

## **Basic Policy on Corporate Governance**

### 1. Basic Concept of Corporate Governance

The Company will, with the aim of achieving sustainable growth and improvement of corporate value on a medium to long-term basis, make efforts to enhance corporate governance in accordance with the basic concepts described below based on the belief that the essence of corporate governance lies in increasing the dynamism of management by securing the transparency and fairness thereof and making management decisions in a prompt and decisive manner.

- (1) To respect the rights of the shareholders and secure equality among them,
- (2) To consider the interests of the stakeholders including the shareholders and cooperate with them in an appropriate manner,
- (3) To disclose corporate information in an appropriate manner to secure transparency of management,
- (4) To have the board of directors, taking into account the fiduciary responsibility and accountability to shareholders, enhance separation of the execution of management from the supervision thereof and the function of management supervision by outside directors to ensure the sustainable growth of the Company, enhancement of corporate value on a medium to long-term basis, and improvement of profitability and capital efficiency, and
- (5) To have constructive dialogue with the shareholders.

### 2. Securing of Rights of and Equality among Shareholders

- (1) The Company will take appropriate measures to secure the rights of the shareholders including the right to vote at the general shareholders' meetings.
- (2) The Company will, under the recognition that the general shareholders' meeting is an important organization for deciding fundamental policies and important matters of the Company as well as a place for constructive dialogue with the shareholders, secure a sufficient period of time for the shareholders to exercise their rights and develop an environment where they can exercise their rights in an appropriate manner.
- (3) The Company will try to hold the annual general shareholders' meeting outside of the days when other companies concentrate their shareholders' meetings, dispatch the notice of convocation at an early date to enable the shareholders to secure time to fully study the agenda, and publicize the notice of convocation in the Company's website.
- (4) The Company will use the electronic voting platform to enable shareholders not attending the general shareholders' meeting to exercise their voting rights in an appropriate manner.

### 3. Dialogue with Shareholders

The Company will take the following measures to enable sustainable growth and improve corporate value on a medium to long-term basis through constructive dialogue with the shareholders.

- (1) The director responsible for and the division in charge of IR will respectively handle dialogue with the shareholders, and requests for interviews, if any, will be dealt with to the extent reasonable for the purport and purpose.
- (2) When holding the dialogue, efforts will be made to ensure an appropriate response in cooperation with the President & CEO, Senior Management Executives and related departments.
- (3) Explanatory meetings for investors, round-table conferences with shareholders following general shareholders' meetings and questionnaires for shareholders will be conducted regularly in addition to the shareholder's meetings with the aim of improving the means of dialogue with the shareholders.
- (4) Opinions and concerns of the shareholders collected through the dialogue will be summarized and fed back to the senior management executives, board of directors and related divisions for sharing and utilization of the information.
- (5) When holding dialogue, insider information will be strictly controlled in compliance with the applicable internal regulations.
- (6) To contribute to constructive dialogue with shareholders, the Company will conduct a survey of substantial shareholders when deemed necessary to comprehend the structure of its shareholders.

#### 4. Enhancement of Disclosure of Information

- (1) The Company will set standards and procedures related to disclosure of information and try to communicate information to the shareholders and other stakeholders promptly and accurately.
- (2) The Company will voluntarily disclose to the extent possible and publicize in the Company's website information that does not fall under the categories of the material facts prescribed in the laws and ordinances or securities listing regulations but is considered to influence investment decisions of the shareholders and investors or to be useful to enhance their understanding of the Company.

The information also includes matters relating to our financial condition, management strategy, risks, governance and social and environmental issues.

- (3) For shareholders and investors abroad, notices of convocation of general shareholders' meetings in English and Chinese will be publicized in the Company's website while efforts will be made to disclose other information and materials in English and Chinese as well.

#### 5. Capital Policy

The Company will, through the general shareholders' meetings and financial result briefings, show its principles of capital policy and dividend payout ratio and give clear explanations on the measures for them.

## 6. Cross-Shareholdings

### (1) Policies for Holding of Shares for Political Purposes

The Company will hold listed shares of its business partners for political purposes only in the cases that the holding of the shares including the number of shares to be held is deemed rational when its importance in the Company's business strategies and business relationship with the trading partners are comprehensively considered. The rationality for holding such shares will be verified on a regular basis.

