

Basic Policy on Corporate Governance

Revised on December 27, 2021

Introduction

We have established a Code of Corporate Conduct to realize our business philosophy of “we strive to create a safe, comfortable, and enriching society using world-class technology and expertise,” and have been fulfilling our social mission guided by a corporate culture based on integrity and technology.

In the spirit of Japan’s Corporate Governance Code, we have also established the following Basic Policy on Corporate Governance in order to achieve transparent, fair, timely and decisive decision-making in corporate governance. In line with this Basic Policy, we will strive to achieve sustainable growth as a corporation and increase our corporate value over the mid- to long-term.

Chapter 1. Basic Position on Corporate Governance (corresponds to Principle 3.1(ii))

- (1) We will develop an environment in which shareholders can exercise their rights, and will give adequate consideration to securing the effective equal treatment of shareholders.
- (2) We will strive to sustainably grow the CTI Engineering Group and increase its corporate value over the mid- to long-term through appropriate collaboration with its stakeholders, including shareholders, employees, clients, business partners, and local communities.
- (3) We will appropriately disclose financial and non-financial information related to the management of the CTI Engineering Group in compliance with relevant laws and regulations and will also strive to actively provide information beyond that required by law.
- (4) Given its fiduciary responsibility and accountability to shareholders, the Board of Directors will appropriately fulfill its roles and responsibilities to enhance profitability, capital efficiency, and other aspects of the CTI Engineering Group with the aim of promoting sustainable growth and increasing corporate value over the mid- to long-term.
- (5) In order to sustainably grow the CTI Engineering Group and increase its corporate value over the mid- to long-term, we will engage in constructive dialogue with shareholders even outside of the General Meeting of Shareholders.

Chapter 2. Ensuring the Rights and Equal Treatment of Shareholders

2.1 Securing the Rights of Shareholders

- (1) We establish an appropriate environment for fully securing shareholder rights, including voting rights at the General Meeting of Shareholders.
- (2) If a proposal by the Group has been approved at the General Meeting of Shareholders despite receiving a considerable number of negative votes, the Board of Directors analyzes the reasons behind its opposition and negative votes, and takes necessary measures such as promoting dialogue with shareholders.

2.2 Facilitating the Exercise of Shareholder Rights at the General Meeting of Shareholders

- (1) We actively and voluntarily disclose information included in the convening notice of the General Meeting of Shareholders in the form of financial statements and other disclosures on an as-needed basis. We also post this information on the Group's website. In addition, we strive to send out the convening notice as early as possible in order to give shareholders sufficient time to consider the agenda items.
- (2) Bearing in mind the number of our institutional and foreign investors, we provide information by translating the convening notice into English.
- (3) In consideration of our diverse shareholders, we allow electronic voting through the Electronic Voting Platform and the e-voting system operated by our shareholder register administrator, and thereby maintain systems for shareholders to properly exercise their voting rights.

2.3 Basic Strategy for Capital Policy

- (1) We increase the efficiency of shareholders' equity by improving our sales to operating profit ratio while maintaining a stable financial base.
- (2) We strive to provide stable dividends and enhance shareholder returns in line with profit levels, taking into consideration the consolidated dividend payout ratio.
- (3) We strive to increase our corporate value by utilizing shareholders' equity for mid- to long-term corporate development, including investing in research and development, developing new businesses, and expanding Group companies.

2.4 Cross-Shareholdings (corresponds to Principle 1.4)

- (1) From the perspective of sustainably growing the CTI Engineering Group and increasing its corporate value over the mid- to long-term, we only hold shares of other companies when cross-shareholding is deemed necessary to build, maintain, and strengthen favorable relationships with our business partners and other companies.
- (2) The Board of Directors annually assesses the mid- to long-term economic rationale and future prospects of each of the Group's cross-shareholdings, and carefully examines the significance and rationale of holding such shares, such as whether the associated benefits and risks are commensurate with the capital cost. As a result of these assessments, cross-shareholdings whose significance and rationale cannot be confirmed are sold in an appropriate and suitable manner.
- (3) Voting rights related to cross-shareholdings are exercised with the main criteria being whether or not a proposal contributes to increasing the mid- to long-term corporate value of the Group and investee companies.

