



Responding to the Increased Importance of Governance Enhancement

With the drastic changes in the environment that surrounds companies, the importance of enhancing corporate governance is increasing year by year.

The Nitterra Group's basic stance on corporate governance is as follows: In order to promote management that increases our medium-to-long-term corporate value, build relationships of trust through fair and highly transparent management, giving proper consideration to our various stakeholders, and establish and operate an efficient and sound management and internal control systems.

Since becoming Representative Director and President in 2011, Representative Director, Chairman, and President in 2016, and Representative Director and Chairman of the Board in 2019, I have been

In response to the changing times, we will enhance our corporate value by building and strengthening a corporate governance system suitable for the Nitterra Group.

Shinichi Odo, Representative Director, Chairman of the Board

working to enhance our governance system.

It was in 2013 that we first appointed an individual with management experience in the private sector to serve as an outside director. Since then, the atmosphere of our Board of Directors has gradually changed. When asked to give an opinion on a topic, they come from a completely different perspective than our inside executives. Their opinions were eye-opening, providing us with a constant stream of new discoveries.

Evolving to a Highly Transparent Governance System

Since then, we have enhanced our governance year by year, increasing the number of outside directors to two in 2014 and then three in 2016. In 2020, one-third of directors were outside directors. Since 2022, a majority of directors have been outside directors. At the same time, we transitioned into a Company with Audit and Supervisory Committee in order to further enhance discussions on management policies and strategies at the Board of Directors, enhance our supervisory functions, and further accelerate management decisions and the execution of duties. Through efforts like these, I believe we have established a governance system that ensures a certain level of transparency.

Since the June 2024 General Meeting of Shareholders, seven of our eleven directors have been independent outside directors. Four of the eleven are female (and one of the four is a foreign national). Along with this shift to a so-called monitoring board, which emphasizes oversight of management, diversity is also increasing. Our current governance system, including the

percentage of female managers, resulted not from box-ticking, but rather from a genuine belief in the value of diversity.

Though the current trend is for boards of directors to shift from management boards to monitoring boards, there is no one right answer to how governance should be. The principles set forth in a corporate governance code are merely a starting point.

For example, European and American often have oversight-focused monitoring boards consisting almost entirely of outside directors, with the exception of the CEO. Many also choose to hire top management from outside the Company. The best thing a company can do is to take note of such examples, choose an approach based on the benefits it provides and the time-scale of the Company's perspective, and optimize that approach over time based on the direction the Company wants to take in the future.

What I would like the President and CEO to do is focus on execution, doing everything he can to achieve our short to medium term goals over a span of one or three fiscal years. As Chairman of the Board, I am dedicated to considering the Company's management from a longer-term perspective and assuring the short- to medium-term goals handled by executives remain consistent with our long-term goals.

Setting Policy for the Current Businesses and Deliberating Creation of New Businesses

The Group assumes that demand for automotive internal combustion engine



parts, our main product, will peak and go into decline in the mid-2030s. Based on this assumed scenario, we have been working to maximize cash generation of our current businesses through increased efficiency while also creating new non-ICE businesses.

We are at a critical juncture where we are under pressure to optimize our business portfolio. As such, one of the main roles of the Board of Directors in recent years has been to conduct deliberations on important management issues, such as our basic management policies and medium to long term management strategies.

The focal point of Board of Directors meetings in FY2023 has been how to effectively operate both current and new businesses, with deliberations focusing primarily on the direction of current businesses and investments aimed at creating new businesses.

During deliberations about current businesses, we made the momentous decision to begin discussions of the acquisition of spark plug and exhaust gas oxygen sensor businesses, respectively.

As for the creation of new businesses, I expect discussions of this topic to accelerate in the future. The question is how to develop businesses that utilize our core technologies to contribute to solving social issues. FY2024 is the last year of our current Medium-term Management Plan (MMP). When developing our new MMP, I would like to focus our future efforts to create new business areas with higher chances of success. To assure feasibility of the next MMP, we will need input from our outside directors. As chairperson, I hope to create a forum for such constructive discussion.

Creating Venues for Free Discussion Outside of Board Meetings

One of the characteristics of our Board of Directors is the vigorous exchange of opinions between our inside and outside directors during deliberations. You can see that every participant in board meetings is trying to reach a better conclusion through discussions by the way they not only make suggestions based on their areas of expertise, but also actively gives opinions on matters outside their expertise.

In FY2023, there was a split vote in favor of one of the resolutions brought before the Board of Directors. I have the impression that there have been more dissenting opinions from different perspectives in recent years regarding not only resolutions, but also reports. I see dissenting opinions and negative votes

positively, as they are a sign that the Board of Directors is a healthy place where outside directors feel psychologically secure enough to give their opinions.

Furthermore, we started holding pre-meeting briefings for outside directors in 2022 in order to foster understanding and facilitate active discussion of increasingly sophisticated and complex matters being discussed by the Board of Directors. This leads to more varied opinions and questions being given at Board of Directors meetings, increasing the depth of discussions. The briefings also serve as trainings for the executives responsible for explaining matters to the outside directors.

We also organize offsite meetings as venues to freely give opinions outside of Board of Directors meetings. Outside directors are also involved in the development of the next MMP. While its content is currently still at the discussion phase, we are following a process consisting of exhaustive discussion with outside directors from as early as the outline stage. The Group considers the content of the next MMP to be key to realizing our optimal business portfolio. At the same time, we would like to advance discussions of human resource strategy and human capital investment needed to implement the MMP, including what sort of human resources we will need.

In addition to enhancing discussions at Board of Directors meetings and offsite meetings, one other effort to strengthen governance we are focusing on is the enhancement of director training. For newly-appointed outside directors, we provide them with a training program aimed at fostering an understanding of the Group. In this program, they receive lectures about our history, organizational culture, and the specifics of our business, and are also given opportunities to tour our plants and other workplaces. Also, when I visit an overseas location, I make a point to invite outside directors to accompany me whenever possible.

While we were not able to do things like this during the COVID-19 pandemic, I hope to increase the frequency of such occasions in the future, as they allow outside directors to participate in discussions with an understanding of the Group and leverage their diverse perspectives.

Establishing a New Board of Directors Department to Further Enhance Our Governance System

In April 2024, we newly established a Board of Directors Department dedicated to supporting smooth operation of the Board of Directors by,



among other things, coordinating topics of discussion regarding our medium to long term strategies, and organizing director training. Our goals in establishing this new department were to separate the functions of the Board of Directors Secretariat (previously under the umbrella of the Secretarial Department) from the Group's executive functions, and to increase the effectiveness of the Board of Directors. Moving forward, we will work to enhance the functions of the Board of Directors Department with input from our outside directors.

As the automotive industry enters an era of once-in-a-century change, and as the Group will take on the challenges of different business areas, the nature of the Group's governance will change. Recently, we began discussions of transitioning to a holding company structure. As the business environment and our organizational structure change, our governance and the themes we must discuss will also have to evolve in lock-step.

To assure the sustained growth of the Group, the Board of Directors will supervise our executive team based on medium to long term strategies, and we will firmly fulfill our accountability to shareholders, investors, and other stakeholders. To this end, I am committed to leading both the establishment of an appropriate governance structure and transparent and active discussions at Board of Directors meetings.