

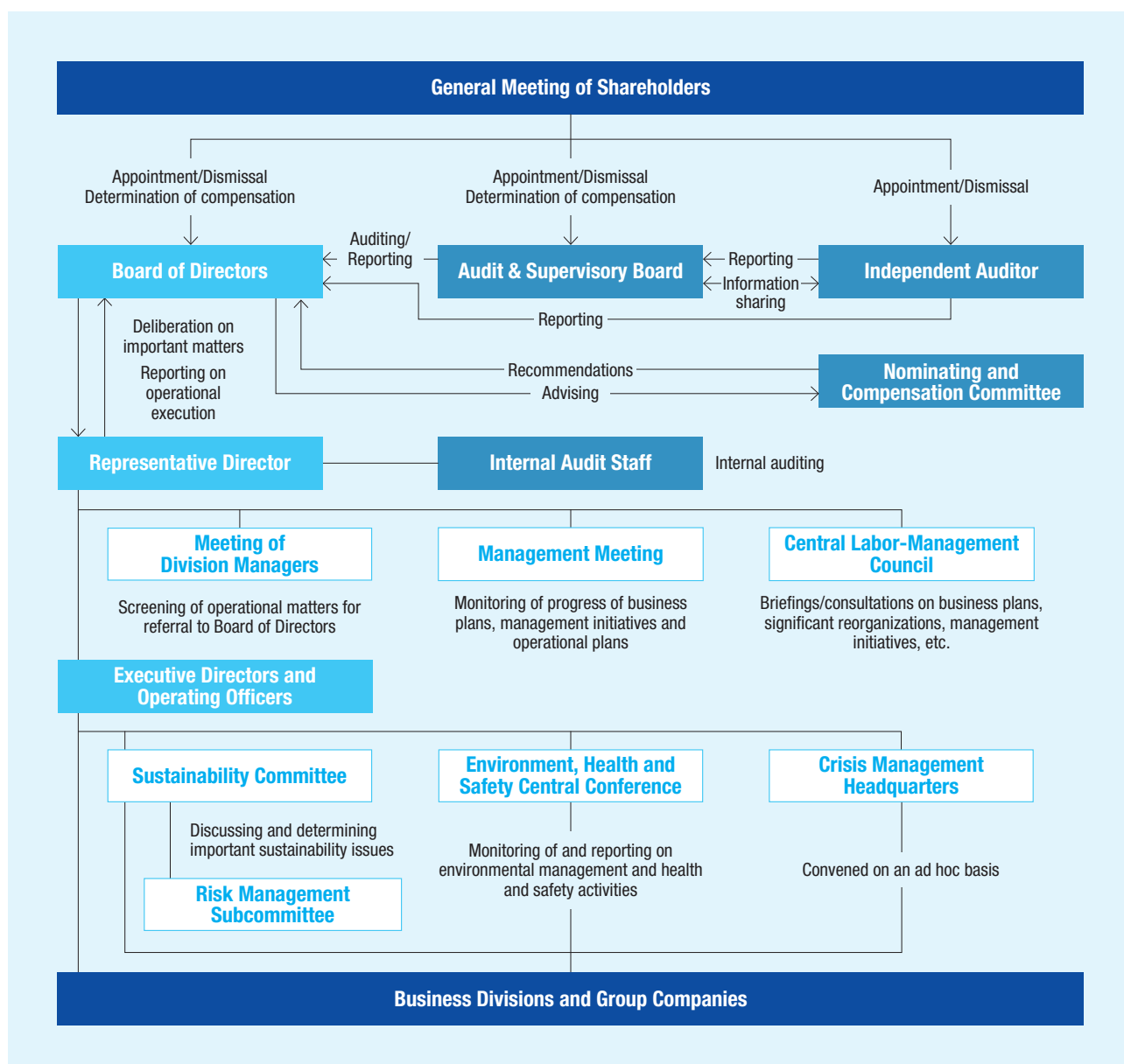


# Corporate Governance

## Basic Stance on Corporate Governance

The EKK Group's basic management tenets are that a company (1) belongs to not only shareholders but also its employees and society, (2) should generate profit and pride for all stakeholders, including its customers, suppliers and financial institutions in addition to its employees and (3) must never pursue short-term profits at the expense of long-term interests. To live up to these tenets, the Group conducts business activities to continuously become a stronger, more profitable company by producing and achieving worldwide sales of unique and socially useful products backed by its technologies in accord with a spirit of compliance.

