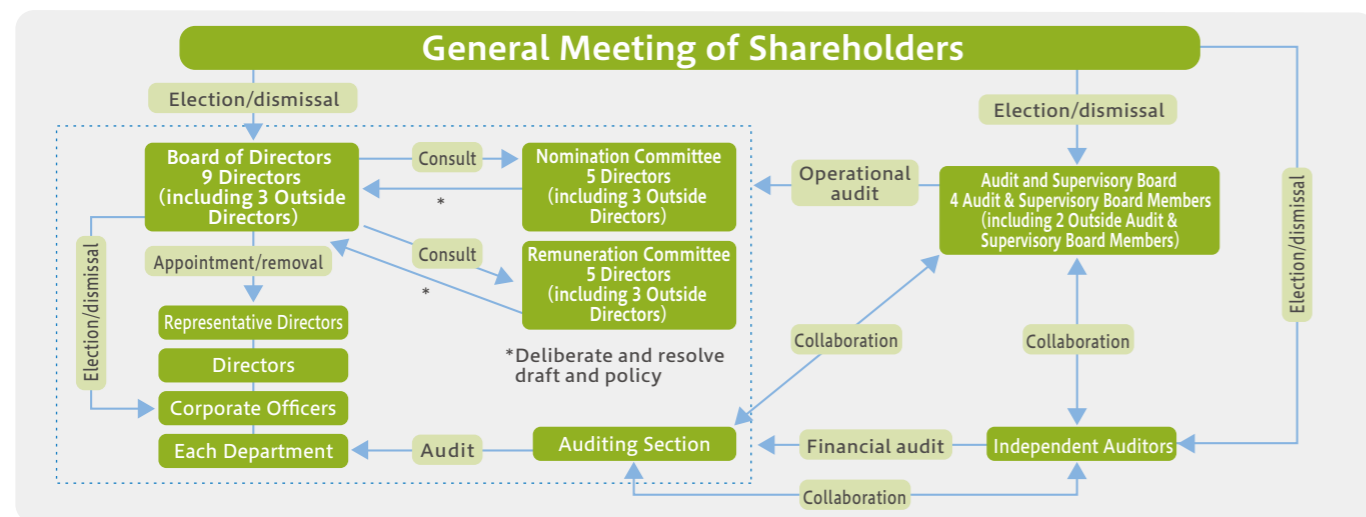


Governance

To retain the trust of all of our stakeholders, KOITO recognizes the importance of ethical standards and the establishment of a sound management structure. We have identified enhancing “corporate governance” as one of our materiality and promoting several activities.

Corporate Governance



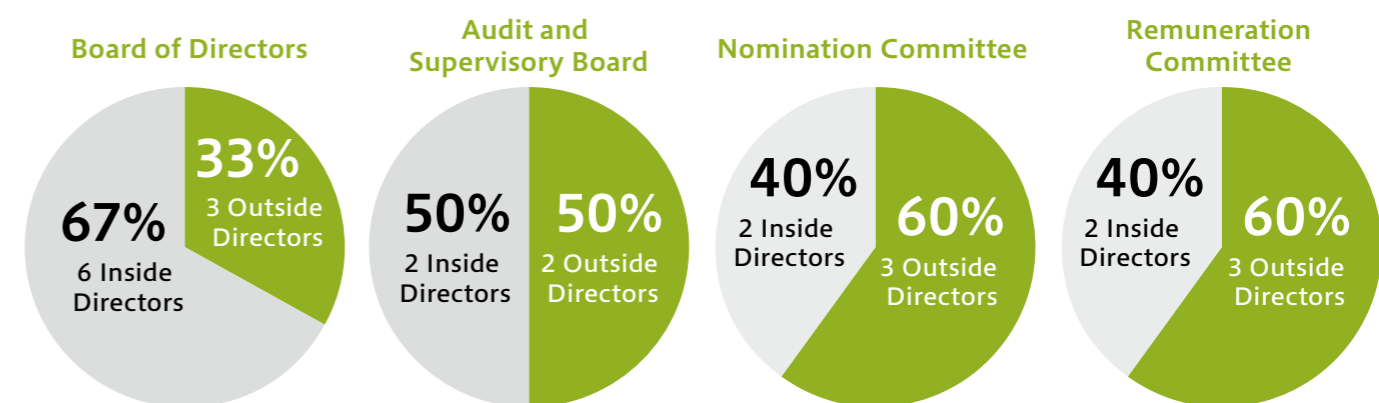
Inside Directors/Audit Members Outside Directors/Audit Members

