

# Corporate Governance

By improving our corporate value through the realization of our Management Philosophy, and by increasing shared benefit with our stakeholders in the long term, the TOKYO KEIKI group hopes that our shareholders will feel confident in long-term ownership of our shares. Toward this end, we continuously pursue and work to enhance excellent corporate governance.

## Concepts of corporate governance

Along with an understanding of the importance of corporate ethics, we recognize that achieving health, transparency, efficiency, and highly agile corporate management is the key point of corporate management systems for the sustainable growth and development of a company and the increase in its long-term corporate value as it responds swiftly to rapid changes in society and the environment—that is, it is the key point of corporate governance. We are enhancing our corporate governance in line with the following basic approaches.

### ■ Relationship with shareholders and other stakeholders

1. We will respect the rights of shareholders.

2. We will ensure the equality of shareholders.
3. We will build positive and smooth relationships with our shareholders and many other stakeholders.
4. We will properly disclose company information and ensure transparency in our corporate management.

In April 2022, we transitioned to the Prime Market as our new market segment on the Tokyo Stock Exchange.

To provide a high level of governance appropriate to a company listed on the Prime Market, we will continue working to strengthen initiatives and enhance our sustainable growth as well as our medium- to long-term corporate value by solving diverse social issues.

## System of corporate governance

### Organizational structure

As the organizational structure of our Company under the Companies Act, we have adopted the form of a company with an Audit and Supervisory Committee. We have an Audit and Supervisory Committee in which Outside Directors with independence and neutrality make up a majority of members, and delegate a substantial portion of the Board of Directors' authority for business execution to Directors. Doing so allows us to separate the oversight and execution of business and engage in speedy decision-making.

### Basic policy on the composition of the Board of Directors

Representative Directors, Management Executives (President & CEO, Vice President & Executive Officer, Senior Executive Officer, Senior Managing Executive Officer), and Directors who are not Audit and Supervisory Committee and its Members are appointed with comprehensive consideration of the balance of the Board of Directors overall and whether candidates possess the knowledge, experience, and capabilities required to satisfy diversity. Candidates for Directors who are Audit and Supervisory Committee Members are appointed based on comprehensive judgment of whether the candidates possess sufficient knowledge to properly perform the duties of Audit and Supervisory Committee Members. In particular, we include one or more persons who possess sufficient financial and accounting knowledge.

We also strive to appoint Outside Directors with independence and neutrality to at least one-third of Director positions.

### Concepts concerning the functions of the Board of Directors and independence

Outside Directors are Directors who are personally and financially independent from the Company and who fulfill the requirements for independent officers established by the Tokyo Stock Exchange, as well as the requirements for outside directors set forth in the Companies Act. Outside Directors make efforts to achieve excellent corporate governance by providing counsel from perspectives differing from those of other Directors. As necessary, they may request submission of internal company materials or explanation and reporting of internal company information from other Directors, Executive Officers, or employees.

Audit and Supervisory Committee Members bear the role of working to establish an effective corporate governance system by overseeing and auditing the execution of duties by Directors. The Audit and Supervisory Committee composed of those members conducts verification of the content of reports received from Directors, Executive Officers, employees, Accounting Auditors, and other parties, as well as investigation of the status of the Company's business and assets. The Committee enacts necessary measures in a timely manner, including the provision of counsel, recommendations, and other opinions to Directors and suspension of the actions of Directors.

### Composition of the Board of Directors

The Board of Directors invites two Outside Directors (including two Directors who are Audit and Supervisory

Committee Members) for inclusion among its six Directors (including three Directors who are Audit and Supervisory Committee Members), from whom the Board receives candid comments from an external perspective and opinions of benefit to the Company's management based on the individuals' abundant experience. By doing so, we are making efforts to enhance the impartiality of our management and strengthen functions for the oversight of decision-making and execution of duties by business executives. Delegating important decisions on business execution to the Representative Director, President & CEO in accordance with the provisions of the Articles of Incorporation and resolutions by the Board of Directors enables swift decision-making in management and agile business execution, and allows the Board of Directors to focus on the oversight of business executives.