The Group believes that building a corporate governance regime comprehensively optimized to the prevailing business environment and the specifics of its operations is essential as a foundation to support such operations.



## Overview of and Rationale behind Corporate Governance Regime

EKK has adopted the audit and supervisory board system as well as the operating officer system. The Company has fostered an atmosphere of lively, peer-to-peer discussion at Board of Directors' meetings, including feedback from Audit & Supervisory Board members exercising oversight of directors. Outside directors also function as an effective check on Board of Directors in the execution of its duties. The Audit & Supervisory Board is set up and configured as an oversight body independent of management. Audit & Supervisory Board members exercise full-spectrum oversight of the Company's operations by not only attending and participating in Board of Directors' meetings but also attending meetings of other key internal entities, including the Management Meeting and Meeting of Division Managers, and regularly conducting internal audits of not only the Company but also its affiliates. In light of such, the Company deems its corporate governance to be effective and accordingly elects to maintain the status quo.

### Overview of Internal Entities Involved in Governance

<b>Board of Directors</b>	The Board of Directors generally meets monthly. It makes decisions on important matters and oversees operational execution.
<b>Nominating and Compensation Committee</b>	The Nominating and Compensation Committee was established to advise the Board of Directors. The committee comprises the Board chairman and outside directors. It regularly monitors matters of particular importance, mostly director and Audit & Supervisory Board member nominations and compensation, and appropriately advises the Board of Directors.
<b>Meeting of Division Managers</b>	The Meeting of Division Managers comprises directors, operating officers, division managers, business unit heads and their respective deputies. It meets monthly with standing Audit & Supervisory Board members in attendance to review operational matters and decide which, if any, to refer to the Board of Directors.
<b>Management Meeting</b>	The Management Meeting convenes regularly with directors, Audit & Supervisory Board members and operating officers in attendance, together with management personnel with a rank of section manager or above and labor union representatives. It monitors the progress of business plans, management initiatives and operational plans and discusses safety, environmental and quality issues.
<b>Labor-Management Councils, etc.</b>	Various committees comprising representatives of labor and management, including the Central Labor-Management Council, meet on an ad hoc basis for briefings on and discussions of matters such as business plans, significant reorganizations and management initiatives.
<b>Sustainability Committee</b>	The Sustainability Committee is chaired by the president and made up of the heads of organizational units and senior managers. The committee determines targets for the Group's sustainability activities and evaluates activity status with the aim of realizing a sustainable society. The committee also reports on activity status to the Board of Directors. Furthermore, with the aim of discovering and preventing business activity risks, the Risk Management Subcommittee has been established under the Sustainability Committee to identify latent risks inherent in business activities and verify the effectiveness of safeguards against such risks.
<b>Environment, Health and Safety Central Conference</b>	The Environment, Health and Safety Central Conference checks on how environmental management and health and safety activities are promoted in business activities.
<b>Crisis Management Headquarters</b>	In the event of an emergency arising from business-related risks, the Crisis Management Headquarters, headed by the president, is established to respond to the crisis. It is empowered to swiftly and appropriately respond when any such emergency occurs.
<b>Internal Audit Staff</b>	Nominated by the president, internal audit staff work to develop internal control systems and also periodically conduct audits of organizational units and affiliates.



