



Corporate Governance

Basic approach

The Aichi Steel Group believes in the importance of realizing a sustainable society through business activities in order to achieve sustainable growth and improve medium- to long-term corporate value. Based on this belief, we work to enhance corporate governance so that we can manage our businesses with a high level of fairness, transparency, and efficiency in accordance with our vision, and build strong relationships with our shareholders, customers, and all other stakeholders.

Compliance with the Corporate Governance Code

We implement all principles of the Corporate Governance Code and detail our actions in the Corporate Governance Report that we submit to the Tokyo Stock Exchange. Aichi Steel's Corporate Governance Reports are available on the Tokyo Stock Exchange website.

Changes in the corporate governance system

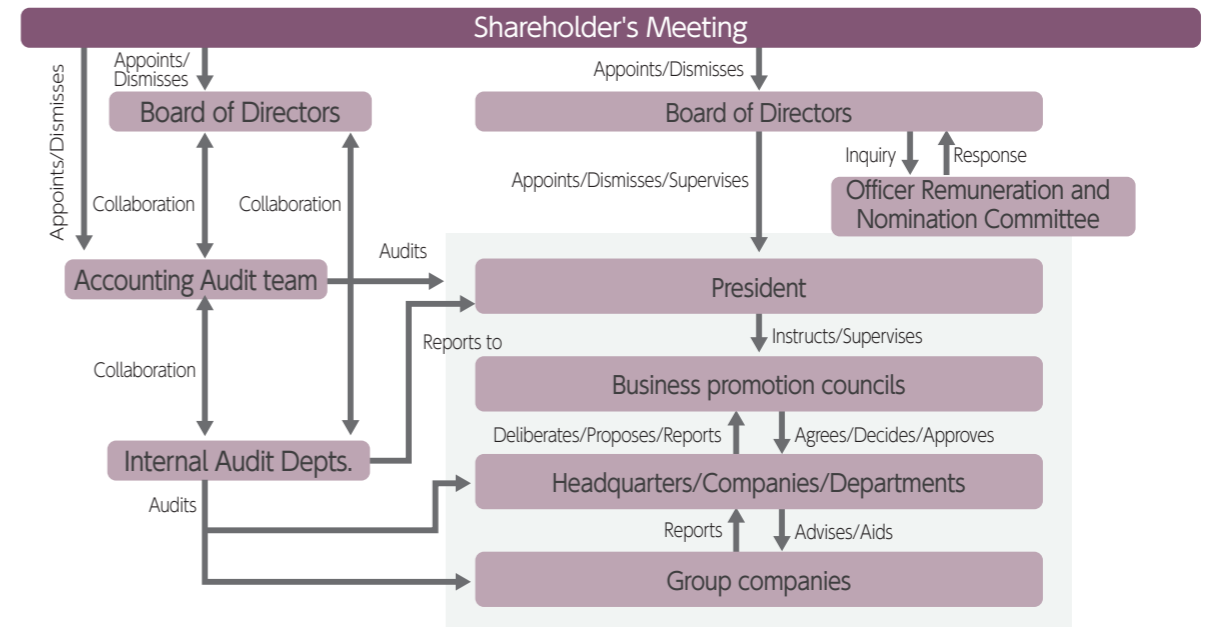
	2014 and earlier	2015	2016	2017	2018	2019	2020	2021	2022
Number of officers		23	25	26	26	25	27	16	14
Number of Directors		8	10	10	6	6	6	6	6
Number of outside Directors in above		1	2	2	2	2	2	2	2
Number of females in above		0	1	1	1	1	1	1	1
Number of Audit & Supervisory Board Members		5	5	5	4	4	4	4	4
Number of outside Audit & Supervisory Board Members in above		3	3	3	2	2	2	2	2