	Board of Directors	Audit and Supervisory Board
Composition	9 Directors (6 inside Directors + 3 outside Directors) Chaired by the President	4 Audit & Supervisory Board Members (2 inside members + 2 outside members)
Frequency	Once per month in principle	Eight times (FY 2022)
Function	The Board of Directors discusses, reports, and makes decisions on matters stipulated in the Board of Directors Regulations, including those matters stipulated by laws, regulations, and the Articles of Incorporation, and supervises the execution of Director’s business execution.	The Audit and Supervisory Board Members participate in the Board of Directors and other important meetings and committees, review significant authorization documents, and audit the performance of directors. They are monitoring the structure and operations of the internal control system.
Structure	<ul style="list-style-type: none"> All Audit and Supervisory Board Members attend meetings of the Board of Directors to monitor Director’s business operations. The Managing Committee (chaired by the President), a body to aid the Board of Directors, is comprised of full-time Directors and Corporate Officers. The committee meets, three times per month in principle, determines business execution, reports on progress, and follows up on business execution. The governance structure is being reinforced; new proposal agendas are required to be approved at the Managing Committee and then to the Board of Directors. 	<ul style="list-style-type: none"> Other than the Board of Directors, the standing Audit and Supervisory Board Members attend the Managing Committee and other important meetings, constantly monitor the Director’s business execution and express opinions as needed. Improving its auditing functions through close collaboration between Audit and Supervisory Board Members, the Internal Audit Department, and independent auditors by holding periodic meetings and let them exchange information and opinions as needed.

Members of the Board of Directors, Audit and Supervisory Board, Nomination Committee and Remuneration Committee (as of June 29, 2022)

			Board of Directors	Audit and Supervisory Board	Nomination Committee	Remuneration Committee
Directors	Chairman and CEO	Masahiro Otake	○		◎	◎
	President and COO	Michiaki Kato	◎		○	○
	Executive Vice President	Kenji Arima	○			
	Executive Vice President	Masami Uchiyama	○			
	Senior Managing Director	Hideharu Konagaya	○			
	Senior Managing Director	Katsuyuki Kusakawa	○			
	Outside Director	Haruya Uehara	○		○	○
	Outside Director	Kingo Sakurai	○		○	○
	Outside Director	Chika Igarashi	○		○	○
Audit & Supervisory Board Members	Standing Audit & Supervisory Board Member	Mitsuo Kikuchi	○	◎		
	Standing Audit & Supervisory Board Member	Koichi Sakakibara	○	○		
	Outside Audit & Supervisory Board Member	Yukinobu Suzuki	○	○		
	Outside Audit & Supervisory Board Member	Hiroshi Kimeda	○	○		

Ratio of Outside Directors



Main Proposals and Reports at the Board of Directors (from April 2021 to March 2022: 12 meetings)

	Proposals	Reports	Total	Ratio
Business strategies, sustainability and governance	18	9	27	33%
Settlement, dividends and other financial matters	7	9	16	19%
Internal control, risk management and compliance	4	4	8	10%
HR, appointment and remuneration	15	3	18	22%
Other matters	3	10	13	16%
Total	47	35	82	100%

Election Policy for Directors and Audit and Supervisory Board Members

KOITO's policy is to elect a person who is capable of responding to expectations of shareholders as a Director, has enough experience and advanced knowledge of business administration, and can fulfill the duties and responsibilities of a Director as a Director candidate.

Based on this policy, the nomination committee deliberate and resolve a draft of Director candidates, and then the Director candidates are determined by the Board of Directors. As a consultative body of the Board of Directors, the nomination committee consists of three independent outside Directors and two inside Directors, in order to ensure objectivity and transparency of the nominations of the director candidates.

Each Director has a thorough knowledge of the respective business management. Including outside Directors, KOITO regards Director's knowledge, experience, and capabilities as diverse and well balanced. KOITO will continue to consider the appropriate structure for the Board of Directors.

As for the election of Audit and Supervisory Board Members, KOITO expects candidates to have a good personality and a strong sense of ethics to accurately, fairly, and efficiently execute the audits of the execution of Director duties.

Specialties and Experience of Directors

		Corporate Management	Sales, Procurement	Engineering, R&D	Production, Quality Management, Safe & Environment	Overseas Segment	Finance & Accounting	Corporate Planning, Legal, Personnel
Chairman and CEO	Masahiro Otake	○	○			○	○	○
President and COO	Michiaki Kato	○	○			○		
Executive Vice President	Kenji Arima	○	○	○	○	○		
Executive Vice President	Masami Uchiyama	○			○			○
Senior Managing Director	Hideharu Konagaya	○	○			○	○	
Senior Managing Director	Katsuyuki Kusakawa	○		○		○		○
Outside Director	Haruya Uehara	○				○	○	
Outside Director	Kingo Sakurai						○	
Outside Director	Chika Igarashi							○

*Note: Above chart does not represent all skill of each Director.

