

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.

Initiatives for enhancing corporate governance

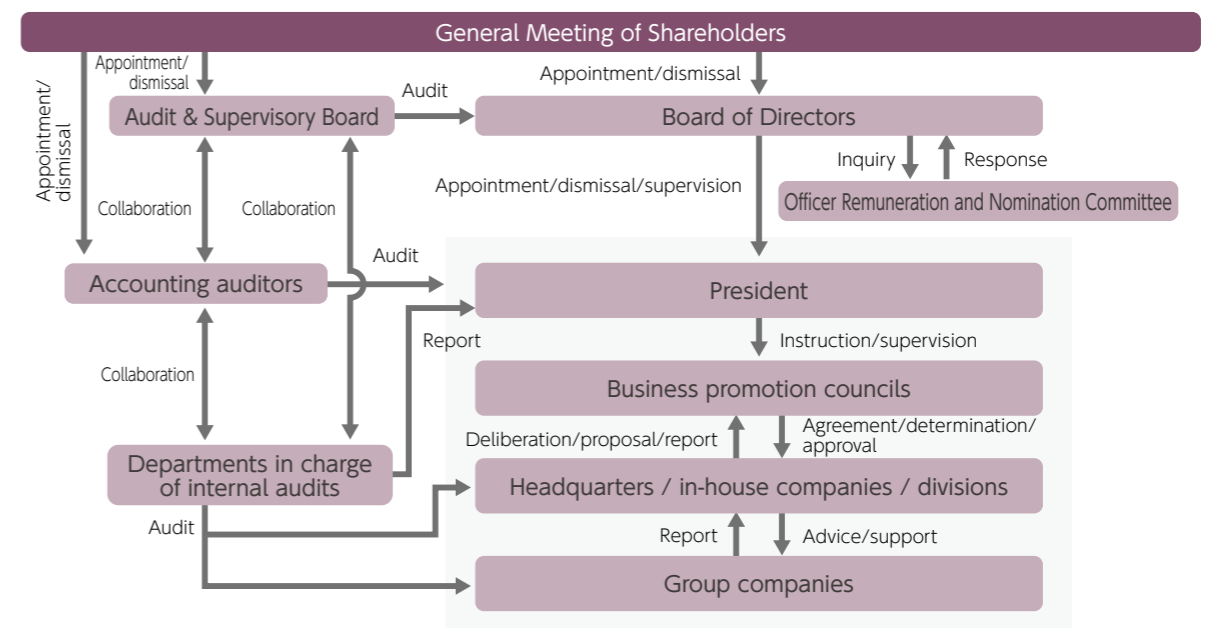
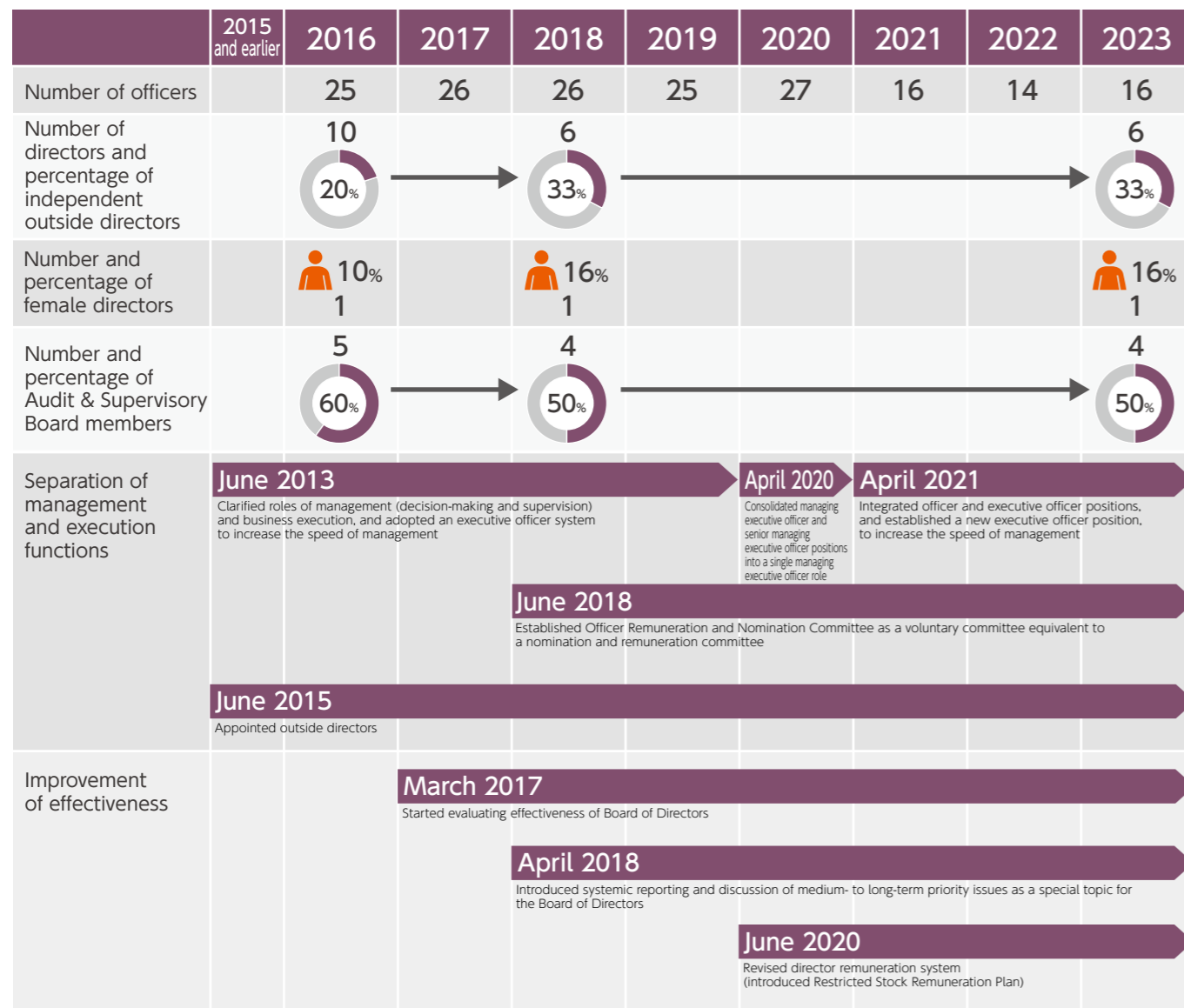
We are working to enhance corporate governance with the understanding that addressing management issues with a sense of urgency, while anticipating coming changes, is necessary for sustainably improving corporate value even in a dramatically changing business environment. We implement all principles of the Corporate Governance Code, which was revised in June 2021, and make disclosures in the Corporate Governance Report, including sustainability initiatives and constructive dialogue with shareholders and investors. 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 Structures

