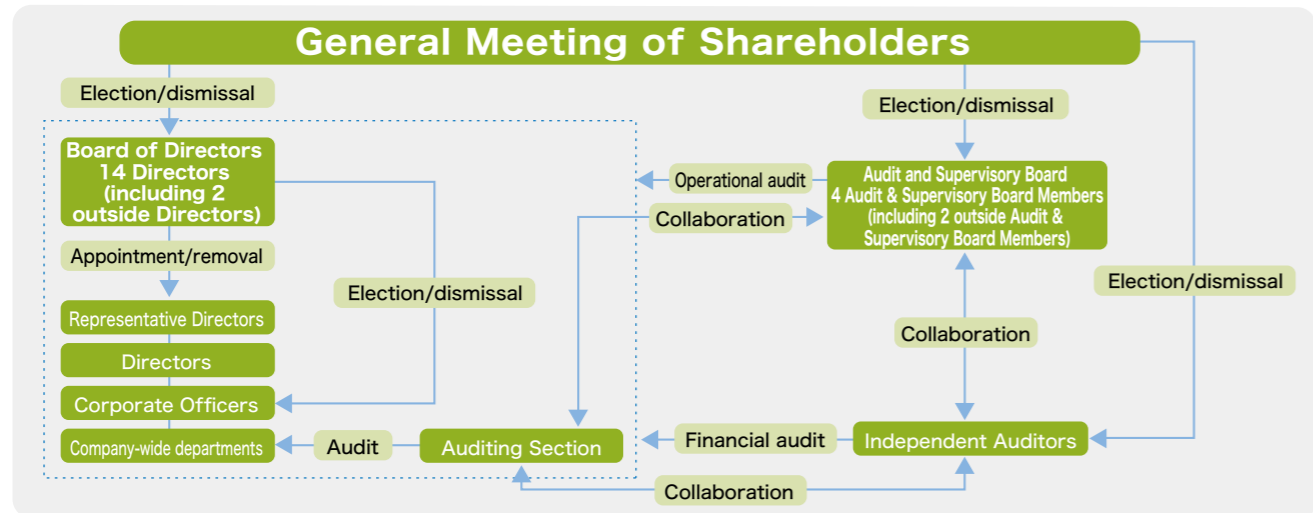


# Governance

To retain the trust of all of our stakeholders, KOITO recognizes the importance of ethical standards and has identified enhancing “corporate governance” as one of our materialities. We are striving to establish a sound management structure.

## Corporate Governance



	Board of Directors	Audit and Supervisory Board
<b>Composition</b>	<p>14 Directors (12 inside Directors + 2 outside Directors) Chaired by the President</p>	<p>4 Audit &amp; Supervisory Board Members (2 inside members + 2 outside members)</p>
<b>Frequency</b>	Once per month in principle	Eight times (FY 2021)
<b>Function</b>	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.
<b>Structure</b>	<ul style="list-style-type: none"> <li>All Audit and Supervisory Board Members attend meetings of the Board of Directors to monitor Director's business operations.</li> <li>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.</li> <li>The governance structure is being reinforced; new proposal agendas are required to be approved at the the Managing Committee and then to the Board of Directors.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>

## 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.

The Audit and Supervisory Board comprises two standing Audit and Supervisory Board Members and two outside Audit and Supervisory Board Members. 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. In addition, the Audit and Supervisory Board Member monitors the structure and operations of the internal control system by site visiting plants and branches, interviewing the administrative divisions, and auditing domestic and overseas subsidiaries. Moreover, the Audit and Supervisory Board Members attend the audits performed by the independent auditors and the Internal Audit Department, along with working to promote collaboration by exchanging information through regular meetings with the independent auditors, the in-house Compliance Department, and the Internal Audit Department.

## 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 President prepares the draft of Director candidates and proposes it to the Board of Directors which then finalizes the selection of Director candidates.

KOITO's policy on electing Audit and Supervisory Board Members is to select a person who has an excellent personality, as well as great ethical values, to properly, justly, and efficiently carry out the auditing of the execution of duties by Directors.

Based on this policy, the Board of Directors selects Audit and Supervisory Board Member candidates upon receiving an approval by the Audit and Supervisory Board.

The Board of Directors selects Director candidates who have been serving in important positions in their departments, are familiar with their tasks, as well as the overall operation of KOITO, and have made great contributions to improve the business performance and corporate values of KOITO. The General Meeting of Shareholders then reaches a conclusion on their appointments.

Reference Documents for the Notice of the General Meeting of Shareholders describe the reasons for selecting individual Directors and Audit and Supervisory Board Members. Reference Documents for the Notice of the General Meeting of Shareholders also describe the reasons for the dismissal of Directors or Audit and Supervisory Board Members. The Board of Directors makes decisions on the election and dismissal of individual Corporate Officers.

