

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, investors, customers, and all other stakeholders.

Initiatives for enhancing corporate governance

To sustainably increase our corporate value within a drastically changing business climate, we are striving to enhance our corporate governance based on the recognition that we need to anticipate change and address management issues with a sense of speed. We implement all of the principles of the Corporate Governance Code, which was revised in June 2021, and disclose details such as our sustainability initiatives and our constructive dialogues with shareholders and investors in our Corporate Governance Report. We also conduct management in a way that improves return on capital, including strengthening our intellectual and human capital and reviewing our portfolio.

Corporate governance structure

Aichi Steel uses an Audit & Supervisory Board member system, with a General Meeting of Shareholders, Board of Directors, Audit & Supervisory Board, and accounting auditors, to ensure the transparency and health of management. We also use a managing executive officer and executive officer system to reduce the number of directors, and improve the efficiency and speed of business execution. We enhance the function of the Board of Directors and improve its quality of management decision-making by ensuring at least one third of directors are independent outside directors. The Director

Remuneration and Personnel Planning Committee is in charge of the nomination and remuneration of directors and managing executive officers. It enhances independence, objectivity, and transparency by considering and discussing these matters before consulting the Board of Directors. To conduct our operations, we have established in-house companies (four virtual companies built around our main businesses) and a Corporate Office (consisting of five headquarters that act as functional axes

to support our business operations.) To strengthen compliance, particularly with regard to safety and quality, we have established the Risk Management Headquarters. The president of each in-house company and the headquarters general managers of the Corporate Office are responsible for executing operations as the chief officers. They are appointed by managing executive officers or executive officers, respectively, to support Aichi Steel's president from a companywide perspective.

● Changes in corporate governance structure

	2015 and earlier	2016	2017	2018	2019	2020	2021	2022	2023	2024
Number of officers		25	26	26	25	27	16	14	16	13
Number of directors and percentage of independent outside directors		10 20%		6 33%						
Number and percentage of female directors		10% 1		16% 1						
Number of Audit & Supervisory Board members and percentage of outside Audit & Supervisory Board members		5 60%		4 50%						
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 Director Remuneration and Personnel Planning 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 issues at the Board of Directors						
						June 2020 Revised director remuneration system (introduced Restricted Stock Remuneration Plan)				
									April 2024 Established Risk Management Headquarters to strengthen compliance	

Board of Directors**Convened 15 times**

The Board of Directors makes decisions concerning legal matters, and important matters for the management of Aichi Steel, and supervises business execution. Having one or more meetings a month, it comprises ten members in total; six directors (including two outside directors), two inside audit & supervisory board members, and two outside audit & supervisory board members. The two outside directors selected as independent officers meet the independence criteria set by securities exchanges. We have created support structures that enable our outside directors to adequately fulfill their management advisory and supervisory functions.

● **Main agenda items in FY2024 for the Board of Directors**

Topics	Main agenda items
Management and business strategy	<ul style="list-style-type: none"> ● Formulation and progress checks of management plans and in-house company business strategies ● Business execution reports (safety, quality, performance, production, development, risks, etc.) ● Sustainability measures ● DX-related measures ● Capital and shareholder policies (review of measures to improve capital cost and PBR, verification of policy shareholdings, etc.)
Governance	<ul style="list-style-type: none"> ● Internal control systems ● Executive compensation ● Evaluation of Board of Directors effectiveness ● Settlement of accounts ● Director/officer nominations ● Audit-related matters ● Shareholder-related matters

Audit & Supervisory Board**Convened 13 times**

The Audit & Supervisory Board is made up of four Audit & Supervisory Board members, including two outside members. It audits the execution of duties of directors and other officers, as well as business and financial performance. In addition to attending meetings of the Board of Directors and other important meetings, Audit & Supervisory Board members coordinate with accounting auditors and departments in charge of internal audits to provide oversight of management.

