

# G: Governance

## [Corporate Governance]

The Piolax Group positions corporate governance as a management priority. We are committed to sustainable growth and development as well as fair and transparent management through the compliance with laws and ethics, the execution of key corporate strategies led by the Board of Directors, and the implementation of appropriate internal control and risk management systems.

We are also committed to building relationships of trust with investors and other stakeholders through timely and appropriate information disclosure and dialogue of financial and non-financial information.

### <Corporate Governance System>

The Piolax Group is working to strengthen its corporate governance system with the aim of increasing its corporate value over the medium to long term. Piolax shifted to a company with Audit and Supervisory Committee (2016), introduced a stock compensation plan for directors (2017), appointed at least one-third of independent outside directors (2018), established Nomination and Compensation Advisory Committee (2019), appointed a female director (2020), complied with the Corporate Governance Code that meets the requirements of the Prime Market of the Tokyo Stock Exchange (2021), and increased the number of outside and female directors (2022).

#### Board of Directors

The Board of Directors makes decisions on important management policies, goals, and strategies. It is chaired by the President and consists of ten Directors (including four Outside Directors).

#### Audit and Supervisory Committee

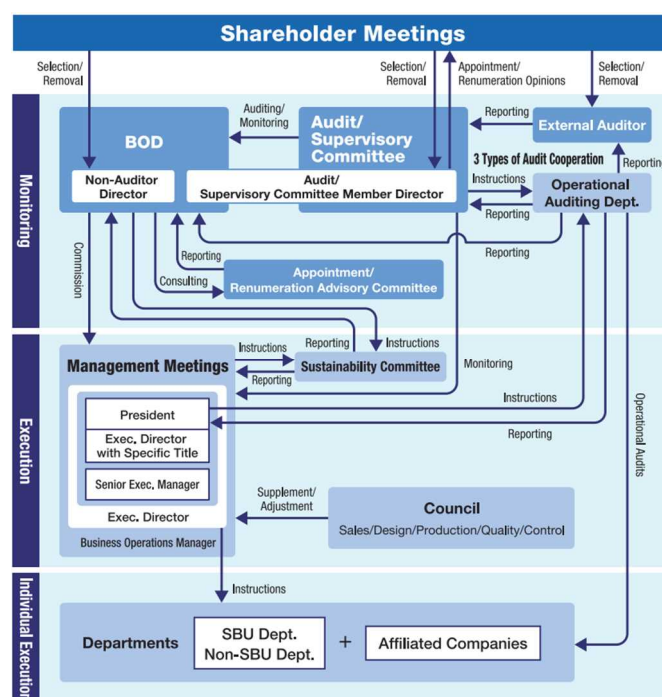
This committee audits duty execution by Directors and overall management of group companies. It is chaired by the head of Audit and Supervisory Committee and consists of three Directors (one full-time and two part-time and outside) who are Audit and Supervisory Committee Members.

#### Nominating and Compensation Advisory Committee

This committee is set up as a voluntary advisory body to the Board of Directors with a view to making fair decisions on selection and dismissal of Directors and their compensation. It is chaired by the Senior Managing Director and consists of six Directors (including four Outside Directors).

#### Management Meeting

This body makes decisions for executing specific operations based on management policies decided at the Board of Directors. It is chaired by the Senior Managing Director and consists of Directors and Senior Executive Officers.



Corporate governance overview

Form of institutional design	Company with Audit and Supervisory Committee
Number of Directors who are not Audit and Supervisory Committee Members (Number of Independent Outside Directors)	7 people (2)
Number of Directors who are Audit and Supervisory Committee Members (Number of Independent Outside Directors)	3 people (2)
Total number of directors (Number of Independent Outside Directors)	10 people (4)
Ratio of Independent Outside Directors	40%
Ratio of Female Directors	20%
Term of office of Directors who are not Audit and Supervisory Committee Members	1 year
Term of office of Directors who are Audit and Supervisory Committee Members	2 years
Adoption of executive officer system	Yes
Accounting auditor	Ernst & Young ShinNihon LLC

Addressing sustainability is an important management issue. For this, we established Sustainability Committee in 2021 and formulated the Sustainability Policy. This committee examines policies related to sustainability and ESG management, sets targets, and monitors progress. Specific measures discussed in the committee are raised to the Management Meeting and decided by the Board of Directors. The committee consists mainly of Directors, chaired by the President, and it meets four times a year.