## Corporate Governance

### Directors and Audit & Supervisory Board Members

Name	Positions and responsibilities	Gender	Fields of expertise						
			Corporate management	Business strategy	Business sales	Finance and accounting	Technological R&D	Internationality	ESG
<b>Tetsuji Tsuru</b>	Chairman of the Board and President, Representative Director	Male	●	●		●		●	
<b>Masaki Nakao</b>	Representative Director, Vice President, General Manager of Defense Business Corporate Office	Male	●	●				●	
<b>Shinji Abe</b>	Representative Director, Senior Managing Director, General Manager of Safety, Environment & Quality Control Office	Male			●				●
<b>Norio Uemura</b>	Representative Director, Senior Managing Director, General Manager of Engineering Division	Male			●		●		
<b>Masahide Shimada</b>	Senior Managing Director, AI/CI Division General Manager and General Manager of Nuclear Power Business Corporate Office	Male		●				●	
<b>Hidetaka Yamamoto</b>	Senior Managing Director, Manager, Corporate Sales & Marketing Division	Male		●	●				
<b>Makoto Kikkawa</b>	Outside Director	Male	●			●			
<b>Katsuhiko Shono</b>	Outside Director	Male		●			●		
<b>Masako Sakaguchi</b>	Outside Director	Female						●	●
<b>Hideo Satake</b>	Standing Audit & Supervisory Board Member	Male		●				●	
<b>Yasumitsu Iba</b>	Standing Audit & Supervisory Board Member	Male				●		●	
<b>Nozomu Maehara</b>	Outside Audit & Supervisory Board Member	Male			●				●
<b>Hideki Watanabe</b>	Outside Audit & Supervisory Board Member	Male				●		●	
<b>Atsushi Kajitani</b>	Outside Audit & Supervisory Board Member	Male	●				●		

## Outside Directors and Outside Audit & Supervisory Board Members

### Outside Directors

Expected roles	
Makoto Kikkawa	<p>Mr. Kikkawa has abundant experience and extensive knowledge in corporate management in financial institutions and business companies. We expect him to continue providing supervision and counsel on the execution of duties by the Company's directors and from an objective, broad and advanced perspective, we have appointed him as an outside director.</p> <p>He will be involved in the selection of candidates for officer positions and determination of officer compensation from an objective and neutral standpoint as a member of the Nominating and Compensation Committee.</p>
Katsuhiko Shono	<p>Mr. Shono is expected to provide supervision and counsel on the execution of duties by the Company's directors from an objective, broad and advanced perspective based on his vast amount of experience in the industrial machinery field and high principles. Therefore, we have appointed him as an outside director.</p> <p>Although he has no previous involvement in the management of a company, we deem that he is capable of appropriately performing the duties of an outside director.</p> <p>He will be involved in the selection of candidates for officer positions and determination of officer compensation from an objective and neutral standpoint as a member of the Nominating and Compensation Committee.</p>
Masako Sakaguchi	<p>Ms. Sakaguchi is expected to provide supervision and counsel on the execution of duties by the Company's directors from an objective, broad and advanced perspective based on her vast amount of experience as an attorney and high principles. Therefore, we have appointed her as an outside director.</p> <p>Although she has no previous involvement in the management of a company, we deem that she is capable of appropriately performing the duties of an outside director.</p> <p>She will be involved in the selection of candidates for officer positions and determination of officer compensation from an objective and neutral standpoint as a member of the Nominating and Compensation Committee.</p>

### Outside Audit & Supervisory Board Members

Reason for appointment and attendance at FY2022 Board of Directors' and Audit & Supervisory Board meetings	
Nozomu Maehara	<p>Board meeting attendance: 13/13 meetings Audit &amp; Supervisory Board meeting attendance: 13/13 meetings</p> <p>Mr. Maehara was appointed as an outside Audit &amp; Supervisory Board member to apply to the Company's oversight functions his broad knowledge of and experience in sales and management at NOK Corporation, a major shareholder and customer of the Company.</p>
Hideki Watanabe	<p>Board meeting attendance: 13/13 meetings Audit &amp; Supervisory Board meeting attendance: 13/13 meetings</p> <p>Mr. Watanabe was appointed as an outside Audit &amp; Supervisory Board member to apply to the Company's oversight functions his broad knowledge of and experience in finance and accounting at NOK Corporation, a major shareholder and customer of the Company.</p>
Atsushi Kajitani	<p>Board meeting attendance: 13/13 meetings Audit &amp; Supervisory Board meeting attendance: 13/13 meetings</p> <p>Mr. Kajitani was appointed as an outside Audit &amp; Supervisory Board member to incorporate his input into the Company's oversight functions to benefit from his broad perspective spanning all facets of management based on his expertise as an attorney and extensive corporate law experience and knowledge.</p>



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### Activity Status and Effectiveness Evaluation of the Board of Directors

The Board of Directors held 13 meetings in FY2022 to discuss important management matters, as well as to submit resolutions and reports in accordance with laws and regulations, the Articles of Incorporation and the rules of the Board of Directors.