Also, as a result of the verification, the basic policy is to promptly dispose of and reduce the number of shares held for political purpose that it is considered that the significance of its possession is weak.

### (2) Exercise of Voting Rights

The Company will make a decision concerning the exercise of its voting rights in terms of each agenda after confirming, while respecting the management policies of the companies it invests in, the attitude toward returns to its shareholders, corporate governance, contribution to the increase in the Company's corporate value on a medium to long-term basis as well as the prospect of its business relationship with the Company in the future and its corporate social responsibility.

### (3) Sale the Company's Shares by the cross-shareholders

When cross-shareholders (i.e., shareholders who hold a company's shares for the purpose of cross-shareholdings) indicate their intention to sell their shares, the Companies will respect their intention.

### (4) Do not engage in transactions that harm the interests of the shareholders of the Company between the cross-shareholders and the Company

Regardless of whether the client is a cross shareholder or not, the Company has sufficiently verified the economic rationality in transactions, and the Company has not made any transactions that would harm the interests of the company or its shareholders.

## 7. Roles of Corporate Pension Funds as Asset Owners

The Company acknowledges the fact that the operation of the reserve fund of corporate pension plans affects the financial condition of the Company in addition to the stable asset formation of employees.

Based on the acknowledgement, in order to enhance the expertise in the management of corporate pensions and to demonstrate the functions as the asset owner to be expected, the Company will work on the improvement of the operation of corporate pension by developing planned human resource and planned placement of that human resource.

## 8. Appropriate Collaboration with Stakeholders

The Company will, under the recognition that collaboration with shareholders and all other stakeholders is essential to its sustainable growth and increase in its corporate value on a medium to long-term basis, establish its code of conduct to put the collaboration with stakeholders into

practice while the board of directors and executive managers will make efforts to develop the corporate culture to respect the stakeholders' rights and positions as well as the corporate ethics.

#### 9. Management Strategies and Management Plans

- (1) The board of directors will establish corporate identity, management strategies and management plans and publicize them in the Company's website. The management strategies and management plans will be disclosed when they are determined.
- (2) The Company will define the following points as its group's corporate mission, recognize it as its group's value of existence to satisfy and impress its customers and define it as one of its most important management challenges to enhance the shareholders' value by making decisions promptly to cope with the changes in social and economic environments in compliance with the KITO Compliance Manual (code of corporate ethics) taken as the basis of its corporate ethics. Based on the above, the Company will make efforts to enhance general shareholders' meetings, improve supervisory functions of the board of directors and audit functions of the corporate auditors and sophisticate the disclosure of information.
  - i. KITO' Mission: Deliver Unmatched Satisfaction to Our Customers
  - ii. KITO's Quality: Our Driving "Spirit" is "Quality"
  - iii. KITO's Innovation: Change and Challenge Always
  - iv. Value of KITO people: Integrity, Honesty, Pride and Gratitude

#### 10. Structure of Board of Directors

- (1) The Company will have a board of directors as the organization to make decisions for and supervise its management as well as a system of executive officers to separate functions of execution of businesses based on the decisions made by the board of directors.
- (2) The Company is convinced that diverse human resources regardless of gender, nationality, etc. will bring new ideas and ideas to the Group's business and will be the driving force for innovation. Based on that conviction, the Company is promoting the diversity of human resources. Based on this policy, the Board of Directors will, for the purpose of securing balance and diversity in the knowledge, experience and skills of the Board of Directors as a whole, which are necessary for sustainable growth and medium to long-term increase in the corporate value of the Company, have outside directors appointed from among business administrators and academic experts considering their experience, insight and expertise. Inside directors will be appointed from among members experienced in sales, production and other business divisions and members experienced in the planning, development and administration divisions to secure diversity among them.

#### 11. Structure of Board of Corporate Auditors

- (1) The board of corporate auditors of the Company will, as an organization independent from the board of directors, exercise its authority under applicable laws and ordinances to audit the

execution of business by the directors as well as the internal control systems and financial standings of the Company and its subsidiaries.

- (2) For Corporate Auditors, one person who has sufficient knowledge on finance and accounting and one who has sufficient knowledge concerning legal affairs are appointed, respectively.

