At least one-half of the members of the audit and supervisory board are outside audit and supervisory board members, and the Company endeavors to make at least one of such outside audit and supervisory board members to be an independent audit and supervisory board member.
- (3) Based on the Policy on Appointment and Dismissal of Directors and Audit and Supervisory Board Members, membership in the audit and supervisory board maintains an overall balance among the necessary knowledge, experience, abilities, and specialization for the performance of members' roles and responsibilities and includes at least one member with a high level of financial and accounting knowledge.

3. Roles and responsibilities of audit and supervisory board members (standing audit and supervisory board members and outside audit and supervisory board members)

Based on their fiduciary duty to shareholders, audit and supervisory board members perform the following roles as members of an independent organization:

- (1) In addition to overseeing the state of performance of managing executive directors' duty of reporting to the board of directors and the efficacy of functions for mutual management oversight among directors, centered on outside directors, they also verify the legality and validity of decision-making processes and the details of decisions.
- (2) In addition to maintaining the auditing environment, standing audit and supervisory board members monitor the performance of directors' duties, including the state of development and operation of internal controls systems, on an everyday basis in light of the full-time nature of their posts. They also collect internal Company information through promoting mutual understanding with directors and other executives of the Company and Group member companies.
- (3) Outside audit and supervisory board members utilize their wealth of specialization, experience, and knowledge to carry out highly effective auditing, monitor the performance of directors' duties from a fair and neutral point of view, and provide recommendations and advice.

- (4) In principle, an outside audit and supervisory board member must not be a managing executive director (including executive directors and executive officers) or a standing audit and supervisory board member of another listed company and must concurrently be an outside director or an outside audit and supervisory board member of no more than four companies including the Company. In principle, a standing audit and supervisory board member must not serve concurrently as a director or an audit and supervisory board member with another corporation outside of the Group.

4. Remuneration of audit and supervisory board members

Remuneration of audit and supervisory board members is decided by discussion among the audit and supervisory board members. However, no performance-linked remuneration, such as bonuses or stock remuneration, is paid to audit and supervisory board members.

[4] Ensuring appropriate auditing by the accounting auditor

The following initiatives are intended to ensure appropriate auditing by the accounting auditor and guarantee the reliability of the Group's financial information:

- (1) The accounting auditor secures a structure to enable appropriate auditing in cooperation with the audit and supervisory board and the Internal Audit Office.
- (2) The accounting auditor maintains its independence and specialization and conforms to the quality control standards necessary to enable appropriate account auditing.
- (3) The audit and supervisory board establishes in the standards for auditing by audit and supervisory board members standards related to the selection and assessment of candidates for accounting auditor. Audit and supervisory board members assess the accounting auditor based on its independence, its competency, and its specialization, the quality of its auditing, including its propriety, validity and efficacy, and whether it can be expected to provide the auditing structure and time needed to ensure the quality of auditing.
- (4) The audit and supervisory board ascertains and assesses the state of performance of the accounting auditor's duties based on the state of its auditing, audit reports, and other considerations.
- (5) The audit and supervisory board carries out the following initiatives to ensure high-quality auditing:
 - (i) The audit and supervisory board discusses the auditing schedule with the accounting auditor in advance to ensure that sufficient time for auditing can be secured.
 - (ii) The audit and supervisory board meets with the president and other executives as requested by the accounting auditor.
 - (iii) If the accounting auditor has identified an impropriety and requested appropriate responses or has pointed out a deficiency or other issue, the audit and supervisory board, centered on standing audit and supervisory board members, cooperates closely with the Internal Audit Office and related sections to investigate the matter and requests the necessary corrections. The president instructs each managing executive director and executive officer concerning these investigations and corrections, ensures that the investigations and corrections are carried out, and reports on their results to the audit and supervisory board.

[5] Cooperation among the accounting auditor, audit and supervisory board members, independent outside directors, and the Internal Audit Office

The audit and supervisory board carries out the following initiatives to cooperate with the accounting auditor, audit and supervisory board members, independent outside directors, and the Internal Audit Office:

- (1) Periodically holding tripartite audit meetings to encourage cooperation among the accounting auditor, audit and supervisory board members, and the Internal Audit Office to share reports from each of these auditing agencies and exchange information and opinions.
- (2) Several times a year, holding four-party meetings on auditing and oversight to encourage cooperation among the accounting auditor, audit and supervisory board members, independent outside directors, and the Internal Audit Office by sharing information and exchanging opinions.