**Related Committees**

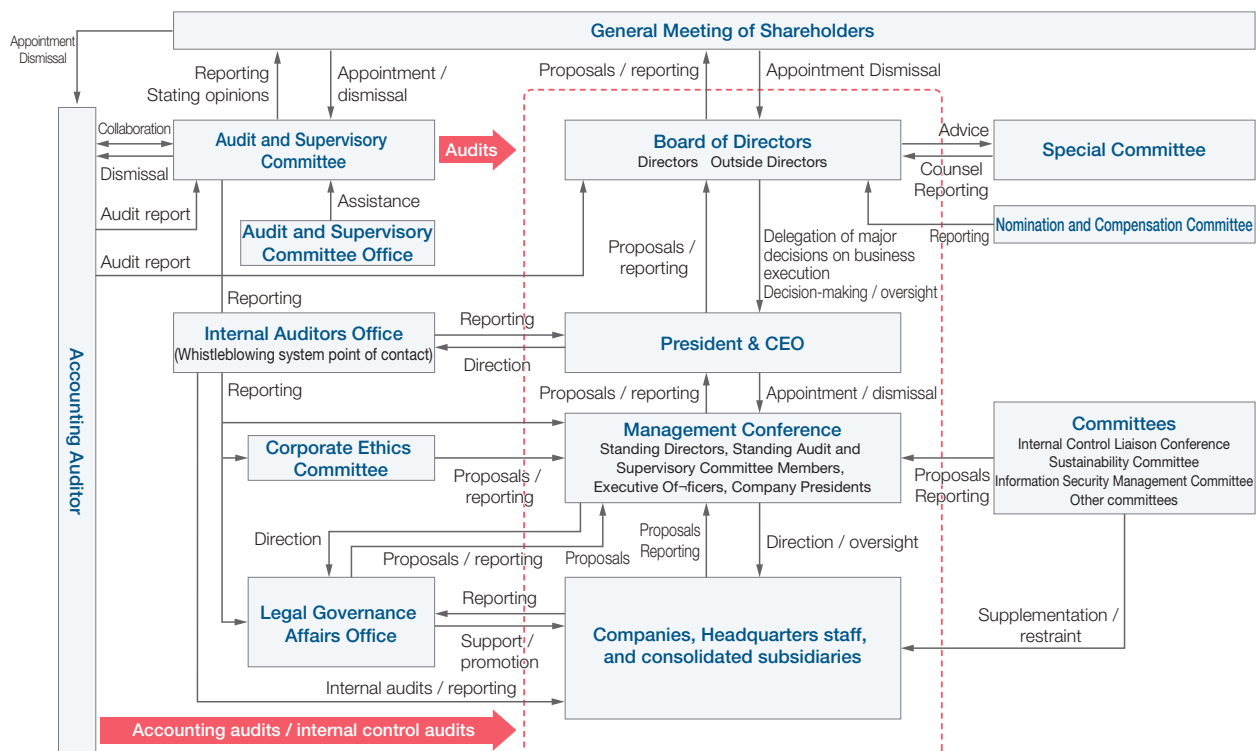
The Audit and Supervisory Committee is composed of two Outside Directors and one Internal Director. The Internal Director, as Standing Audit and Supervisory Committee Member, serves as Chair of the Committee. We have also established the Audit and Supervisory Committee Office, with one dedicated staff person and one staff person concurrently holding another position. This office supports auditing work and smooth execution of duties by the Audit and Supervisory Committee.

The Company has also established a Nomination and Compensation Committee under the Board of Directors

to deliberate on proposals for director appointment and compensation. This Committee is chaired by Representative Director, President & CEO Tsuyoshi Ando, with Outside Directors Nanpei Yanagawa and Takashi Nakamura as members.

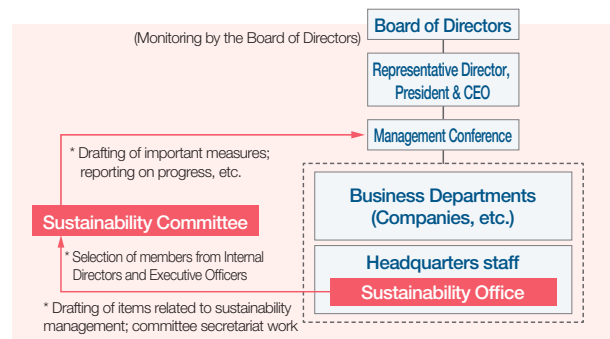
As a decision-making body for execution of management by the President & CEO, we have established a Management Conference to deliberate company-wide basic management strategy and its execution. The Management Conference is composed of Standing Directors, Executive Officers, and Company Presidents. The Corporate Ethics Committee, chaired by the Chief Legal Governance Officer, is composed of corporate ethics managers in the Group. It manages corporate ethics activities across the Group, enforces corporate ethics education for directors and employees, and works to prevent violations. We have also established a whistleblowing system as a means of directly providing information on legally suspect actions, and ensure that no disadvantage befalls whistleblowers.