Separation of management and execution functions	June 2013 Clarified roles of management (decision-making and supervision) and business execution, and adopted an executive officer system to increase the speed of management	April 2020 Consolidated Managing Executive Officer and Senior Managing Executive Officer positions into a single Managing Executive Officer role	April 2021 Integrated Officer and Executive Officer positions, and established a new Executive Officer position, to increase the speed of management
	June 2018 Established Officer Remuneration and Nomination Committee as a voluntary committee equivalent to a nomination and remuneration committee		
	June 2015 Appointed outside Directors		
Improvement of effectiveness		March 2017 Started evaluating effectiveness of Board of Directors	
		April 2018 Introduced systemic reporting and discussion of medium- to long-term priority issues as a special topic for the Board of Directors	
		June 2020 Revised director remuneration system (introduced Restricted Stock Remuneration Plan)	

Corporate governance system

Aichi Steel uses an Audit & Supervisory Board Member system to enhance the supervisory function of the Board of Directors and improve the effectiveness of business execution of the Managing Executive Officers and Executive Officers. To further facilitate accurate, prompt, and fair decision-making, we also introduced a management system in June 2018 with at least one-third of the Board of Directors being independent outside Directors. The Officer Remuneration and

Nomination Committee is in charge of nomination and remuneration of Directors and Managing Executive Officers. With a majority of members being independent outside Directors and the chairman also being an independent outside Director, this committee helps to improve independence and objectivity by considering and discussing these matters before presenting their decisions to the Board of Directors.



Board of Directors

Comprising six Directors, which include two independent outside Directors, the Board of Directors make decisions concerning important matters for management of Aichi Steel, and supervises business execution.

Number of meetings held: **14**
 Attendance: **96%** (Directors) / **96%** (Audit & Supervisory Board Members)

Audit & Supervisory Board

Comprising four Audit & Supervisory Board Members, which includes two outside Audit & Supervisory Board Members, the Audit & Supervisory Board audits lawfulness and appropriateness of the Board of Directors in execution of their duties. Where necessary, it also liaises with accounting auditors and internal audit departments to audit the state of the Internal Control System.

Number of meetings held: **13**
 Attendance: **100%** (internal) / **100%** (outside)

Officer Remuneration and Nomination Committee

The Officer Remuneration and Nomination Committee discusses and responds to inquiries from the Board of Directors in relation to the following matters.

- Officer remuneration: Basic policies related to the remuneration system and remuneration decisions, the remuneration structure, payment levels for each position, and individual remuneration amounts, etc.
- Officer appointments: Basic policies related to the officer system and structure, proposed appointments and dismissals of the Board of Directors and members of the Audit & Supervisory Board, and succession plans, etc.

Number of meetings held: **4**
 Attendance: **100%** (internal and outside officers)



Corporate Governance

Directors and Audit & Supervisory Board Members

Support system for outside officers Audit and supervisory roles of management

We are working to improve the efficiency of our Board of Directors by having relevant departments provide explanations of agenda items to outside officers prior to discussion. Our aim is to eliminate differences in access to information compared to internal officers, and to maximize performance from an independent and objective perspective. We also provide opportunities for outside Directors to attend meetings of the Audit & Supervisory Board to not only actively provide information, including explanations of management issues, but to energize discussions and communication between outside officers as well.

Four member of the Audit & Supervisory Board (two Audit & Supervisory Board Members and two outside Audit & Supervisory Board Members) make use of dedicated members of staff to supervise the Board of Directors in execution of their duties and to audit business and financial performance of Aichi Steel and its subsidiaries. In addition to attending meetings of the Board of Directors and other important meetings, Audit & Supervisory Board Members audit the execution of business by the Board of Directors, and provide oversight of management, through such things as communication and information sharing with internal audit departments and accounting auditors.

Business execution structure

At Aichi Steel, we separate the functions of the Board of Directors, which supervises management, and the officers, who are responsible for business execution. Managing Executive Officers fulfill the roles of General Managers and Presidents of each Headquarters and Company, and support the Aichi Steel president from a companywide perspective. Executive Officers lead frontline business practices as officers, and are responsible for executing business functions by making prompt decisions with a sense of urgency.