Outside Directors and Audit and Supervisory Board Members

KOITO's policy on electing outside Directors is to appoint persons who satisfy the requirements for outside Directors in the Companies Act and requirements for independency in the independency standard for the independent officer system of Tokyo Stock Exchange.

Outside Directors shall have abundant knowledge and experience in corporate administration. Outside Audit and Supervisory Board Members shall have technical knowledge of laws and finance. Both outside Directors and Audit and Supervisory Board Members are elected upon a decision at a General Meeting of Shareholders.

Status of Audits

Based on the annual audit plans, KOITO's Internal Audit Department, an independent organization, conducts audits of the operations of internal control over financial reporting, as well as audits of the legality and appropriateness of operations against company-wide departments and KOITO's subsidiaries. The departments and subsidiaries implement the necessary improvements to improve internal control. The Internal Audit Department reports the results of the audits to Directors and Audit and Supervisory Board Members, and exchanges information with the Audit and Supervisory Board Members and the independent auditors on the status of audits to facilitate mutual cooperation.

Other than attending and expressing opinions at the Board of Directors, Audit and Supervisory Board Members audit the execution of Directors' duties, legality and appropriateness of KOITO's decision-making based on their knowledge and experience in each specialized field. In addition to Audit and Supervisory Board Members' on-site audits and interviews with administrative divisions, Audit and Supervisory Board Members attend the audits performed by the independent auditors and the Internal Audit Department. Audit and Supervisory Board Members strive to improve the effectiveness of audit by maintaining collaboration with relevant parties, including outside Directors by exchanging information as needed.

Director Effectiveness Evaluation

KOITO conducts annual surveys to evaluate the effectiveness of the Board of Directors. The Board of Directors evaluates itself based on the survey findings.

The following is the outline of the results of analyzing and evaluating the effectiveness of the Board of Directors.

1. The Board of Directors meets monthly, in principle, and promptly and properly discusses important agenda items based on the Board of Directors Regulations.
2. Prior to the beginning of the fiscal year, the annual meeting schedules are announced to Directors and Audit and Supervisory Board Members, including its outside members, making it easier for them to attend the meetings. To facilitate discussion on management issues of the Board of Directors, the matters to be deliberated and reported at the meeting and the content of the materials are discussed in advance.
3. In addition to Directors, who have experience in the various business divisions such as management, sales, technical, production and others, the Board of Directors also receives advice and proposals from outside Directors with extensive knowledge and experience of corporate management, or with expertise in legal and financial matters. The Board of Directors ensures sufficient time and discusses management issues from a variety of perspectives.

The Board of Directors also operates by reflecting the opinions of outside Directors, such as adding the results of self-evaluations, contents put on the agenda of the Managing Committee, trends in the industry, and the latest technical trends to the matters to be reported.

The Board of Directors will continue to further reinforcing its functions as the highest decision-making entity and improving the speed of making administrative decisions to increase its effectiveness.

Remuneration of Directors

It was approved at the 119th Ordinary General Meeting of Shareholders held on June 27, 2019 that the amount of remuneration, etc. for Directors shall be no more than ¥1.5 billion a year. In addition, it was approved at the 115th Ordinary General Meeting of Shareholders held on June 26, 2015, that, apart from the amount of remuneration, etc., for Directors, the amount of remuneration, etc., related to subscription rights as stock compensation-type stock options for Directors shall be no more than ¥200 million a year.

The Directors' remuneration system consists of fixed remuneration, paid monthly, and performance-linked remuneration. Based on our internal standards on Director's remuneration, KOITO comprehensively determines the amount of remuneration by taking several factors into account: corporate performance, the amount of dividends to shareholders, remuneration amount of other companies, the amount of employees' salaries, as well as the Director's management capabilities, achievements, and their contributions.

The fixed remuneration amount is calculated by setting a basic amount in based on the size of the role of each Director and their position, then setting the upper and lower limit amount for each position, the status difference by position, and the difference by the number of years in the position.

Performance-linked remuneration is evaluated and decided based on the belief that it is important to comprehensively consider the goals and achievements of each fiscal year's performance (net sales, profits, etc.) and each Director's contribution.