The Special Committee is composed of experts including one or more university professors, attorneys, and certified accountants who have no affiliations with the Company. Our Large-scale Purchase Rules (an anti-takeover defense measure), which clearly and specifically indicate procedures that takeover proposers should take prior to executing specific acts of purchase, in principle require judgment by the Special Committee on decisions regarding whether to implement specific measures, to exclude arbitrary decisions by the Company's Board of Directors.



Moreover, to promote sustainability management by which our Group seeks to improve the sustainability of our business through consideration of the sustainability of the environment, society, and economy, we established the Sustainability Office and the Sustainability Committee in June 2021. At the center of our Group, the Sustainability Office plans and promotes measures involving sustainability management. The Sustainability Committee is chaired by the President & CEO and selects members from Internal Directors and Executive Officers. It functions as a meeting body that discusses and shares sustainability management-related policies and measures, and executes decisions without delay across the Group. It also makes proposals on key measures and issues

progress reports to the Management Conference and the Board of Directors.



## Evaluation of effectiveness

### Implementation guidelines for evaluations of the effectiveness of the Board of Directors during the reporting period

We carry out evaluations of effectiveness on the basis of Article 31 of our Corporate Governance Guidelines, which states, “The Board of Directors will, to evaluate its effectiveness, conduct self-evaluation at the end of each fiscal year with a focus on whether the execution of duties by the Board of Directors was performed in accordance with these Guidelines, and will analyze and evaluate the results. An outline of the results of the analysis and evaluation will also be disclosed as appropriate.” We disclose the results in our Corporate Governance Report.

### Initiatives to address issues raised in the 90th term

In our evaluation of our 90th term (FY 2020, ended in March 2021), as a concrete measure in the 91st term (FY 2021, ended in March 2022) to address issues in the 90th term, we established the development of an environment for members of the Board of Directors to hold deeper discussions on key items, in addition to continuing ongoing measures.

Specific measures given included isolating and clarifying the deliberation matters attached to the reported matters provided as the agenda for the Board of Directors, improving the quality and optimizing the volume of materials presented to the Board of Directors, increasing opportunities for deliberation in order to enhance disclosure of non-financial information in light of the ESG investment trend, and improving Director training opportunities.

As a result, we assessed that active discussions on every project have increased compared with the previous fiscal year, and that the Board of Directors’ awareness of its effectiveness has risen.

### Results of evaluation of the 91st term

We conducted a questionnaire survey aimed at all directors, including Audit and Supervisory Committee Members, to evaluate

the effectiveness of the Board of Directors in the 91st term. Preparation, distribution, tabulation, and analysis of the anonymous response sheets were conducted by the Legal Governance Affairs Office, which serves as the secretariat for evaluation of effectiveness. The answer sheet consists of 17 questions covering areas of the Board of Directors’ composition, operation, deliberation, support structure, relationships with stakeholders, and the degree of contribution of individual directors.

At the Board of Directors meeting held in May 2022, the Chief Legal Governance Officer reported on the aggregation of responses and the findings of analysis, and members discussed current circumstances and recognition of issues.

As a result, our Company’s Board of Directors has determined that the duties of the Board of Directors are being performed appropriately and that no problem exists in its effectiveness. Deliberation of management and business strategies was raised as an issue in the previous year. Our evaluation confirmed a degree of improvement in this area, recognizing that in the formulation of TOKYO KEIKI Vision 2030, the Board of Directors contributed to coordinating the direction for strategy and spent a large amount of time deliberating with management, with the end result being the disclosure of TOKYO KEIKI Vision 2030 along with our medium-term business plan in June 2021. However, we also affirmed that there was room for improvement in the areas of the setting of Board of Directors’ deliberation matters, and in the provision of information related to the same. These issues were shared with the Board of Directors. Looking ahead, we will establish a concrete action plan for these issues and reconfirm progress and results in the next effectiveness evaluation.

The Company will endeavor to further improve the effectiveness of the Board of Directors by conducting appropriate evaluations every year, through resolution of issues recognized in effectiveness evaluations and continuous review of implementation guidelines for evaluation.