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 and improve the quality of the Board of Directors by ensuring at least one third of directors are independent outside directors. The Officer Remuneration and Nomination Committee is in charge of nomination and remuneration of directors and managing executive officers. It helps to improve independence, objectivity, and transparency by considering and discussing these matters before consulting the Board of Directors.

To conduct our business, we have established a structure comprising in-house companies (four virtual companies built around our main businesses), a Corporate Office (four headquarters built around functions that support our business), and directly reporting divisions (management functions for safety, quality, auditing, and production in particular). Managing executive officers fulfill the role of chief executive officer of each in-house company and headquarters as presidents and general managers respectively, 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.

Changes in the corporate governance structures



Board of Directors

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 FY2022 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 Conclusion of alliance agreements Business execution reports (performance, production, quality, safety, development, risks, etc.)
Governance	<ul style="list-style-type: none"> Internal control systems Director and officer nominations Officer remuneration matters Meeting reorganization Board of Directors effectiveness evaluation Shareholder matters Accounting matters Auditing matters
Other	<ul style="list-style-type: none"> Sustainability measures (climate change, human rights, cybersecurity, etc.)

Corporate Governance

Board of Directors effectiveness evaluation

We evaluate the effectiveness of the Board of Directors every year to maintain and improve the effectiveness of corporate governance. We specifically 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.

Main issues and responses

Issue (1)	<ul style="list-style-type: none"> Allocation of management resources Management of business portfolio Enhancement of supervisory function concerning human capital management
Response	<ul style="list-style-type: none"> Free and open exchange of opinions Additional time to consider special topic reports to enable discussion
Issue (2)	<ul style="list-style-type: none"> Timely communication of information on industry trends and important management issues
Response	<ul style="list-style-type: none"> Greater opportunities for inside and outside officers to provide information

Support structures 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 topics 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.

Audit & Supervisory Board

Comprising four Audit & Supervisory Board members, which includes two outside Audit & Supervisory Board members, the Audit & Supervisory Board 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.