## 12. Structure of Committees

The Company has a board of corporate auditors. Although the independent outside directors do not have a majority of the directors, election of candidates for director/ executive officer and compensation for them will be deliberated by the nominating and compensation committee, an optional committee composed mainly of the outside directors (hereinafter referred to as the "Nominating and Compensation Committee") and recommended to the board of directors for a decision.

## 13. Roles and Responsibilities of Directors and Board of Directors

- (1) The board of directors will, based on the fiduciary responsibility and accountability toward the shareholders, be responsible for realizing efficient and effective corporate governance and for trying to secure sustainable growth and increase in the corporate value of the Company on a medium to long-term basis through efficient and effective corporate governance.
- (2) The board of directors will, for the purpose of fulfilling the responsibility and accountability described in the preceding paragraph, exercise its supervisory function over the overall management of the Company to secure fairness and transparency therein.

In accordance with the recommendation from the Nomination and Remuneration Committee, the Board of Directors will appoint and dismiss the President and other management members, evaluate and decide the remuneration. The Board of Directors may delegate the decision of the evaluation and remuneration of management members to the Nomination and Compensation Committee.

The Board of Directors will also make best decisions for the Company through assessment of serious risks facing the Company and development of measures against them and decision of execution of important businesses of the Company in compliance with the applicable laws, ordinances and internal regulations.

The board of directors will also determine the matters it is authorized to resolve and decision-making authority of the executive managers to clarify the scope of delegation of authority to the executive management.

- (3) The board of directors will determine the Company's fundamental policy for its medium-term management and policies for its medium-term management plans through unrestricted exchange of opinions and constructive discussions. Important items on the agenda to be presented to the meetings of the board of directors will be explained to outside directors in advance and opinions will be exchanged among the executive managers and outside directors concerning the management environment surrounding the Company as well as the personnel issues related to the directors in an effort to ensure constructive discussions and exchange of opinions in the meetings of the board of

directors.

- (4) Outside directors will express their opinions based on their professional knowledge and experience and raise questions when deemed necessary. Based on these decisions, the board of directors will determine annual business plans and make decisions concerning the important matters prescribed in applicable laws, ordinances, articles of incorporation and "Regulations of The Board of Directors.
- (5) The board of directors and senior management executives will position the medium-term management plans as one of its commitments to the shareholders and endeavor to achieve them. In the case that the medium-term management plans remain unachieved, reasons for the failure and contents of the measures taken by the Company will be fully analyzed and explained to the shareholders, and the analysis results will be reflected in the business plans for the subsequent terms.
- (6) The board of directors recognizes that one of its roles and responsibilities is to conduct highly effective supervision over the directors and executive managers from the independent and objective viewpoint, evaluate the Company's results in an appropriate manner and have the evaluation reflected on the personnel management of the senior management executives.
- (7) The board of directors will direct timely and accurate information disclosure and develop the internal control and risk management systems in an appropriate manner.
- (8) The President and CEO will prepare a draft of his successor training plan, and the Board of Directors will deliberate and decide the plan formulated based on the recommendation given by the deliberation by the Nomination and Remuneration Committee. In addition, the Board of Directors will periodically review the implementation status of the determined training plan and appropriately supervise it by requesting a change in plan etc.

#### 14. Election and dismissal of Senior Management Executives, Directors and Corporate Auditors

- (1) It is a policy of the Company to elect as candidates for its directors competent persons who, when their personalities and insights as well as the matters described in Paragraph 10 (2) are fully considered, are expected to carry out their duties and responsibilities as directors in response to the shareholders' expectations concerning the management of the Company as delegated to them by the shareholders. Based on this policy, it will be required institutionally to have the candidates for the directors recommended to the board of directors by the Nominating and Compensation Committee for decision.
- (2) It is a policy of the Company to elect as candidates for its corporate auditors competent persons who, when the importance of the audits and corporate auditors' functions as well as their personalities and insights are fully considered, are expected to carry out their duties as the corporate auditors. Based on this policy, it will be required institutionally to have the candidates for the corporate auditors recommended to the board of directors by the Nominating and Compensation Committee. The candidates will be finally decided when the consent of the board of corporate auditors to presenting the agenda for their appointment to the general shareholders' meeting has been obtained.