Board of Directors effectiveness evaluation

We interview and survey all members of the Board of Directors on topics such as operation of the Board of Directors, matters discussed by the Board of Directors, the decision process, and support for outside officers.

We are working to improve effectiveness by reporting the results of our evaluations to the Board of Directors, and sharing issues and matters that need improvement.

In fiscal 2021, we reported that the Board of Directors as a whole operates effectively, but we also identified the following issues and solutions.

Issues	Solutions
Need to increase opportunities for outside officers to deepen their understanding of Aichi Steel	Improve provision of information by recommending, and continuing to conduct, site inspections
Need to deepen discussions on priority management issues such as rapid changes in the business environment, and resource and energy issues	Ensure sufficient quality and quantity of discussions between parties in relation to initiatives to address sustainability issues and business portfolio strategies

Policies and procedures for achieving balance and diversity in the Board of Directors

To enable accurate and prompt decision-making and appropriate risk management that delivers sustainable growth and improved medium- to long-term corporate value, our Board of Directors is composed of members with expertise in all business and function areas who can also achieve a balance between knowledge, experience, skills, and diversity. We take particular care to appoint outside officers, with management experience at other companies, who are expected to supervise management at Aichi Steel.

Procedure for appointment of Directors and Audit & Supervisory Board Members

- (1) The Officer Remuneration and Nomination Committee (voluntary committee with a majority of members being independent outside Directors and the chairman also being an independent outside Director) regularly and as required evaluates and carefully considers experience, knowledge, performance and other factors, and then reports its nomination candidates to the Board of Directors.
- (2) The Board of Directors makes tentative decisions on nomination candidates with reference to the reports of the Officer Remuneration and Nomination Committee, and then makes final decisions through resolutions at general meetings of shareholders (and after prior approval of the Audit & Supervisory Board in the case of nominations for members of the Audit & Supervisory Board).

Skill matrix for Directors and Managing Executive Officers

Name	Position	Officer Remuneration and Nomination Committee	Corporate Management	Technology & Development	Production & Quality	Sales & Procurement	Financial Affairs	Legal Affairs	Human Resources	Overseas	IT & Digital	Environment & Energy
Takahiro Fujioka	President	✓	✓		✓		✓	✓	✓	✓	✓	
Motoshi Nakamura	Executive Vice President		✓	✓	✓							
Naohiro Yasunaga	Director		✓	✓	✓	✓						✓
Ichie Nomura	Director		✓	✓	✓							
Koichi Yasui	Director Outside Independent	*	✓			✓	✓	✓	✓		✓	✓
Yuko Arai	Director Outside Independent	✓	✓			✓				✓		
Toshiyuki Yamanaka	Managing Executive Officer		✓			✓						
Toshio Ito	Managing Executive Officer		✓		✓					✓		
Tetsuo Kondo	Managing Executive Officer		✓		✓							
Naoki Ishii	Managing Executive Officer		✓				✓	✓	✓		✓	

* Chairman of the Officer Remuneration and Nomination Committee

Officer remuneration

Basic approach

The officer remuneration system was designed according to the following policies.

1. Remuneration for each Director shall be in accordance with the roles and responsibilities required of him or her.
2. Remuneration shall be consistent with Aichi Steel business strategies and shall encourage Directors to work toward sustainable improvement of corporate value.
3. Remuneration shall motivate officers to have an even greater sense of responsibility as a member of management and to promote management from the same perspective as shareholders.
4. Remuneration shall be set at a level that takes into account the economic environment, market trends, and payment levels of other companies.
5. The remuneration system decision process shall be objective and highly transparent.

Decision processes

Established as an advisory body to the Board of Directors, the voluntary Officer Remuneration and Nomination Committee has a majority of members being independent outside Directors and the chairman also being an independent outside Director. The committee considers remuneration and other systems and levels, individual levels of remuneration, and other factors, and then responds to the Board of Directors. The Board of Directors makes final decisions with reference to the reports of the Officer Remuneration and Nomination Committee.