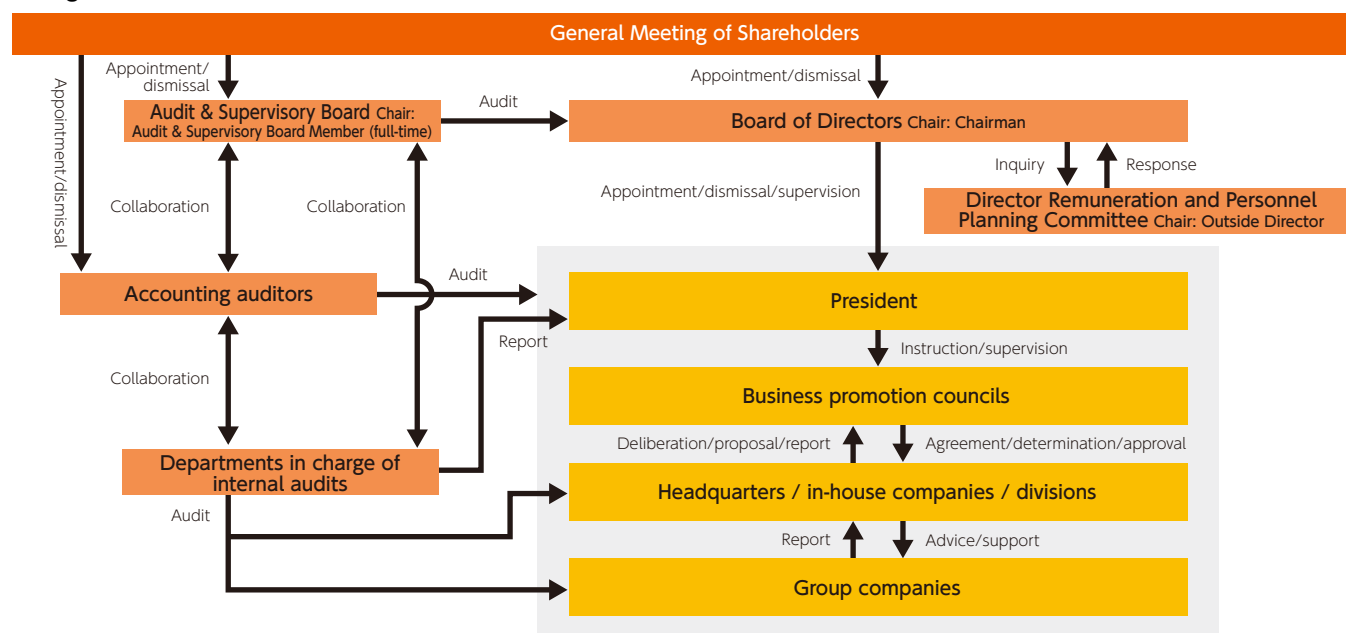
Director Remuneration and Personnel Planning Committee**Convened 3 times**

We have established a discretionary Director Remuneration and

Personnel Planning Committee as an advisory body to the Board of Directors on matters related to nomination and remuneration of directors, managing executive officers, and other officers. Comprising two independent outside directors and one inside director, the committee is chaired by an independent outside director to ensure objectivity and transparency.

● **Main agenda items for the Director Remuneration and Personnel Planning Committee**

Topics	Agenda items
Officer remuneration	<ul style="list-style-type: none"> ● Basic policies related to the remuneration system and remuneration decisions ● Remuneration structure and payment levels for each position ● Individual remuneration amounts
Officer nominations	<ul style="list-style-type: none"> ● Basic policies related to the officer system and structure ● Proposed appointments and dismissals of directors and Audit & Supervisory Board members ● Succession planning for officers and executives

● **Organization chart**

Approach to balance and diversity of board members and audit & supervisory board members

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, and diverse knowledge, experience, and skills.

Procedure for appointment of Directors and Audit & Supervisory Board members

- (i) The Director Remuneration and Personnel Planning Committee 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.
- (ii) The Board of Directors makes tentative decisions on nomination candidates based on the reports of the above Committee, and then makes final decisions after discussions at the General Meeting of Shareholders, and after prior approval of the Audit & Supervisory Board in the case of nominations for Audit & Supervisory Board members.

Determining perspective and independence in appointment of outside officers

In appointing outside officers, we focus on whether they have sufficient qualities to contribute to the company's sustainable growth and the enhancement of our corporate value over the medium to long term. We take particular care to appoint those with management experience at other companies who can be expected to supervise the management of Aichi Steel.

The criteria for determining the independence of candidates for outside directors are based on a general

consideration of factors such as career history, knowledge, and personality, with reference to the Enforcement Rules for Securities Listing Regulations provided by the Stock Exchange, etc.

Support structure for outside officers

To eliminate differences in access to information compared to internal officers, and to maximize their performance, we give outside officers briefings on agenda items before meetings, provide onsite inspections, and hold meetings on special topic reports to enable free and open discussion outside of meetings of the Board of Directors. In addition to members of the Board of Directors, presidents and general managers related to the special topics also attend the meetings, where they can all participate in more profound discussions that include medium- to long-term strategies.