2.5 Related Party Transactions (corresponds to Principle 1.7)

- (1) Before deciding to engage in related party transactions, we confirm with the Board of Directors that such transactions do not harm the interests of the Group or the common interests of its shareholders in accordance with laws and regulations such as the Companies Act and the "Regulations of the Board of Directors."
- (2) We have established a system to ensure that related party transactions are conducted in a sound and appropriate manner according to the decisions described in the preceding paragraph. This system consists of audits of transactions by the internal audit department based on the "Internal Audit Regulations," audits by the Audit and Supervisory Board based on the "Audit Board Member Auditing Standards," and other measures.
- (3) We disclose related party transactions in compliance with laws and regulations such as the Companies Act and the Financial Instruments and Exchange Act, as well as the rules of the Tokyo Stock Exchange.

Chapter 3. Appropriate Cooperation with Stakeholders Other Than Shareholders

3.1 Formulating, Implementation and Review of the Code of Corporate Conduct

- (1) In order to realize our business philosophy of "we strive to create a safe, comfortable, and enriching society using world-class technology and expertise," We formulate and implement a Code of Corporate Conduct to serve as principles for conduct across the Group.

- (2) By revisiting this Code of Corporate Conduct in every aspect of our corporate activities, we fulfill our corporate social responsibility, solve social issues, and foster and protect a culture that puts people first. In doing so, we aim to realize the sustainable development of both society and the CTI Engineering Group and improve the Group's mid- to long-term corporate value.

3.2 Sustainability Initiatives

- (1) We believe that sustainability at CTI Engineering means improving the corporate value of the Group and sustainably developing society at the same time by practicing our Code of Corporate Conduct.
- (2) We have established the Sustainability Committee, chaired by the Managing Director & Chief Executive Officer, to actively and proactively address issues related to sustainability.

3.3 Diversity Initiatives

- (1) We continue to recruit employees regardless of gender or nationality by establishing employment systems and work environments that enable human resources with diverse values—reflecting different experiences, skills, and attributes—to demonstrate their individuality and abilities and play active roles, while promoting Diversity and Inclusion in which diverse human resources accept and inspire each other.
- (2) As part of our efforts to promote diversity, we formulate and implement human resource training policies and action plans that enable each of our employees to play an active role in making their company a place where women, seniors, and employees of different nationalities can fully demonstrate their talent over the long term.
- (3) In addition to actively recruiting diverse human resources, including women, foreigners, and mid-career hires with diverse work backgrounds, we will build a personnel system that allows for diverse work styles and actively promote such human resources to management positions.

3.4 Maintenance of a Whistleblowing System

- (1) We maintain a system to ensure legal and regulatory compliance by establishing the Compliance Section and Audit Section under the Governance Management Headquarters as well as a point of contact for whistleblowing within the Compliance Section, which operates as the whistleblowing system for all Group companies in Japan.

- (2) In addition to establishing an external point of contact for attorneys to enhance the whistleblowing system, we maintain a system for receiving support as needed by concluding advisory agreements with several law firms.
- (3) In accordance with the “Basic Compliance Policy,” the “Compliance Regulations,” and the “Regulations for Handling Whistleblowing,” we take measures to prevent retaliation against whistleblowers such as disadvantageous treatment in the performance of their duties and protect the privacy of those involved in whistleblower reports.
- (4) We promote the establishment of a whistleblowing system and related regulations that cover Group companies.

3.5 Performing the Role of the Corporate Pension Fund Asset Owner (corresponds to Principle 2.6)

- (1) We have established the Pension Fund Asset Management Committee to serve as a review body for the management of pension fund assets, in order to ensure that future pension and lump-sum benefits are provided to beneficiaries as stipulated in the defined benefit corporate pension plan. The Pension Fund Asset Management Committee consists of the Chief of the Administration Headquarters, the Chief of the Administration Headquarters’ General Affairs Division, the Chief of the Administration Headquarters’ Finance & Accounting Division, the Chairperson of the Labor Union Committee, and other members who are deemed necessary. The committee formulates a strategic asset allocation plan from a mid- to long-term perspective, selects investment products to ensure long-term and stable profits, and regularly monitors fund performance.