(1) Specific items considered at the Board of Directors' meetings

(Resolutions) In addition to matters for resolution required by laws, regulations and the Articles of Incorporation, the Board of Directors deliberated and made decisions on 41 matters for resolution based on our rules of the Board of Directors, including the Group's management and sales plans, important capital investments, other companies' guarantees and financing plans.

(Reports) In addition to reporting matters required by laws, regulations and the Articles of Incorporation, 15 reports were made on the status of our internal controls, activities of each committee and other important matters related to the execution of business operations.

(2) Effectiveness evaluation of the Board of Directors

With regard to the effectiveness evaluation of the Board of Directors, a report on the Board of Directors' activities in FY2022 was presented at a Board of Directors' meeting held in June 2023, where opinions were exchanged and discussions were held among directors and Audit & Supervisory Board members. The resulting assessment is that the Board of Directors' effectiveness has been appropriately secured.

### Nominating and Compensation Committee Activities

To increase objectivity and transparency around director and Audit & Supervisory Board member nomination and compensation-setting processes in accord with Japan's Corporate Governance Code, EKK has established the Nominating and Compensation Committee comprising the chairman of the Board of Directors and outside directors as an advisory body of the Board of Directors. The committee regularly monitors matters of particular importance, mostly director and Audit & Supervisory Board member nominations and compensation, and appropriately advises the Board of Directors.

#### Overview of Activities in FY2022

Month	Actions
Feb.	Nominations: Director appointment/dismissal standards and succession plan reviewed Compensation: Compensation scheme reviewed and performance-based compensation amounts discussed
May	Nominations: Director and Audit & Supervisory Board member candidates individually vetted Compensation: Director compensation amounts reviewed

### Board of Directors' and Audit & Supervisory Board Members' Compensation Policy

EKK has established the policy below for determining compensation for directors and Audit & Supervisory Board members. Director compensation is determined by the Board of Directors, and Audit & Supervisory Board member compensation, etc., is determined via thorough discussions with Audit & Supervisory Board members within the total amount decided at the General Meeting of Shareholders based on this policy.

In order to address the important management issues involved, including elevating objectivity and transparency regarding Board of Directors' and Audit & Supervisory Board members' nomination and compensation, the Company has established the Nominating and Compensation Committee as an advisory body of the Board of Directors. The committee regularly monitors matters of particular importance, such as Board of Directors' and Audit & Supervisory Board members' nomination and directors' compensation, and provides appropriate recommendations to the Board of Directors.

Nominating and Compensation Committee meetings are comprised of the Board of Directors' chairman and outside directors. The committee reviews and provides recommendations regarding important management issues such as nominations and compensation.

The Company's policy regarding compensation for directors and Audit & Supervisory Board members is as follows.

### **a. Method of determining policy**

The Policy on Director Compensation is determined by the Board of Directors, taking into account the advice of the Nominating and Compensation Committee.

The Policy on Audit & Supervisory Board Member Compensation is determined through discussions with Audit & Supervisory Board members.

### **b. Basic policy**

The Group seeks to grow stronger and more highly profitable by making unique and socially useful products backed by its technologies at a low cost around the world and providing them at reasonable prices. We believe that pursuing this policy from a medium- to long-term perspective will contribute to improving the Group's medium- to long-term corporate value and increase stakeholder satisfaction.

In carrying out this policy, we believe that it is necessary for us to promote the motivation of the management team, including the directors of the Company, to achieve performance targets and stakeholder satisfaction from the standpoint of compensation. For that reason, we have decided to introduce new treasury stock compensation for the Company's management that varies to a certain extent according to the degree of achievement of key performance indicators (KPIs) related to the priority measures in the Group's medium-term management plan. Balancing this with monetary compensation that varies according to the degree of achievement of performance targets for each fiscal year, we aim to improve corporate value and stakeholder satisfaction over the medium to long term.