Special Theme Report for FY2024

- Review of sustainability management
- Establishment of development framework with sales and development collaboration
- Progress on quality control system
- Review of growth strategies (update of Medium-term Management Plan)
- Initiatives toward building a safety culture
- Capital and shareholder policies

Succession plan

We recognize that cultivating the next generation of management is an important issue. We believe that we have secured a system in which the Director Remuneration and Personnel Planning Committee, a discretionary body, discusses and evaluates the qualities, development direction, and achievements of candidate personnel from

an objective perspective, while also providing appropriate advice. Also, the president personally conducts training for the next generation of managers by meeting with managing executive officers and executive officers on a regular basis to discuss their individual goals and accomplishments.

In an environment of increasing uncertainty, Aichi Steel continuously provides training to cultivate the ability to take managerial decisions based on diverse knowledge and perspectives required of top management. In FY2024, to drive health management, we held a health seminar for executives on the theme "The Path to a Healthy Lifestyle." We also provide lectures on lifestyle-related diseases and frailty (age-related physical weakness), a topic that has gained attention in recent years, as well as practical instruction on relieving lower back pain and shoulder stiffness and moving safely.

Furthermore, we have focused on nurturing management personnel by targeting executive officers who are candidates for the next generation of management executives, introducing a support system in FY2024 for self-study to cultivate their organizational management and leadership skills.

Skill matrix for directors and managing executive officers

Our skill matrix defines the experience and expertise that we consider necessary to achieve Vision 2030. The expertise and experience of directors and managing executive officers are shown below.

● Skill matrix for directors and managing executive officers

Name	Position	Director Remuneration and Personnel Planning Committee	Corporate Management	Risk Management	Contribution to a sustainable global environment (E)		Creation of a prosperous society through business reform (S)		Employee happiness and company development (G)		Production & Quality	Sales & Procurement	Financial Affairs	Overseas
					Environment	Energy	Technology & Development	IT & Digital	Legal Affairs and Compliance	Human Resource Development and Diversity				
Takahiro Fujioka	Chairman		●	●			●	●	●	●	●		●	●
Naohide Goto	President	○	●	●				●	●	●	●	●	●	●
Motoshi Nakamura	Executive Vice President		●	●	●	●	●			●	●			
Naoki Ishii	Director		●	●	●			●	●	●			●	
Koichi Yasui	Outside Director	◎	●	●	●	●		●	●	●		●	●	
Yuko Arai	Outside Director	○	●	●						●		●		●
Toshio Ito	Managing Executive Officer		●		●						●			●
Kazuya Fukatsu	Managing Executive Officer		●								●	●		
Kazuma Kihara	Managing Executive Officer		●		●	●	●	●			●			

◎: Chair ○: Constituent member

Evaluation of Board of Directors effectiveness

We evaluate the effectiveness of the Board of Directors every year to maintain and improve the effectiveness of our corporate governance. We interview and survey all members of the Board of Directors, analyze and evaluate their performance, and report effectiveness-related results, issues, and responses to the Board of Directors. Our efforts and the results of our effectiveness evaluation are summarized below.

(1) Evaluation method

- (i) In February, the Board of Directors Secretariat conducted both quantitative and qualitative evaluations through questionnaires and interviews with all Directors and Audit & Supervisory Board Members, including those from outside the company, as well as in-house company Presidents and General Managers attending as observers.
- (ii) Evaluation results and directions for addressing issues were compiled and reported to the Board of Directors meeting in March for discussion.
- (iii) From April, improvement activities were carried out to enhance effectiveness.

(2) Evaluation items

- (i) Composition of the Board of Directors (ii) Effectiveness of supervisory functions (iii) Operations and deliberation activation (iv) Support systems for executives

(3) Summary of FY2024 evaluation results

- We held special theme briefings for outside directors to deepen their understanding of our corporate activities and promote discussion. We worked on continuous improvement through annual planning in advance, increase in time and frequency, provision of opportunities

for outside officers to provide information based on their own knowledge and experience, and on-site plant inspections. Board of Directors meeting times are also extended to achieve the above. Based on these efforts and questionnaire results, we evaluate that our Board of Directors is fulfilling its functions of important management decision-making and supervision of business execution.