Chapter 4. Ensuring Appropriate Information Disclosure and Transparency (corresponds to Principle 3.1 (i))

4.1 Full Disclosure

- (1) To further increase the trust and sympathy of our stakeholders, including shareholders, employees, clients, business partners, and local communities, we formulate a Vision and Management Plan to sustainably grow the CTI Engineering Group and increase its corporate value over the mid- to long-term and strive to actively communicate this information.
- (2) When disclosing information in accordance with laws and regulations such as the Companies Act and Financial Instruments and Exchange Act, as well as the rules of the Tokyo Stock Exchange, we strive to provide information with high added value for users.
- (3) Bearing in mind the number of foreign investors among our shareholders and foreign stakeholders in the CTI Engineering Group’s overseas businesses, we provide information by translating the annual Securities Report into English.

4.2 Ensuring an Appropriate Audit Framework

- (1) Our Audit & Supervisory Board monitors and assesses whether the external Accounting Auditor maintains an independent position from the Group's management and performs audits properly.
- (2) When conducting overall evaluations of the audit activities of the external Accounting Auditor, we comply with the "Audit Board Member Auditing Standards" and the Practical Guidelines for Auditors, etc. regarding the Evaluation and Selection Criteria of Accounting Auditor issued by the Accounting Committee of the Japan Audit & Supervisory Board Members Association.

Chapter 5. Responsibilities of the Board of Directors, etc.

5.1 Organizational Structure

- (1) The Group chooses to adopt the structure of a "Company with an Audit & Supervisory Board", which has an enhanced statutory audit function. In addition, we have established an executive officer system to strengthen the decision-making and business supervisory functions of the Board of Directors, as well as to improve managerial efficiency by speeding up the Board of Director's decision-making process, among other functions.

5.2 Roles and Responsibilities of the Board of Directors (corresponds to Principles 3.1 (iii), 3.1 (iv), Supplemental Principle 4.1.1, 4.2.2, 4.11.1, 4.11.2, and 4.11.3)

- (1) In order to meet its fiduciary responsibility and accountability to shareholders, the Board of Directors actively and flexibly makes decisions on basic management policies and key matters related to corporate management, as well as appropriately monitors and supervises the execution of duties by Directors, with the aim of promoting sustainable growth and increasing the mid- to long-term corporate value of the CTI Engineering Group.
- (2) The Board of Directors resolves matters stipulated in the "Regulations of the Board of Directors," in addition to matters prescribed in laws and regulations and the Articles of Incorporation. With regard to other decisions on business execution, the necessary and appropriate authorities for the duties of the Managing Directors or Executive Directors are stipulated in the "Authority Regulations" or other internal regulations. (Supplemental Principle 4.1.1)
- (3) In order to fulfill the roles of making decisions on key corporate matters and monitoring and supervising the execution of duties, the Board of Directors comprises a diverse range of people with knowledge, experience, and abilities that align with the direction of the CTI Engineering Group's business development and who are capable of making comprehensive judgments. We also create and disclose a skills matrix that lists each director's knowledge, experience, and abilities.

(Supplemental Principle 4.11.1)

- (4) The Board of Directors regards fostering the next generation of senior management as the most important issue for the Group to continue its sustainable growth in the midst of major changes in the business environment, and establishes a basic policy regarding the selection of suitable candidates for executive roles, including CEOs, etc., who promote the Group Business Philosophy, Vision and Mid-to Long-Term Management Plan. The Board of Directors supervises employees with potential to be selected as candidates for the Board of Directors, including CEOs, etc., ensuring that they experience the management of different offices and the Headquarters through systematic transfers and are provided with management training as necessary.

The Board of Directors deliberates on the Director appointment plan proposed by the Nomination & Remuneration Advisory Committee and nominates those who are capable of appropriately performing the duties of a Director as candidates for the role. In regard to Auditors, the Board of Directors deliberates on the Auditor appointment plan proposed by the Committee and nominates those capable of appropriately performing the duties of an Auditor as candidates for the role.

The Nomination & Remuneration Advisory Committee deliberates annually on the performance of Managing Directors and Executive Directors. If the Nomination & Remuneration Advisory Committee judges that a Managing Director or Executive Director falls under the criteria for dismissal stipulated by the Board of Directors, the Committee reports this fact to the Board of Directors. The Board of Directors verifies the deliberation results reported by the Nomination & Compensation Advisory Committee. If any of the criteria for dismissal are met, the Board of Directors immediately removes the Managing Director concerned and proposes his or her dismissal to the General Meeting of Shareholders. In the case of an Executive Director, the Board of Directors immediately relieves him or her of assigned duties and proposes his or her dismissal to the General Meeting of Shareholders.