### **c. Policy for determining amount of individual compensation, etc., and method of calculation**

Considering their responsibilities in improving performance in each fiscal year and increasing corporate value over the medium to long term, director compensation is broken down into three categories. These are base pay (monetary), short-term performance-linked compensation (monetary) and medium- to long-term performance-linked compensation (stock), comprised of fixed compensation, expectations for short-term results and expectations for long-term results.

On the other hand, outside directors are expected to provide objective opinions and suggestions from an outside perspective that is independent from business execution, so in light of this, they are only paid base pay (monetary).

In addition, compensation for Audit & Supervisory Board members is base pay (monetary) only according to position as they are responsible for auditing the execution of duties for the Group as a whole. Compensation may be temporarily reduced or not paid at all in the event of a sudden worsening of performance or damage to corporate value.

The compensation system for the Company's directors is set up in such a way that compensation differs according to the responsibilities of the position (chairman, president, vice president, managing director, etc.). The difference currently applied is where managing directors are 1 and the chairman and president are about 1.6 when the short-term/long-term results portion is the standard amount.

### **d. Policy for setting quantitative formulas for and determining other details of performance-based compensation, including performance benchmarks**

Performance-based compensation is paid in an amount ranging from 0% to 200% of a baseline level, depending on performance relative to evaluation criteria.

When determining short-term performance-linked compensation, it is the Company's judgment that maintaining and improving the profit level is the most appropriate indicator of corporate performance. As such, the degree of achievement of the initial operating profit plan, dividend amount, employee bonus amount and other matters impacting performance (natural disasters, extraordinary gains/losses, etc.) are considered.

The indicators of medium- to long-term performance-linked compensation are return on invested capital (ROIC) (financial indicator) and the FTSE Russell ESG score (non-financial indicator) to increase overall profitability of the Group and promote ESG management. The weight given to these items is 90% and 10%, respectively.



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### **e. Policy for determining the content, amount, number or method of calculating non-monetary compensation, etc.**

For medium- to long-term performance-linked compensation, we utilize the officer compensation Board Incentive Plan (BIP) trust system in order to increase the motivation of directors to contribute to improving the Group's medium- to long-term performance and increasing corporate value. This plan is a system for issuing and paying the shares of the Company and share exchange price at disposal of the Company (hereinafter referred to as "the Company's shares, etc.") in a number corresponding to points calculated according to position/length of service and the degree of achievement, etc., of medium-term targets to eligible directors (excluding outside directors) and operating officers following the Rules for Issuance of Shares approved by the Board of Directors.

### **f. Policy for determining the ratio (percentage) of each type of individual compensation, etc.**

The Company's business domain is the manufacture and sale of mechanical seals, special valves, etc., and other mechanical parts in industries that include automobiles, construction equipment, general industrial machinery, semiconductors, ships and aerospace. Considering that business performance is easily affected by trends in these industries, the percentages of short-term performance-linked compensation and medium- to long-term performance-linked compensation for directors are 10% and 20% of total compensation, respectively.

### **g. Policy for determining the timing or terms of compensation payments**

Monthly base pay is determined by the Board of Directors after the Ordinary General Meeting of Shareholders for one year beginning from the following month and is paid in a fixed amount on a fixed day every month. Short-term performance-linked compensation is determined by the Board of Directors based on the year-end financial results in accordance with the abovementioned "Policy for setting quantitative formulas for and determining other details of performance-based compensation, including performance benchmarks." It is paid by the time of the Ordinary General Meeting of Shareholders for the financial results in question. As for medium- to long-term performance-linked compensation, following the Rules for Issuance of Shares approved by the Board of Directors, a fixed number of points calculated according to position and length of service and performance-linked points designed to incentivize achievement of the medium-term management plan, etc., are granted at a certain time every year. In principle, when the medium-term management plan ends, a number of the Company's shares, etc., corresponding to the cumulative number of fixed points and a number of the shares, etc., corresponding to the cumulative number of performance-linked points multiplied by a performance-linked coefficient according to the degree of achievement of medium-term targets are issued and paid.

### **h. Policy for and method of determining individual compensation**

The Board of Directors sets individual directors' compensation amounts and the methods whereby they are set, taking into account recommendations of the Nominating and Compensation Committee. Director and Audit & Supervisory Board member compensation proposals are tabled by the Board's chairman.