Link: Sustainability Policy

## <Directors and Their Activities>

Position	Name	Sex	Term of office (At the end of the GSM in June 2023)	Attendance (FY2022)	
				Board of Directors	Audit and Supervisory Committee
President Chairman of the Board of Directors	Yukihiko Shimazu	Male	18 years	18/18	-
Senior Managing Director Chairman of the Management Meeting Chairman of the Appointment/ Remuneration Advisory Committee	Michio Nagamine	Male	15 years	18/18	-
Director	Toru Suzuki	Male	9 years	18/18	-
Director	Shigeru Masuda	Male	2 years and 10 months	18/18	-
Director	Masaaki Kaji	Male	1 year	14/14 *	-
Director	Hiroyuki Ochiai	Outside, Independent	Male	1 year	14/14 *
Director	Makiko Akabane	Outside, Independent	Female	1 year	14/14 *
Director and Full-time Audit and Supervisory Committee Member Chairman of the Audit and Supervisory Committee	Genichi Ishikawa	Male	1 year	14/14 *	7/7 *
Director and Audit and Supervisory Committee Member	Kenichi Asano	Outside, Independent	Male	7 years	18/18
Director and Audit and Supervisory Committee Member	Sakae Komiyama	Outside, Independent	Female	2 years and 10 months	18/18

\* Covering Board of Directors and Audit and Supervisory Committee meetings held after the inauguration on June 24, 2022.

## <Directors' Skill Matrix>

Position	Name	Corporate management	Sales/ Marketing	Technology/ Development	Manufacture/ Quality	Finance/ Accounting	Legal/ Risk management	Global business	ESG/ Sustainability	DX/IT	Innovation/ New business
President	Yukihiko Shimazu	●	●					●	●		●
Senior Managing Director	Michio Nagamine	●				●			●	●	
Director	Toru Suzuki	●	●		●			●			
Director	Shigeru Masuda			●	●					●	
Director	Masaaki Kaji	●				●		●		●	
Outside Director	Hiroyuki Ochiai	●			●			●	●		
Outside Director	Makiko Akabane	●							●		
Director, Full-time Audit and Supervisory Committee Member	Genichi Ishikawa	●				●		●			
Outside Director, Audit and Supervisory Committee Member	Kenichi Asano						●				
Outside Director, Audit and Supervisory Committee Member	Sakae Komiyama					●					

## <Implementation of Corporate Governance Measures>

Piolax holds a regular meeting of the Board of Directors once a month to decide basic management policies and important matters and to supervise execution of duties by the Directors. Piolax adopts an executive officer system, and part of the Board of Directors' authorities for business execution is delegated to the Management Meeting to speed up the decision-making process. We have established a system in which management information is shared between the Board of Directors and the Management Committee to ensure thorough implementation of business operation policies and to enhance sensitivity to management risks.

Concerning risk management, department heads identify risks of their department and prepare rules and manuals to manage them, and Internal Audit Department monitors the situations.

## <Evaluation of the Effectiveness of the Board of Directors

In order to objectively evaluate whether the Board of Directors is fulfilling its expected role, we conduct an annual survey of all Directors on the composition, operation, and agenda of the Board of Directors. In FY2022, we also evaluated the effectiveness of the Audit and Supervisory Committee. In addition, we receive external (third-party) advice once every three years to enhance the objectivity of our evaluations.

## <Internal Control System>

Piolax has prepared the "Basic Policy on Internal Control System" and the "Basic Policy for Internal Control System concerning Financial Reporting," and continues its activities for the Group's internal control. It includes establishing and operating the internal control system headed by the President and evaluating its effectiveness every year to secure sound, efficient, and fair corporate control.

Specifically, "company-wide internal control," "internal control over business processes," "internal control over financial reporting," and "internal control over IT" are operated and, in each control, checklists, segregation of duties tables, business descriptions, business flow charts, risk control matrices, and other documents are prepared for evaluation.

Link: Corporate Governance Report

Link: Basic Policy on Internal Control System, Basic Policy for Internal Control System concerning Financial Reporting

## 【Interview with Outside Director】

**I will contribute to improving corporate value by giving advice from the perspective of all stakeholders and with an awareness of offensive risk-taking.**

### **Hiroyuki Ochiai**

He has served as Managing Officer of Toyota Motor Corporation, Executive Vice President of Toyota Motor Europe, General Manager of Kamigo and Shimoyama Plants of Toyota Motor Corporation, and President of FTS Corporation.

In addition to his work in the automobile industry and economic organizations, he also has a wealth of management experience, including being appointed as the President of Social Welfare Corporation *Toyota Hikari-no-sato* in 2022. He was appointed as Outside Director of Piolax, Inc. in June 2022.



#### **1. what is your impression of Piolax?**

Since my appointment last year, I have visited various sites within the company over the past year, believing that it is important to understand the actual situation of each department in order to appropriately supervise and provide advice to management as an outside director. I felt warmth at every site and sensed that this is the foundation of Piolax's corporate culture. The issues I heard on-site and the issues the company sees generally match, and I am impressed by their good communication and steady approach to problem-solving through teamwork.

#### **2. Corporate governance of the company**

This year marks the 90th anniversary of Piolax's founding, and it is noteworthy that the company has achieved sound and continuous growth and social contribution over the years as a "pioneer in creating elasticity." I believe this is a proof that its corporate governance is functioning properly.

However, the automotive industry is now in a period of great change. To respond to CASE and create a new growth engine as a third pillar of the company, we need an "elastic" system that is more flexible and agile than before, rather than a rigid system. This may pose a risk to governance, but I believe it can be ensured through "promoting visualization" and "further improving the quality of communication." In particular, "visualizing abnormalities" is important, and abnormalities found must be dealt with immediately.