(Principle 3.1 (iv))

The appointment and dismissal of Directors and Auditors are explained in appointment and dismissal proposals to the General Meeting of Shareholders, which include each individual's career summary, reasons for appointment or dismissal, and important positions held concurrently. (Supplemental Principle 4.11.2)

- (5) Remuneration for Directors other than External Directors consists of fixed remuneration (monthly remuneration) as compensation for the execution of their duties and bonuses linked to the consolidated results of the relevant fiscal year. Fixed remuneration (monthly remuneration) is calculated appropriately according to a predetermined table of monthly remuneration standards for executives. In

addition, a portion of the fixed remuneration (monthly remuneration) is used to acquire the Group's shares via the executive stock ownership program, but we will also consider the introduction of stock-based compensation.

With regard to performance-linked remuneration (bonuses), a standard amount for bonuses is set according to the consolidated results of the relevant fiscal year. After the Managing Director & Chief Executive Officer evaluates each Director's contributions, a specific amount for each Director is determined within remuneration limits. Then, after deliberation by the Nomination & Remuneration Advisory Committee, the amount is resolved by the Board of Directors.

Remuneration for External Directors consists only of fixed remuneration (monthly remuneration), in consideration of their role and independence.

These policies for determining remuneration are reviewed as necessary by the Nomination & Remuneration Advisory Committee and reported to the Board of Directors.

(Principle 3.1 (iii))

- (6) The Board of Directors analyzes and evaluates its effectiveness as a whole, taking into consideration relevant matters such as the results of annual self-evaluations by each Director of the operation, functions, and composition of the Board of Directors and discloses a summary of the results in order to improve its functions. (Supplemental Principle 4.11.3)
- (7) The Sustainability Committee, chaired by the Managing Director & Chief Executive Officer, leads discussions on issues related to sustainability. Meanwhile, the Board of Directors monitors the formulation of policies and targets, their progress, and the state of their achievement, and provides effective opinions and advice to ensure that such initiatives contribute to the Group's sustainable growth. (Supplemental Principle 4.2.2)

5.3 Roles and Responsibilities of the Audit & Supervisory Board

- (1) In light of its fiduciary responsibility to shareholders, the Audit & Supervisory Board, consisting entirely of Corporate Auditors, appropriately performs operational and accounting audit functions, exercises its authority from the perspective of promoting the sustainable growth of the CTI Engineering Group and the enhancement of the Group's corporate value over the mid- to long-term, and actively and proactively audits the Board of Directors and senior management.
- (2) The Audit & Supervisory Board strives to perform highly effective audits based on information obtained through information-gathering activities by Audit & Supervisory Board Member and by utilizing the independent perspectives of the External Auditors.

5.4 Voluntarily Established Meeting Bodies

(1) Nomination & Remuneration Advisory Committee

We have established the Nomination & Remuneration Advisory Committee as an advisory body to the Board of Directors consisting of two External Directors and two Managing Directors. In response to consultation by the Board of Directors, the Committee deliberates on matters related to the appointment and remuneration of Directors and Audit & Supervisory Board Member and reports back to the Board of Directors. In doing so, the Committee enhances the fairness and transparency of management and strengthens the independence, objectivity, and accountability of the functions of the Board of Directors.

(2) Management Meetings

We have established the Management Meeting as an advisory body to the Managing Director & Chief Executive Officer consisting of Managing Directors, Chiefs of Headquarters, and representatives of offices, etc. Prior to deliberations by the Board of Directors, the Management Meeting holds substantive discussions on matters necessary for the execution of business in response to consultations by the Managing Director & Chief Executive Officer. The Management Meeting also decides the agenda items and proposals to be reported to the Board of Directors in a flexible manner to enhance managerial efficiency.

(3) Executive Officers' Meetings

We have established the Executive Officers' Meeting consisting of the Managing Director & Chief Executive Officer and Executive Officers. The Executive Officers' Meeting promotes communication and cooperation among the Executive Officers by informing participants of decisions reached at the Board of Directors Meetings and reporting on matters such as instructions from the Managing Director & Chief Executive Officer and the status of business execution. Through these initiatives, the Executive Officers' Meeting operates to strengthen the decision-making and business supervisory functions of the Board of Directors, as well as to improve managerial efficiency by speeding up the Board of Director's decision-making process, among other functions.