Officer Remuneration and Nomination Committee

We have established a voluntary Officer Remuneration and Nomination 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 Officer Remuneration and Nomination 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 nomination	<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

Approach to balance and diversity among directors 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. 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 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 discussions at the General Meeting 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

We have defined the experience and expertise that we will need to achieve Vision 2030, and created the following matrix of particular expectations of each person below.

Note: This is not meant to represent the only experience and expertise possessed by each person listed.

	Name	Officer Remuneration and Nomination Committee	Corporate Management	Risk Management	Contribution to a Sustainable Global Environment (E)		Creation of a Prosperous Society through Business Reform (S)		Employee Happiness and Corporate Development (G)		Production & Quality	Sales & Procurement	Financial Affairs	Overseas	
					Environment	Energy	Technology & Development	IT & Digital	Legal Affairs and Compliance	Human Resource Development and Diversity					
Director	Inside	Takahiro Fujjoka	✓	✓				✓	✓	✓	✓		✓	✓	
		Naohide Goto	*	✓	✓				✓	✓	✓	✓	✓	✓	✓
		Motoshi Nakamura		✓	✓		✓	✓			✓				
		Naohiro Yasunaga		✓	✓	✓	✓	✓			✓	✓			
	Outside	Koichi Yasui	**	✓	✓	✓	✓		✓	✓	✓		✓	✓	
		Yuko Arai	*	✓						✓		✓			✓
Managing Executive Officer	Toshiyuki Yamanaka		✓									✓			
	Toshio Ito		✓		✓						✓			✓	
	Ichie Nomura		✓				✓	✓			✓				
	Tetsuo Kondo		✓		✓						✓			✓	
	Naoki Ishii		✓	✓	✓			✓	✓	✓			✓		
	Kazuya Fukatsu		✓								✓	✓			

Officer Remuneration

Basic approach

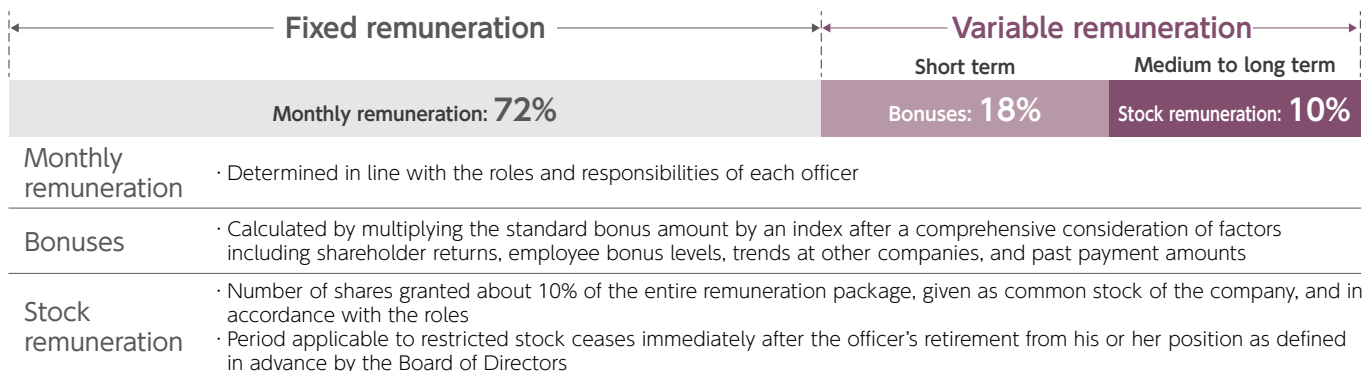
1. Remuneration for each director shall be in accordance with the roles and responsibilities required of him or her.
2. Remuneration shall be consistent with Aichi Steel business strategies and shall encourage directors to work toward sustainable improvement of corporate value.
3. Remuneration shall 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 processes

Aichi Steel established the Officer Remuneration and Nomination 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 a fixed rate.

Corporate Governance

Remuneration structure



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 (persons)
		Fixed	Performance-based		
			Monthly remuneration	Bonuses	
Directors (excluding outside directors)	237	189	24	24	5
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	73	73	N/A	N/A	2
Outside officers	36	36	N/A	N/A	4

Notes: 1. Performance-based remuneration includes bonus amounts determined by resolution at the meeting of the Board of Directors on May 16, 2023.
 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 one director who retired at the close of the 118th General Meeting of Shareholders held on June 22, 2022.

Cross Shareholdings

Basic approach

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.

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.

Standard 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