The goal of stock compensation-type stock options is to motivate company managers to contribute to improving business performance and corporate value in the medium- to long-term by sharing the benefit of rising stock prices and the risk of falling stock prices with shareholders. The number of stock options granted is based on each Director's status of business execution and level of contribution, etc., and Directors are able to exercises their options once they have lost their position as Director.

The Board of Directors consults with the remuneration committee regarding the policy to determine the remuneration of all and each Director.

The remuneration of each Director is determined by consultations among the Representative Directors, based on the above determination policy authorized by the Board of Directors. To ensure objectivity and transparency of the Directors' remuneration determination procedure and others, the remuneration committee, an advisory body to the Board of Directors, consists of two inside Directors and three independent outside Directors.

The remuneration of each Audit and Supervisory Board Members has been determined by consultations among Audit and Supervisory Board Members. For outside Directors, only fixed remuneration is paid, and no performance-linked remuneration is paid.

	The number of eligible members	Breakdown of remuneration		Total remuneration (million yen)
		Fixed remuneration (million yen)	Performance-linked remuneration (million yen)	
Directors	15	786	349	1,136
Audit and Supervisory Board Members	5	103	—	103
Total	20	890	349	1,239

Notes: 1. The above table includes one retired Director and one retired Audit and Supervisory Board Member at the conclusion of the 121st Ordinary General Meeting of Shareholders held on June 29, 2021.
2. Aggregate remuneration for the outside Directors and outside Audit and Supervisory Board Members, a total of four individuals, was ¥55 million (fixed remuneration only).
3. In addition to the above, KOITO resolved to abolish its Directors' and Audit and Supervisory Board Members' executive retirement bonuses payment system at the conclusion of the 112nd Ordinary General Meeting of Shareholders held on June 28, 2012 and to grant executive retirement bonuses, at the time of the retirement of each person involved, to cover the period in post up to the abolition of the system to Directors and Audit and Supervisory Board Members continuing in post subsequent to the conclusion of the aforementioned General Meeting of Shareholders. On the basis of this resolution, an executive retirement bonus of ¥63 million was paid to one retired Director. These amounts included ¥40 million, which were transferred from provision for Directors' retirement benefits included in the total remuneration, etc. to executives in the business report for past years.
4. Besides the above, one outside Audit and Supervisory Board Member receives executives' remuneration of ¥0 million from Koito Insurance Services Co., Ltd., KOITO's subsidiary.
5. For Performance-linked remuneration, recurring profit is used as an indicator since it reflects the overall results of KOITO's management activities, and the remuneration is calculated giving consideration to the year-on-year change in this indicator. The amounts listed for recurring profit for the fiscal year under review and for the previous fiscal year are the amounts presented in the non-consolidated statements of income.

Basic Policy of Internal Control System

The Basic Policy of the Internal Control System is set as follows to improve and reinforce internal control.

1. System ensuring that Directors and employees execute their business duties in compliance with laws and regulations and the Company's Articles of Incorporation

The Compliance Committee, the Compliance Department, the Internal Audit Department, whistle-blower internal reporting system, and other organizations and systems, as well as the Code of Corporate Ethics and other relevant regulations, will be developed and enhanced based on the KOITO Group Corporate Behavior Charter.

At the same time, KOITO's Directors, Corporate Officers, and employees will receive education familiarizing them with the organizations, systems, and regulations.

2. System for the preservation and administration of information on Directors executing their business duties

Regulations will be developed and enhanced to appropriately preserve and administer minutes of the General Meeting of Shareholders, the Board of Directors, the Managing Committee, and other information on the Directors executing their business duties.

3. Regulations and other systems for managing the risk of loss

Risk Management Regulations and other regulations and systems for managing risk will be developed to avoid and eliminate material risks that could threaten the Company's viability, and to minimize the impact when they arise. At the same time, KOITO's Directors, Corporate Officers, and employees will receive education and training on risk management.

4. System for ensuring the efficient execution of business duties by Directors

The Board of Directors and the Managing Committee meetings will be held regularly. Meanwhile, the Board of Directors' Regulations, the Managing Committee's Regulations, and other regulations pertaining to the execution of business duties by the Directors, as well as the Corporate Officer system and other organizations and systems, will be developed and enhanced to ensure the efficient execution of business duties by the Directors.

At the same time, the business duties will be executed according to specific plans that each division develops every fiscal year based on the President's policy.