(4) Group Management Meetings

We have established the Group Management Meeting as an advisory body to the Managing Director & Chief Executive Officer consisting of Managing Directors, the Presidents of consolidated subsidiaries, and Directors responsible for supervising consolidated subsidiaries, etc. The Group Management Meeting deliberates or reports on necessary matters related to Group management, thereby strengthening cooperation in Group management.

5.5 Directors and Auditors (corresponds to Principles 4.9 and Supplemental Principle 4.14.2)

- (1) Recognizing their fiduciary responsibility and accountability to shareholders, Directors fulfill the Board of Directors' oversight and supervisory functions as members of the Board and are responsible for

contributing to the CTI Engineering Group's sustainable growth and increasing its corporate value over the mid- to long-term.

- (2) Audit & Supervisory Board Members are responsible for establishing a high-quality corporate governance system worthy of the trust placed in the Group by society. To this end, they actively and aggressively exercise their authority from an independent and objective standpoint by auditing the execution of duties by Directors and verifying the content of reports received from the Accounting Auditor and others.
- (3) In light of the roles and responsibilities of independent External Directors, we strive to effectively utilize independent External Directors for the following advisory and supervisory functions: providing advice based on their own knowledge of management policies and business development; supervising management through key decisions by the Board of Directors, including the appointment and dismissal of senior management members; supervising conflicts of interest between the Group and its Directors; and appropriately reflecting the opinions of minority shareholders and other stakeholders.
- (4) We select as independent External Directors those who have extensive knowledge and experience regarding the direction of the Group's development and business characteristics, who can monitor the Group's management from an objective outsider perspective or from a broad range of perspectives, provided they satisfy the independence standards stipulated by the Tokyo Stock Exchange. (Principle 4.9)
- (5) In order for Directors and Audit & Supervisory Board Member, including External Directors, to fulfill their roles and responsibilities, we have established a system that helps them to acquire useful information and, if necessary, enables them to obtain advice from outside experts at the Group's expense.
- (6) In order to ensure that Directors and Audit & Supervisory Board Member, especially those who have been newly appointed, are able to appropriately fulfill their expected roles and responsibilities, we provide them with necessary training, etc., on their roles and responsibilities, including legal liabilities, at the time of and after their appointment.

We also work to improve their environment, such as by providing textbooks and other materials, so that Directors and Audit & Supervisory Board Member, including External Directors and External Auditors, can acquire necessary knowledge on the Group's business, finances, organization, and other matters, and fully deepen their understanding of the roles and responsibilities expected of them.

In addition, in the event of major changes in the social environment, such as revisions to laws and regulations related to corporate management, we provide opportunities for them to participate in internal and external training and seminars at the Group's expense, as necessary.

(Principles 4.14.1 and 4.14.2)

Chapter 6. Dialogue with Shareholders

6.1 Policy on Constructive Dialogue with Shareholders (corresponds to Principles 5.1 and Supplemental Principle 5.1.2)

- (1) The Managing Director & Chief Executive Officer assumes responsibility for dialogue with shareholders, while the Chief of the Administration Headquarters is the officer in charge of it. Under their supervision, the Administration Headquarters leads the organization of the latest management-related data, while the Administration Headquarters' Public Relations Section serves as the contact point for constructive and meaningful dialogue.
- (2) The Administration Headquarters, as the department in charge of dialogue with shareholders, establishes a system to handle dialogue with shareholders by building a cooperative structure with the Governance Management Headquarters, the Planning & Business Development Headquarters, and the Engineering Headquarters.
- (3) In addition to having top management hold analyst briefings and respond individually to analysts, we send the "CTI Report" to shareholders as a regular newsletter for shareholders and provide a variety of information through the Group's website.
- (4) Opinions and concerns that arise through dialogue with shareholders are reported at Management Meetings and Board of Directors Meetings, where they are appropriately and effectively reflected in the direction of corporate management.
- (5) We thoroughly manage insider information as it relates to dialogue with shareholders based on the "Insider Trading Management Regulations."

6.2 Establishing and Disclosing Business Strategies and Business Plans

- (1) When formulating and announcing the Mid- to Long-Term Vision and Mid-Term Management Plan, etc., we strive to present our basic approach to profit planning and capital policy in an easy-to-understand manner.
- (2) When formulating and announcing the Mid- to Long-Term Vision and Mid-Term Management Plan, etc., we present our targets for profit planning and other initiatives and strive to clearly explain the concrete measures we will take to realize them using language and reasoning that are easy for shareholders to understand.