- (3) It is a policy of the Company to elect as candidates for its executive officers competent persons who, when their personalities and insights are fully considered, are expected to carry out their duties and responsibilities as executive officers in response to the board of directors' expectations concerning the execution of the businesses. Based on this policy, the Nomination and Compensation Committee recommends candidates for executive officers to the Board of Directors, and the Board of Directors makes a decision.
- (4) Regarding dismissal of directors and corporate auditors, as well as selection, the Nomination and Remuneration Committee recommends to the Board of Directors, and the Board of Directors will decide the proposals to be submitted to the general meeting of shareholders. Regarding dismissal of executive officers, the Nomination and Remuneration Committee will recommend to the Board of Directors and the Board of Directors will decide the dismissal.
- (5) Based on the fact that election of the representative director is the most important strategic decision of the Company, the Nomination and Compensation Committee will deliberate. The Board of Directors will receive recommendations from the Nomination and Compensation Committee and take sufficient time and resources for the consideration of the recommendation. After that, the Board of Directors will appoint a representative director with qualities. Based on an appropriate assessment of performance etc., in cases where it is deemed that the representative director does not fully exercise its functions, the Board of Directors shall also consider and establish objective, timeliness, transparent procedures for dismissing the representative director.
- (6) The board of directors will, when appointing and/or dismissing the senior management executives and nominating the candidates for directors and corporate auditors, disclose the appointment and/or dismissal, and nomination in the notice of convocation and the Company's website.

#### 15. Related Party Transactions

Conflict-of-interest transactions between the Company and its director, executive manager or controlling shareholder or competing transactions by the Company's director or executive manager, if any, will be subject to presentation to the board of directors for approval pursuant to the provisions of the Regulations of the Board of Directors.

#### 16. Compensation for Directors and Executive Officers

- (1) The Board of Directors will receive proposals for management's compensation system designed by the Nomination and Remuneration Committee, which is composed by a majority of outside directors. The Board of Directors will aim that the compensation system functions as a healthy incentive for sustainable growth for the Company.  
The Board of Directors will deliberate and decide on compensation system linked to the Company's mid- and long-term performance in consideration of the ratio of cash compensation and share-based compensation.
- (2) Based on the compensation system determined above, the Board of Directors will deliberate and decide the amount of compensation of each director in response to the recommendation from the

Nomination and Remuneration Committee.

- (3) Compensation for the outside directors will comprise only the compensation in the fixed amounts, which will be discussed and determined by the board of directors at the times of their assumption of office and revision of the compensation.
- (4) The Board of Directors may delegate the decision of the compensation system and the amount of compensation of each management member set forth (1) through (3) to the Nomination and Compensation Committee.

#### 17. Holding of Concurrent Posts

The Company will ask its directors and corporate auditors to direct their time and efforts required to appropriately carry out their roles and responsibilities to the Company's business and to limit the posts they concurrently assume to a reasonable extent.

Regarding the status of the important concurrent positions, we will disclose every year in the annual shareholders meeting notice, securities report and report on corporate governance.

#### 18. Outside Directors

- (1) The Company will appoint persons of respectable personality, high insight and rich experience as its outside directors in an effort to realize highly transparent management.
- (2) Besides supervising the execution of business by the directors, expressing their opinions on the management policies and management plans and supervising conflict-of-interest transactions with major shareholders, the outside directors of the Company will, as principal members of the Nominating and Compensation Committee, make to the board of directors recommendations and make the decision following delegation by the board of directors concerning the compensation for the President and CEO, directors, executive officers based on the evaluation of their respective performance and appointment of candidates for directors, corporate auditors and executive officers.
- (3) The Company will require institutionally that candidates for its outside directors will be determined based on the recommendation made to the board of directors by the Nominating and Compensation Committee following their examination of whether the candidates satisfy the "Standards for Independence of Outside Directors and Outside Corporate Auditors" in the attached sheet and evaluation of their personality, expertise and experience.
- (4) For the purpose of making the discussion at the board of directors meetings lively and effective by maintaining smooth communication with the business execution divisions and making necessary coordination with them, the outside directors will hold regular meetings among themselves only to exchange and share information from an independent and objective standpoint while maintaining cooperation with the senior management executives, corporate auditors and board of corporate auditors.