5. System for ensuring appropriate business execution by the corporate group comprising KOITO and its subsidiaries

KOITO and its group companies will acknowledge the KOITO Group Corporate Behavior Charter and develop a system for ensuring and administering the appropriate execution of business duties as follows.

a. KOITO clarifies matters to be reported in the Subsidiary Company Management Regulations and other regulations and improves reporting system. Also, KOITO requests regular business reports to the group companies.

b. KOITO comprehensively and thoroughly manages risks of the entire group based on the Subsidiary Company Management Regulation and other regulations. If actions of the group companies are insufficient, KOITO provides instructions and corrective actions.

c. KOITO requests its group companies to develop and improve regulations, organizations, and systems for regular meetings of the Board of Directors and the execution of duties by the Directors.

Officers serve in multiple posts in important group companies.

d. KOITO ensures that group companies stay in compliance with laws and regulations based on the KOITO Group Corporate Behavior Charter and other regulations. Also, KOITO's Management Department and Internal Audit Department conduct audit and financial audit of group companies.

KOITO also clarifies matters requiring approvals in the Subsidiary Company Management Regulations and other regulations so that the applicable business operations are to be executed upon approval by KOITO.

6. Matters pertaining to the status of certain employees, independence from Directors, and the effectiveness of instruction in the event the Audit and Supervisory Board Members request such employees to assist in the execution of their duties

An Audit and Supervisory Board Members' Office will be established to help the Audit and Supervisory Board Members execute their duties under the instructions and orders of the Audit and Supervisory Board Members and the Audit and Supervisory Board.

Moreover, assignment of personnel to the Audit and Supervisory Board Members' Office shall be decided upon approval by the Audit and Supervisory Board to ensure independence from the Directors.

7. System for Directors and employees of KOITO and its subsidiaries to report to the Audit and Supervisory Board Members and for preventing unfair treatment of the Directors and employees for reporting to the Audit and Supervisory Board Members

Directors, Corporate Officers, and employees of KOITO and its group companies shall report to the Audit and Supervisory Board Members when they learn of matters of material impact on the Company, serious violations of laws, regulations, and the Company's Articles of Incorporation, and other issues of compliance.

Moreover, each Audit and Supervisory Board Member shall exercise their own discretion in reporting the findings from such reports to the Audit and Supervisory Board. Meanwhile, the Company's organization and systems will be developed and enhanced to rigorously prevent the unfair treatment of the Directors, the Corporate Officers, and the employees for reporting to the Audit and Supervisory Board Members.

8. Policy on expenses arising when the Audit and Supervisory Board Members execute their duties and system for enabling the Audit and Supervisory Board Members to conduct effective audits

The Company will pay all necessary expenses involved in the Audit and Supervisory Board Members' execution of their duties.

The Audit and Supervisory Board Member will monitor and audit the execution of business duties at the Company by means that include attending the Board of Directors, the Managing Committee, the Compliance Committees and other relevant conferences and committees, and examining important documents.

The Audit and Supervisory Board Members will exchange opinions periodically or as needed with Directors, Corporate Officers, financial auditors, and the Internal Audit Department, among others.

Shareholdings

Based on KOITO's management strategies and plans, we believe that strengthening business relations with other companies is essential to expanding our business and achieving sustainable growth.

From this perspective, we comprehensively consider the issues and hold shares that are held for purposes other than pure investment. With regard to shareholdings, we regularly scrutinize and verify whether they are commensurate with dividend yields and the cost of capital, while also keeping in mind reductions, in order to determine the appropriateness of stockholdings.

● Basic Standards and Policy for Classification of Investment Shares

With respect to the classification of investment shares held for pure investment purposes and otherwise, KOITO designates shares held solely for the purpose of receiving profits from changes in the value of shares or dividends on shares as investment shares for pure investment purposes, and as other shares for investment shares held for purposes other than pure investment.

● Basic Policy for Voting Rights

The exercise of voting rights is not based on a uniform standard, but rather is based on the perspective of whether it will lead to sustainable corporate growth and enhancement of corporate value over the medium- to long-term.

■ Number of brands and amount posted in balance sheet

	Amount posted in balance sheet (March 31, 2021)	Brands for which we increased our shares in FY 2022	Brands for which we decreased our shares in FY 2022	Amount posted in balance sheet (March 31, 2022)
Unlisted shares	16 brands	—	—	16 brands
	¥ 2,104 million	—	—	¥ 2,102 million
Other shares	49 brands	1 brand	11 brands	43 brands
	¥ 22,987 million	¥ 5,787 million	¥ 1,606 million	¥ 29,214 million

*Stocks whose number of shares fluctuated due to the consolidation of shares, stock splits, stock transfers, stock exchanges, mergers, and other organizational reorganizations are not included.