[6] Operation of the internal controls system

Based on the Basic Policy on Internal Controls, the board of directors implements the following initiatives to realize swift and efficient business execution in line with appropriate internal controls:

- (1) Disclosure of the Basic Policy on Internal Controls on the Company website.
- (2) Based on reports from the Internal Audit Office concerning the results of investigation, analysis, and assessment of the state of auditing related to the internal controls at the Company and Group member companies, and issues identified therefrom, deliberate and decide on the responses.
- (3) The Internal Audit Office maintains structures for direct reporting to the accounting auditor, audit and supervisory board members, and independent outside directors as a member of tripartite audit meetings and four-party meetings on auditing and oversight and for direct reporting on the state of internal audits by attending meetings of the board of directors.
- (4) For important matters related to appropriate management decision-making, establishing specialized committees on internal controls, crises, risk management, compliance, sustainability, investment and loans review, and other matters, the board will assess the propriety, risks, and other subjects and decide on policies related to whether or not to implement related measures.
- (5) To prevent the materialization of such risks as those of natural disasters, accidents, and human-caused disasters or to minimize damage when they do occur, implement the appropriate risk management at a management level as outlined below based on basic policies and assessment standards on risk assessment:
 - (i) Formulate the Basic Policy on Risk Management and disclose it on the Company website.
 - (ii) Promote risk management by appointing an executive officer in charge of risk management and establish a section to oversee risk management.
 - (iii) After assessing risks in individual business divisions and Group member companies and identifying and deliberating on important risks in the Management Conference, ultimately identify major risks and decide on response policies in the board of directors.
 - (iv) For purposes of crisis management in response to natural disasters and other events that could markedly impede business continuity, continually establish measures to prevent damage from major earthquakes or wind, water, and snow damage caused by climate change or reevaluate the business continuity plan (BCP).
 - (v) Oversee the state of operation of risk management through internal audits by the Internal Audit Office.
- (6) Based on an awareness of its social responsibilities, the Company implements the following initiatives to promote compliance management as a foundation for fulfilling these responsibilities:
 - (i) Promote compliance management with the Crisis & Compliance (C&C) Control Committee, chaired by the president and being responsible for crises, risk management, and compliance by playing a leading role.

- (ii) Establish the KITZ Group compliance code of conduct and include it in the Compliance Guidebook together with the Group Corporate Philosophy Structure and educate employees through compliance training.
 - (iii) For purposes of checking on the degree of permeation of compliance management in the organization, making potential compliance risks visible, and identifying priority fields in which to implement compliance education, survey employees of the Company and Group member companies on compliance and implement the appropriate responses based on the results of the survey.
- (7) An internal whistleblowing program has been adopted under which the following initiatives are implemented to receive information and consultation from employees concerning unlawful or inappropriate acts:
- (i) Establishment and appropriate operation of the compliance helpline as a contact point for whistleblowing reports under the direct supervision of the C&C Control Committee to enable employees to report or consult on unlawful or inappropriate acts and suspicions thereof without fear of being treated at a disadvantage as a result.
 - (ii) In addition to contact points for whistleblowing reports set up at the Company and Group member companies, a contact point for the entire Group has been set up at an outside law firm.
 - (iii) The content of whistleblowing reports and the state of responding to them are reported periodically to the board of directors.
 - (iv) All employees are made aware of the compliance helpline by including information on it in the Compliance Guidebook for all Group employees, leaflets, the portal intranet site, and elsewhere.
 - (v) In accordance with the response policies decided on, information from whistleblowing reports received is promptly investigated and corrective measures and other responses are implemented as necessary. The program is managed with care to protect the privacy of whistleblowers and ensure that they will not be treated at a disadvantage as a result of having reported information.

[7] Support structure for directors and audit and supervisory board members

Support for directors and audit and supervisory board members is provided through the following initiatives:

- (1) The general manager of the Corporate Planning Department communicates and makes arrangements with outside directors and other directors and audit and supervisory board members to promote cooperation with them.
- (2) If Company information they have obtained is inadequate for the performance of duties of directors and audit and supervisory board members, and they have requested additional information as a result, then timely and appropriate information is provided, either directly or indirectly. This information is provided to directors by the Corporate Planning Department and other related sections and to audit and supervisory board members by the Auditors Board Office.
- (3) Outside directors and outside audit and supervisory board members can obtain the information they need to make decisions whenever necessary through such means as attending various meetings and visiting individual sites, including Group member companies.
- (4) Directors and audit and supervisory board members may obtain, at the Company's expense, opinions from lawyers, certified public accountants, and other outside experts regarding business topics as needed to make proper judgments.

[8] Training structure for directors and audit and supervisory board members

Directors and audit and supervisory board members are provided with the following training options:

- (1) To ensure that they can learn the knowledge they need and improve their knowledge and abilities, managing executive directors and standing audit and supervisory board members have opportunities to participate in training by outside educational institutions, as well as management study meetings on specific themes, led by instructors invited from outside the organization. This training is provided after they take office as directors or audit and supervisory board members or beginning at the stage of their candidacy.
- (2) To deepen the understanding of outside directors and outside audit and supervisory board members concerning the Company and Group member companies, after appointment they have opportunities to take part in briefings on necessary knowledge concerning the businesses, finances, organizations, and other aspects of the Company and Group companies, the industries in which the Company operates, and matters such as the Company's history, an overview of its businesses, and the Group Corporate Philosophy Structure, as well as the management vision, medium-term management plans, the governance structure, and the compliance structure. Other activities include site tours in Japan and overseas and interaction with core management of individual sites to learn about the details of their business activities, as well as the opportunity to participate in training sessions for directors and audit and supervisory board members.

Record of establishment and revision of this Policy

November 10, 2021: Established and applied