If a dismissal procedure deviates from the above policy, the Board of Directors approves of the procedure, which is then decided in a General Meeting of Shareholders. The Board of Directors' Regulations stipulate that the election and dismissal of Corporate Officers shall be carried out upon a decision by the Board of Directors.

## 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.

When KOITO's own Directors and Audit and Supervisory Board Members also serve as officers at other listed companies, they are obliged to limit their involvement within the reasonable range.

Notice of the General Meeting of Shareholders describes the status of Directors and Audit and Supervisory Board Members as serving as officers of other listed companies.

Individual Directors have thorough knowledge of business operations and administration. The knowledge, experience, and abilities are well balanced among inside and outside Directors.

	Name	Attendance at the Board of Directors (FY 2021)	Attendance at the Audit and Supervisory Board (FY 2021)	Major activities
Outside Director	Haruya Uehara	All 12 meetings (100%)	-	Mr. Haruya Uehara played an appropriate role in ensuring the adequacy and appropriateness of decisions by the Board of Directors, such as providing opinions and other information based on his knowledge and experience concerning corporate management. He also performed a supervisory function, such as sharing information through meetings with the audit department.
	Kingo Sakurai	All 12 meetings (100%)	-	Mr. Kingo Sakurai played an appropriate role in ensuring the adequacy and appropriateness of decisions by the Board of Directors, such as providing opinions and other information based on his knowledge and experience as a certified public accountant. He also performed a supervisory function, such as sharing information through meetings with the audit department.
Outside Audit and Supervisory Board Member	Yukinobu Suzuki	All 12 meetings (100%)	All 8 meetings (100%)	Mr. Yukinobu Suzuki provided opinions primarily by using his financial and tax practice expertise and performed other activities for verifying the adequacy and appropriateness of decisions by the Board of Directors, etc. and offering other advice and ideas.
	Hiroshi Kimeda	All 12 meetings (100%)	All 8 meetings (100%)	Mr. Hiroshi Kimeda provided opinions primarily by using his legal expertise and performed other activities for verifying the adequacy and appropriateness of decisions by the Board of Directors, etc. and offering other advice and ideas.

## Director and Audit and Supervisory Board Member Diversity Policy

Individual Directors have thorough knowledge of business operations and administration. Their diversified knowledge, experience, and abilities are well balanced among inside and outside Directors. KOITO keeps seeking a desirable structure of the Board of Directors.

Also, KOITO's policy on electing Audit and Supervisory Board Members is to select candidates who have excellent personalities, as well as great ethical values, to properly, justly, and efficiently carry out the auditing of the execution of duties by Directors as Audit and Supervisory Board Members. Specifically, outside Audit and Supervisory Board Members are selected from those who have technical knowledge of laws and finance.

## 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. Annual meeting schedules are announced to all Directors and Audit and Supervisory Board Members, including outside ones, before the start of the fiscal year. The schedule is designed for them to attend the meetings readily. Directors and Audit and Supervisory Board Members actively participate in discussions, and business topics are thoroughly examined.
3. The Board of Directors receives advice and suggestions from Directors who have worked in the various departments, such as management, sales, technology, and production, and outside Directors who have experience and knowledge of corporate administration. Outside Audit and Supervisory Board Members with technical knowledge of laws and finance also provide their opinions. The Board of Directors thereby discusses and examines business topics from various angles by taking enough time.

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 reinforcing its functions as the highest decision-making entity and improving the speed of making administrative decisions to increase its effectiveness.

## Remuneration of Directors

The policy for determining remuneration, etc. for Directors has been decided by the Board of Directors, as follows.

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 remuneration of each Director has been determined by consultations among the representative directors based on the authorization of the Board of Directors. For Outside Directors, only fixed remuneration is paid, and no performance-linked remuneration is paid.

The remuneration of each Audit and Supervisory Board Members has been determined by consultations among Audit and Supervisory Board Members. For Audit and Supervisory Board Members, 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	14	730	345	1,076
Audit and Supervisory Board Members	4	103	—	103
Total	18	834	345	1,179

Notes: 1. Aggregate remuneration for the Outside Directors and Outside Audit and Supervisory Board Members, a total of four individuals, was ¥55 million (fixed remuneration only).  
 2. Besides the above, an outside Audit and Supervisory Board Member receives executives' remuneration of ¥0 million from Koito Insurance Services Co., Ltd., a subsidiary of KOITO.  
 3. For performance-linked remuneration, recurring profit is used as an indicator since it reflects the overall results of the Company's management activities, and the remuneration is calculated giving consideration to the year-on-year change in this indicator.

## 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.