Proposed payments of compensation to Audit & Supervisory Board members are set by the Audit & Supervisory Board through consultation among Audit & Supervisory Board members.

## General Meeting of Shareholders Approval of Directors' and Audit & Supervisory Board Members' Compensation, etc.

At the 55th Annual General Meeting of Shareholders held on June 24, 2009, shareholders approved resolutions capping directors' aggregate compensation at ¥360 million per year and Audit & Supervisory Board members' aggregate compensation at ¥72 million per year.

At the FY2021 Annual General Meeting of Shareholders held on June 23, 2022, shareholders approved a performance-based stock compensation plan (hereinafter referred to as "the Plan") for the Company's directors (excluding outside directors; the same applies hereinafter) and operating officers (excluding those not residing in Japan; hereinafter referred to as "Directors, etc."). An overview of the Plan is provided below.

The Plan's compensation is paid to Directors, etc., separate to the above director compensation amounts (¥360 million per year).

### a. Overview of the Plan

The Plan is a stock compensation plan for Directors, etc. The Company will contribute an amount corresponding to the compensation for Directors, etc., to a trust, and these funds will be used to purchase shares of the Company through the trust. Shares of the Company and share exchange price at disposal of the Company (hereinafter referred to as "the Company's shares, etc.") are issued and paid (hereinafter referred to as "issuance, etc.") as officer compensation according to position and the degree of achievement, etc., of the performance targets (details of the Plan are described in (b) below and thereafter).

<b>Eligibility for issuance, etc., of the Company's shares, etc., under the Plan</b>	<ul style="list-style-type: none"> <li>• The Company's directors (excluding outside directors and those not residing in Japan)</li> <li>• The Company's operating officers (excluding those not residing in Japan)</li> </ul>
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### b. Impact of the Company's shares subject to the Plan on the total number of outstanding shares

<b>Maximum amount to be contributed by the Company</b>	<ul style="list-style-type: none"> <li>• ¥300 million multiplied by the number of fiscal years in the relevant period</li> <li>• The first relevant period will be four fiscal years for a total of ¥1,200 million (the first relevant period is the four fiscal years from the fiscal year ended March 31, 2023 to the fiscal year ending March 31, 2026)</li> </ul>
<b>Maximum number of the Company's shares to be issued, etc., to Directors, etc., and method of purchasing the Company's shares, etc.</b>	<ul style="list-style-type: none"> <li>• 400,000 shares multiplied by the number of fiscal years in the relevant period</li> <li>• The first relevant period will be four fiscal years for a total of 1.6 million shares</li> <li>• The above number of shares per fiscal year (400,000 shares) accounts for approximately 0.8% of the Company's total number of outstanding shares (as of March 31, 2022, after deduction of treasury shares)</li> <li>• The Company's shares are to be acquired from the stock market or the Company (treasury share disposal) (the Company's shares for the first relevant period are to be acquired from the stock market, so there will be no dilution)</li> </ul>
<b>Performance achievement conditions</b>	<ul style="list-style-type: none"> <li>• Varies between 0% and 200% according to the degree of achievement, etc., of important indicators for achieving performance targets in the medium-term management plan and other indicators established by the Board of Directors (in the first relevant period, the degree of achievement of ROIC and FTSE Russell ESG score)</li> </ul>
<b>Timing of issuance, etc., of the Company's shares, etc., to directors</b>	<ul style="list-style-type: none"> <li>• After the end of the relevant period</li> </ul>

## Directors and Audit & Supervisory Board Members' FY2022 Compensation

Position	Total compensation (Millions of yen)	Total compensation by type (Millions of yen)			No. of eligible recipients (Persons)
		Base compensation	Performance-based compensation		
			Short-term	Medium- to long-term (non-monetary compensation)	
Directors (of which, outside directors)	297 (20)	211 (20)	27 (—)	58 (—)	8 (3)
Audit & Supervisory Board members (of which, outside Audit & Supervisory Board members)	52 (8)	52 (8)	—	—	5 (3)
Total	349 (29)	263 (29)	27 (—)	58 (—)	13 (6)