## Policy for appointment of directors

### Policy for appointing Internal Directors who are not Audit and Supervisory Committee Members

In accordance with guidelines outlining seven requirements, the Company appoints Internal Directors who are not Audit and Supervisory Committee Members from among Executive Officers and employees, etc. who have the strong will, abundant experience, high level of insight, and high level of expertise needed to carry out the duties of a director.

### Policy for appointing Internal Directors who are Audit and Supervisory Committee Members

In accordance with guidelines outlining six requirements, the Company appoints Internal Directors who are Audit and Supervisory Committee Members from among current (or incumbent) Audit and Supervisory Committee Members, Executive Officers, and employees, etc. who have the strong will, abundant experience, high level of insight, and high level of expertise needed to carry out the duties of a director. We particularly emphasize a deep understanding of matters such as finance, accounting, and internal control, as well as sufficient experience and expert knowledge.

### Skills matrix

As of June 29, 2022

Name (Position)	Nomination and Compensation Committee	1 Corporate management	2 Marketing / sales	3 Finance	4 IT / digital technology	5 HR / labor / HR development	6 Legal affairs / risk management	7 Global experience	8 Production systems	9 Quality management	10 R&D / technology development	11 ESG / sustainability	12 Compliance / governance	13 M&As
Tsuyoshi ANDO (Representative Director, President & CEO)	●	●	●		●		●	●			●		●	●
Motoo UENOYAMA (Director & Executive Officer)		●	●	●		●						●	●	●
Yukihiko SUZUKI (Director & Executive Officer)					●		●		●	●	●	●		
Takahiro KASHIMA (Director & Audit & Supervisory Committee Member [full-time])		●		●	●								●	
Nanpei YANAGAWA (Outside Director & Audit & Supervisory Committee Member)	●	●	●	●			●	●					●	
Takashi NAKAMURA (Outside Director & Audit & Supervisory Committee Member)	●	●		●	●	●							●	

Note: Directors who possess relevant national qualifications: Motoo UENOYAMA (Small and Medium Enterprises Management Consultant, Labor and Social Security Attorney)

## Compensation system for directors

### Basic policies

Compensation for directors who are not Audit and Supervisory Committee Members is composed of monthly

### Policy for appointment of Outside Directors

In accordance with guidelines outlining seven requirements, the Company appoints Outside Directors from among persons who possess abundant experience, a high level of insight, and a high level of expertise; persons who possess a practical perspective as an outside company manager or other position; and persons who possess an objective and expert perspective based on a high level of knowledge of global conditions and socio-economic trends.

### Skills matrix

In order to verify whether the TOKYO KEIKI Group is furnished with the management capabilities needed to resolve the Group's challenges, we have outlined in the following table the knowledge and expertise (skills) possessed by all of our Directors in various fields based on two perspectives: items required for the management of a listed company, and matters required per our business activities. The determination of each Director's skills took into consideration their accomplishments as Directors and Executive Officers in each field as well as their past professional experience.

fixed compensation (basic compensation), performance-linked compensation, and transfer-restricted stock compensation, with the aim of reflecting business performance and sharing

the values of shareholders. However, Outside Directors who are not Audit and Supervisory Committee Members receive only monthly fixed compensation. For all compensation amounts, proposals prepared by the Representative Director, President & CEO are submitted to the Nomination and Compensation Committee. The Representative Director, President & CEO then receives a Memorandum on Director Compensation from the Committee and, based on this, finally determines and proposes compensation amounts that are resolved by the Board of Directors.

Compensation for Audit & Supervisory Committee Members, consisting of only basic compensation in the form of monthly fixed compensation, is determined through deliberation by Audit and Supervisory Committee Members on the basis of members' roles, duties, and categorization of standing or non-standing status, within the total amount determined at the General Meeting of Shareholders.

**Monthly fixed compensation**

The Representative Director, President & CEO will set a monthly fixed compensation proposal for each director who is not an Audit and Supervisory Committee Member, making reference to necessary information on director compensation allowing comparison with our Company, obtained through sources including surveys on trends in director compensation. After monthly fixed compensation is determined, amounts may be reduced in consideration of matters including the Company's business situation.

**Performance-linked compensation**

The Representative Director, President & CEO will determine whether performance-linked compensation will be paid, through discussions with the Representative Director in accordance with criteria for the payment of performance-linked compensation as set forth in the Rules for Directors' Compensation. Criteria for the payment of performance-linked compensation include positive operating profit, a given level of profit attributable to owners of parent, payment of dividends not below initial projections, and ROE that does not fall below initial projections by a given percentage.