#### **3. Improvement of the company's corporate value**

Piolax incorporates an idea of broadly contributing to industry and society through the science of elasticity of all materials into its Medium-term Management Plan and annual business policies, and is working to achieve sustainable growth and increase corporate value through the practice of ESG management. As an outside director, I will give advice from the perspective of "common sense of all stakeholders" rather than "common sense of Piolax," with an awareness of not only "defensive" but also "offensive" risk-taking.

Amid drastic changes in the business environment, I hope that the management and employees will view 2023, the 90th anniversary of the company's founding, as the second founding year and unite under "ONE PIOLAX" to achieve further growth and solve social issues so that all stakeholders would say, "Piolax is a good company." I am looking forward to seeing it put into practice in new work environments in line with the times, such as the new Moka Plant and the new Head Office.

## 【Risk Management】

Piolax works to prevent possible risks in its business activities. In the event of a risk, we strive to minimize the impact on our business and company. Sustainability Committee identifies various risks and opportunities, including climate change, and implements measures and monitors progress according to the assessment of materiality.

### <Information Security System>

Piolax has established the "Guidelines for Prevention of Confidential Information Outflow" to protect its information assets by taking drastic and effective measures against the risk of confidentiality leaks. Based on the guidelines, we are improving our confidential information management system, including information security, to properly manage company information.

In order to respond to cyber-attacks, which are becoming more sophisticated every year, we conduct in-house education and e-mail attack training in the entire Group. We have also introduced an EDR (Endpoint Detection and Response) system as an endpoint countermeasure for PCs and servers to improve response efficiency in case of incidents. We will continue to address cybersecurity risks to improve business continuity and reduce business risks.

In 2023, in response to the increasing number of cyber-attacks worldwide, we conducted a question-and-answer e-learning course on IT security in multiple languages for Group employees in Japan and overseas to prevent any damage in advance. 1,650 people participated, and the total course time was 825 hours.

### <Business Continuity>

In the event of a large-scale disaster, Piolx has formulated a business continuity plan (BCP), developed a safety confirmation system and emergency contact network, and deployed stockpiles so that it can promptly assess the damage and quickly restore operations. We conduct company-wide BCP drills on a continuous basis that simulate the occurrence of natural disasters and infectious diseases to improve proficiency.

### <Disaster Preparedness Initiatives>

A business-card-sized "Disaster Response Manual" has been distributed to all employees. It outlines action guidelines in the event of a disaster for ensuring personal safety, confirming the safety of family members, and reporting to the company.

If a disaster occurs in the area where our bases or suppliers are located, safety confirmation emails will be automatically sent to quickly gather safety information and prevent delivery delays.



### <Personal Information Management System>

Personal Information Management Committee has been established to develop and administer rules in response to the Personal Information Protection Law and other laws and to build a system for handling personal information.

## **【Compliance】**

The Piolax Group has established Compliance Committee, chaired by the President, as an organization that oversees overall compliance. The committee has set up a system to promote compliance management in accordance with laws and regulations, the Articles of Incorporation, and the Group's management policies.

### **<Piolax Code of Conduct>**

Under the corporate philosophy of "pioneer in creating elasticity," the Piolax Group strives to contribute to industry and society at large in the automotive and medical fields through business operations. A basic code of conduct has been created to ensure that each and every officer and employee acts with high ethical standards as a sensible corporate citizen and a member of society. Regular education to raise awareness of compliance is provided.

Link: Piolax Code of Conduct

### **<Whistleblower System>**

A multi-lingual whistleblower hotline has been established for the purpose of identifying compliance issues at an early stage and take countermeasures. The Piolax Group's officers and employees can anonymously report compliance issues to a contact point operated by a third party. The system is designed to protect whistleblowers and the number of reports and the content of consultations are reported to the Board of Directors.

### **<Fair and Equitable Transactions>**

For fair and free competition in the market, we have established the "Global Declaration for Prevention of Cartels" and the "Global Management Rules for Cartel Prevention." In all countries and regions where we do business, we will comply with laws and regulations relating to the protection of fair and free competition, including competition and antitrust laws.

### **<Prevention of Corruption and Bribery>**

Under the Code of Conduct, we have established the "Global Declaration for Prevention of Bribery" and the "Global Management Rules for Prevention of Bribery" to prevent bribery. In all countries and regions where we do business, our officers and employees will comply with laws and regulations relating to anti-bribery and anti-corruption, and will not offer or accept any improper gratuities, money, gifts, or other benefits, whether from public officials or private businesses.

### **<Elimination of Antisocial Forces>**

We will take a resolute stance against unreasonable demands from antisocial forces and cut off all relationships with them. In cooperation with external specialized organizations, we collect information on antisocial forces and disseminate it through training.

### **<Compliance Education>**

In FY2022, compliance education through video viewing and questionnaires was conducted for employees of Piolax and its domestic subsidiaries to learn the importance of fraud prevention and compliance based on the Code of Conduct. 1,870 people participated, and the total course time was 493 hours.