#### 19. Responsibilities and Operation of Corporate auditors and Board of Corporate auditors

- (1) The corporate auditors will attend the meetings of the board of directors and other important



meetings of the Company, make efforts to collect information by exercising their authority to demand reports on the businesses and investigate the operation and financing, and audit the execution of duties by the directors, internal control, performance and financial standing.

- (2) The corporate auditors will make efforts to cooperate with the outside directors, internal audit division and accounting corporate auditor to realize effective and efficient audits.
- (3) The Company will assist and support the auditing and develop an environment to have necessary information provided appropriately to the corporate auditors.

#### 20. Effectiveness of Board of Directors

In the years to come, the Company will analyze and evaluate the effectiveness of the board of directors annually, disclose summarized results thereof and improve the method of evaluation every year.

#### 21. Collection of Information by Board of Directors and Support System

- (1) A system to support the directors and corporate auditors will be constructed mainly by the administration division.
- (2) The meetings of the board of directors will be held monthly based on the annual schedule. The secretariat of the board of directors will provide appropriate and sufficient materials for the meetings and other materials well in advance of the dates of the meetings.
- (3) The directors will ask the corporate planning division acting as the secretariat of the board of directors and other related divisions to provide information when they deem the information necessary for their making transparent, fair, prompt and decisive decisions, and such organizations will provide necessary information promptly as requested.

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Standards for Independence of Outside Directors and Corporate Auditors

The Company will judge the independence of its outside directors and outside corporate auditors from the viewpoints of whether they can be expected to make positive suggestions and raise questions concerning the Company's business development, in addition to their satisfaction of the standards of independence prescribed by the Tokyo Stock Exchange, Inc. Specifically, independence of the outside directors and outside corporate auditors will be evaluated based on the viewpoints mentioned above to the extent they do not fall under any of the following categories.

1. A person for whom the Company's group (meaning each group company including the Company. The same shall apply hereinafter.) are principal trading partners or a business executive thereof,
2. A principal trading partner of the Company's group or a business executive thereof,
3. A major shareholder of the Company or a business executive thereof,
4. A business executive of a person for whom the Company's group are major investors,
5. A person receiving a large donation from the Company's group or a business executive thereof,
6. A consultant, certified public accountant, other professional accountant, lawyer, or other legal specialist that receives a large amount of money or other assets other than the compensation for a director from the Company's group (assets in excess of the amount equivalent to 2% of its total sales turnover or gross income or 10 million yen whichever is larger on average in the preceding 3 years, other than the compensation for a director) (In the case that the person receiving the assets is a corporation, association or other group, a person belonging to such group),
7. A person belonging to the auditing firm who performs a statutory audit of the Company's group,
8. A person from a corporation for which a business executive of the Company's group assumed the post of its outside director on a reciprocal basis within the preceding 3 years,
9. A person falling under the category of Items 1 through 8 hereof within the preceding 3 years,
10. A close relative (within the 2nd degree of relationship) of a person (limited to a person in an important position) listed below:
  - a) A person who falls under the category of Items 1 through 9 hereof (in cases falling under Item 7, limited to a person who is actually involved in the audit services for the Company's group (Supporting involvement is excluded)),
  - b) A director, executive officer or employee of the Company's group. (including within the preceding 3 years)

(Note)

"Person for whom the Company's group are principal trading partners" refers to a person who received from the Company's group a payment of the amount in excess of 2% of its annual consolidated sales turnover or gross income or 100 million yen whichever is larger in the immediately preceding

business year.

“Principal trading partner of the Company’s group” refers to a person who made to the Company’s group a payment of the amount in excess of 2% of the Company’s annual consolidated sales turnover or gross revenue or 100 million yen whichever is larger in the immediately preceding business year.

“Major shareholder of the Company’s group” refers to a person directly or indirectly holding 10% or more of the voting rights of the Company’s group’s entire shareholders.

“Person for whom the Company’s group is a major investor” refers to a person the Company’s group invests in to hold directly or indirectly 10% or more of its total voting rights.

“Person receiving a large donation from the Company’s group” refers to a person who received from the Company’s group a donation in excess of 10 million yen or 2% of its annual sales turnover or gross income whichever is larger on average in the preceding 3 years.

“Person in an important position” refers to a person at the position of director or at least equivalent to division manager, public accountant belonging to each auditing firm and lawyers belonging to each law firm.