**Transfer-restricted stock compensation**

The Company sets and pays monetary compensation credits in an amount equal to an individual's monthly fixed compensation converted to a yearly amount, multiplied by a coefficient based on position. Each eligible director receives an allocation of transfer-restricted stock through the granting of all monetary compensation credits as in-kind contribution. The paid-in amount of the transfer-restricted stock is determined by the Company's Board of Directors within an extent that is not overly advantageous to the receiving directors, based on the closing price of the Company's common shares on the Tokyo Stock Exchange on the business day prior to resolution by the Board of Directors concerning issuance or disposal of the stock (or, if no transactions took place on said business day, the closing price on the most recent trading day).

Similar transfer-restricted stock is also allocated to the Executive Officers of the Company and Representative Directors of subsidiaries of the Company.

**Amount of compensation by officer category**

Officer category	Total amount of compensation, etc. (million yen)	Total amount by type of compensation, etc. (million yen)			Number of eligible officers
		Basic compensation	Transfer-restricted stock compensation <sup>(Note 2)</sup>	Performance-linked compensation	
Directors who are not Audit and Supervisory Committee Members (excluding Outside Directors)	74	54	11	9	4
Directors who are Audit and Supervisory Committee Members (excluding Outside Directors)	17	17	—	—	1
Outside Directors <sup>(Note 1)</sup>	10	10	—	—	2

- Notes
1. The total amount of compensation, etc. for Outside Directors is the amount of compensation for Outside Audit and Supervisory Committee Members.
  2. The total amount of compensation, etc. is the amount of monetary compensation credits paid under the transfer-restricted stock compensation system.
  3. The total amount of the above compensation, etc. for Directors does not include amounts equivalent to the employee salaries of Directors who serve concurrently as employees.

# Stakeholder Engagement

To the extent possible, the TOKYO KEIKI Group provides opportunities for dialogs with stakeholders to discuss and exchange thoughts on the status of our business and our initiatives to resolve social issues through our business. We will continue such efforts to enhance communication.

## Major areas of stakeholder engagement

Stakeholders	Communication method	Point of contact for dialog
Customers	<ul style="list-style-type: none"> <li>• Daily sales activities</li> <li>• Explanation of product operation</li> <li>• Training</li> <li>• Product maintenance and service</li> <li>• Exhibitions, etc.</li> <li>• Hydraulic School (course on hydraulics)</li> </ul>	<ul style="list-style-type: none"> <li>• Business Divisions (sales/service departments)</li> <li>• Corporate Communications Office</li> </ul>
Shareholders / Investors	<ul style="list-style-type: none"> <li>• General Meeting of Shareholders<sup>*1</sup></li> <li>• Financial results briefings<sup>*2</sup></li> <li>• Disclosure of financial results briefing materials on IR-related web pages</li> <li>• Individual meetings with institutional investors<sup>*3</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Legal Governance Affairs Office (Handling of General Meeting of Shareholders)</li> <li>• Corporate Communications Office</li> </ul>
Suppliers / partner companies	<ul style="list-style-type: none"> <li>• Holding of business policy briefing sessions (cooperating factories, distributors, agents)</li> <li>• Daily procurement activities</li> <li>• Auditing of cooperating factories</li> </ul>	<ul style="list-style-type: none"> <li>• Material Management &amp; Purchasing Office, factories' materials sections</li> <li>• Business Divisions (sales departments)</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Labor-Management Negotiations / Management Council (labor-management deliberations)</li> <li>• Briefings on programs, dialogs with the President &amp; CEO<sup>*4</sup></li> <li>• Evaluation interviews</li> </ul>	<ul style="list-style-type: none"> <li>• Human Resources and General Affairs Department</li> <li>• Corporate Planning &amp; Administration Office</li> </ul>
Communities	<ul style="list-style-type: none"> <li>• Dialogue with industrial park unions, etc.</li> <li>• Dialogue with local residents' associations, etc.</li> <li>• Community cleanup campaigns together with companies in vicinity of industrial parks</li> <li>• Sponsorship of local events (fireworks displays, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>• (Headquarters District) Human Resources and General Affairs Department</li> <li>• (Factories) Factory administration sections</li> <li>• (Hanno) TKA Administration Department<sup>*5</sup></li> <li>• (Tanuma) TPS Administration Section<sup>*6</sup></li> </ul>
Government	<ul style="list-style-type: none"> <li>• Dialogue with government officials (local government, police, fire department, etc.)</li> <li>• Response to government agencies in the event of accident or incident</li> </ul>	<ul style="list-style-type: none"> <li>• (Headquarters District) Human Resources and General Affairs Department</li> <li>• (Factories) Factory administration sections</li> <li>• (Hanno) TKA Administration Department<sup>*5</sup></li> <li>• (Tanuma) TPS Administration Section<sup>*6</sup></li> <li>• Corporate Planning &amp; Administration Office (Government agency response)</li> </ul>