From the perspective of maintaining independence, remuneration for outside Directors is at a fixed rate. Monthly payments of this fixed remuneration are determined at a level that takes into account the economic environment, market trends, and payment levels of other companies.

System

Fixed remuneration		Variable remuneration	
1	Basic remuneration (monthly)	2	Short-term incentives (bonus)
	72%		18%
		3	Medium- to long-term incentives (stock remuneration)
			10%
1	Basic remuneration	• Remuneration determined after reflecting an evaluation of performance in the base amount for each position	
2	Short-term incentives (bonus)	• Incentives calculated by multiplying the standard bonus amount by an index after a comprehensive consideration of factors including dividends, employee bonus levels, trends at other companies, medium- to long-term business performance, and past payment amounts	
3	Medium- to long-term incentives (stock remuneration)	• The number of shares granted are about 10% of the entire remuneration package, are given as common stock of the company, and are in accordance with the roles • The period applicable to restricted stock ceases immediately after the officer's retirement from his or her position as defined in advance by the Board of Directors	



Corporate Governance

Remuneration and other payments to members of the Board of Directors and Audit & Supervisory Board

Officer classification	Total remuneration (million yen)	Total remuneration by type (million yen)			Number of applicable officers (persons)
		Basic remuneration	Bonus	Stock remuneration	
Directors (excluding outside Directors)	244	189	30	24	4
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	73	73	-	-	3
Outside officers	36	36	-	-	4

(Note) 1. Performance-based remuneration includes bonus amounts determined by resolution at the meeting of the Board of Directors on May 16, 2022.

2. Non-monetary remuneration includes amounts related to restricted stock granted to Directors (excluding outside Directors) and expensed during the current fiscal year.

3. The above includes one Audit & Supervisory Board Member who retired at the close of the 117th Ordinary General Meeting of Shareholders held on June 23, 2021.

Cross shareholdings

Basic approach

Cooperative relationships with a range of companies are essential for ensuring continued growth in a rapidly changing business environment. For this reason, we engage in cross holdings with other companies, but only if we deem them to be effective in improving corporate value from a medium-to long-term perspective in light of our business strategy, future relationships, and other factors.

Verification of cross shareholding suitability

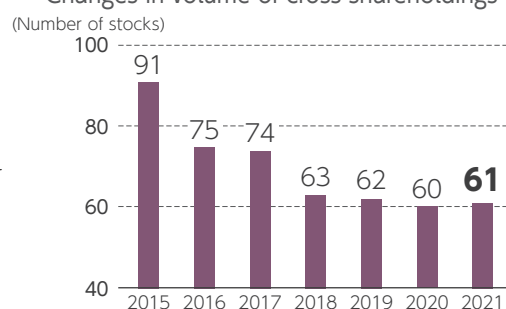
At the annual meeting of the Board of Directors, we make comprehensive assessments of the rationality of each cross shareholding based on qualitative analysis (including trading status and business-level collaborations) and quantitative analysis (whether dividends, business profits and other factors exceed our weighted average cost of capital). If the shareholding is not deemed to be suitable, we decide on what course of action to take, including disposing of the shares.

Standard for exercising voting rights

We exercise our voting rights from various perspectives, including whether the decision would lead to improved shareholder profits over the medium- to long-term while fully respecting the management policy, business strategies and other decisions of the companies in which we invest.

When exercising our voting rights, we make decisions on individual agenda items after confirming business performance, governance, and whether any capital policy would represent a conflict of interest with us, or would change or dilute our shareholdings.

Changes in volume of cross shareholdings



Status of cross shareholdings

	Number of stocks Value on the balance sheet	Stocks with increased shareholdings in the current fiscal year	Stocks with decreased shareholdings in the current fiscal year
Unlisted stocks	40 stocks 7,593 million yen (Change from previous year: +52 million yen)	1 stock 51 million yen	—
Stocks other than unlisted stocks	21 stocks 15,741 million yen (Change from previous year: -811 million yen)	—	—

The above stock addition, which increased the number of shares held, was necessary for maintaining and improving the corporate value of Aichi Steel over the medium- to long-term.