- Outside directors requested additional information to facilitate discussions at Board of Director meetings, as an opportunity to improve the Board's operations and effectiveness.
- With regard to sustainability initiatives, opinions were expressed on the ongoing need to further deepen discussions and promote discourse on a wider range of topics beyond carbon neutrality and human rights.

(4) Main improvement measures

We work to improve the following issues to further ensure the effectiveness of the Board of Directors.

- (i) Full discussion on sustainability initiatives
We organize required agenda items throughout the year, and utilize special theme briefings and other forums to systematically conduct discussions on growth strategies and sustainability.
- (ii) Support for outside officers
In order to deepen their understanding of Aichi Steel and contribute to discussions at Board of Directors meetings, we will strengthen on-site inspections that can lead to company strategy and investment projects, and make improvements such as providing relevant information and creating opportunities to exchange opinions among internal and external officers.

Officer remuneration

Basic approach

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 business environment, market trends, and payment levels of other companies
5. The remuneration system decision process shall be objective and highly transparent.

— Decision process

Aichi Steel established the Director Remuneration and Personnel Planning Committee, with the chair being an independent outside director and the majority of members also being independent outside directors, to ensure objectivity, fairness, and transparency in decisions such as remuneration for directors. The committee discusses director remuneration structures, levels, decision-making policies and procedures, and individual levels of remuneration based on the decision-making policies. Based on the results of those discussions, the Board of Directors determines policies for director remuneration, individual levels of remuneration, and other matters. From the perspective of maintaining independence, remuneration for outside directors is at fixed rate. From next fiscal year onward, we will review our officer remuneration compensation system to better tackle social issues, by incorporating perspectives that reflect not only economic value but also social value such as environmental considerations (sustainability indicators).

● Remuneration structure

Fixed remuneration		Variable remuneration	
		Short term	Medium to long term
Monthly remuneration 72%		Bonuses 18%	Stock remuneration 10%

Monthly remuneration	· Determined in line with the roles and responsibilities of each officer
Bonuses	· Calculated by multiplying the standard bonus amount by an index, based on annual business performance and after a comprehensive review of factors such as shareholder returns, employee bonus levels, trends at other companies, and past payment amounts
Stock remuneration	· Number of shares granted is about 10% of total remuneration, given as common stock of the company and based on job position · Transfer restriction period is until immediately after retirement from the position as specified in advance by the Board of Directors

● Remuneration and other payments to directors and Audit & Supervisory Board members

Officer classification	Total remuneration (million yen)	Total remuneration by type (million yen)			Number of applicable officers
		Fixed	Fluctuation (short-term)	Fluctuation (medium- to long-term)	
		Monthly remuneration	Bonuses	Stock remuneration	
Directors (excluding outside directors)	294	220	45	27	5
Audit & Supervisory Board Members (excluding outside members)	66	66	—	—	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 15, 2025.

2. Stock remuneration includes amounts related to restricted stock granted to directors (excluding outside directors) and expensed during the current fiscal year.

3. The above includes directors and audit & supervisory board members who retired at the close of the 120th General Meeting of Shareholders held on June 13, 2024.

Cross Shareholdings

Maintaining and strengthening of trade and collaborative relationships with a range of companies are needed to ensure sustainable growth in a rapidly changing business environment. For this reason, Aichi Steel engages in cross holdings with other companies, but only if it deems them to be effective in improving corporate value from a medium- to long-term perspective in a comprehensive evaluation that considers its business strategy, future relationships with suppliers and affiliated companies, and other factors. As stated in the updated Medium-Term Management Plan released in February 2025, we will review the effectiveness of all holdings without exception and improve asset efficiency by selling those that do not demonstrate clear value.

— Verification of cross shareholding suitability

Each year, at a meeting of the Board of Directors, we make comprehensive verifications and assessments of the suitability of each cross shareholding based on quantitative factors, including whether dividends, business profits, and other figures exceed our weighted average cost of capital, as well as qualitative factors, including trading status and business-level collaborations. If a shareholding is determined to be unsuitable according to the verification, we decide on what course of action to take, including disposing of the shares.

— Criteria for exercising voting rights

Rather than applying uniform decisions from typical and short-term criteria, we make decisions on each agenda item separately. We consider them from various perspectives, including corporate value improvement and shareholder returns 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 comprehensive decisions on whether to approve agenda items after closely investigating factors such as business performance, governance, and capital policy that would represent a conflict of interest with us, or would change or dilute our shareholdings.

● Changes in volume of cross shareholdings

(Number of shares)