Notes: \*1 Video streamed following the General Meeting of Shareholders due to the COVID-19 pandemic (from June 2021)

\*2 Video streamed due to the COVID-19 pandemic (from June 2020)

\*3 Telephone conferences and online conferences held due to the COVID-19 pandemic

\*4 Held with a limited number of participants and support for online conferencing due to the COVID-19 pandemic

\*5 TKA: TOKYO KEIKI AVIATION INC.

\*6 TPS: TOKYO KEIKI POWER SYSTEMS INC.

## Specific initiatives

### Engagement with shareholders

We view the General Meeting of Shareholders as a valuable forum for dialog with our shareholders, and have held these meetings at our Head Office. However, to prevent COVID-19 contagion we have requested limitations on the number of participants, and have streamed the meetings online after they have finished since the annual General Meeting of Shareholders held in June 2021. By doing so, we hope to deepen understanding of the Group's business activities

among our many shareholders, including those who refrained from attending in person and those located far away.

In January 2021, we introduced the TOKYO KEIKI Premium Benefits Club shareholder benefit program. Through a questionnaire aimed at shareholders who register as users for the online service of this benefit program, we have been able to listen to shareholders more directly than ever. We reflect the encouragement that we receive from many shareholders in our management activities. We also make use of a

“Shareholders Post” function on the Club website to deliver information from our Company to registered shareholders.

From June 2021, we have also made it possible for shareholders to exercise electronic voting rights, increasing convenience for shareholders and achieving lower environmental impact by reducing mailings.

#### Online stream of the 91st General Meeting of Shareholders



#### Engagement with institutional investors

We normally hold financial results briefings at meeting venues, primarily for institutional investors. From June 2020, however, we have been streaming videos online to prevent COVID-19 contagion. The streamed financial results briefings have been well received, as, unlike physical venues, they place no restrictions on date, time, or place. In addition, per the trend toward refraining from face-to-face meetings, we have incorporated telephone conferences and online conferences for our IR interviews.

As our Group’s businesses are diverse, we make refinements to materials for every financial results briefing, to make our business activities more easily understood.

#### Online stream of the financial results briefing for the fiscal year ended March 2022



#### Communication of information through the media

Our Group works to deepen understanding of our business activities by communicating information to stakeholders through varied media.

In FY 2021, President & CEO Ando was featured in the following media. He introduced such as our Group’s products and business activities, which are widely deployed throughout society yet rarely seen by the public, deepening understanding among our stakeholders.

#### Communication of information through the media

Date	Media	Information communicated
April 2021	Radio NIKKEI, “Kono kigyo ni chumoku! Soba no fukunokami” (Company Watch! The Market God of Luck)	Business overview; growth businesses
April 2021	DIAMOND ZAI	Business overview; corporate history; growth businesses
June 2021	Nikkei CNBC, “Toppu ni kiku” (Top-Level Interview)	Business overview; TOKYO KEIKI Vision 2030
December 2021	ZAikai, “Zaikai Report”	Niche-leading businesses; management policy
April 2022	Keizaikai, “Company Report”	Business overview; growth businesses

#### Engagement with the local community

##### TOKYO KEIKI was registered as a Tochigi SDGs

##### Promotion Company

We applied to the Tochigi SDGs Promotion Company Registration System operated by the Tochigi Industrial Promotion Center, with our three plants in Tochigi (Nasu, Yaita, and Sano) being registered in March 2022.



A registered mark of Tochigi SDGs Promotion Company

The system encourages companies in Tochigi Prefecture to proactively engage in corporate activities aimed at the achievement of the SDGs by establishing goals for 2030 in the areas of the environment, society, and the economy and registering these as a written declaration. Per its own declaration, TOKYO KEIKI will be aiming to create workplaces that are easier to work in, reduce its environmental burden, enhance its corporate value, and strengthen its competitiveness.

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