

Fundamental Policy for Corporate Governance

Chapter 1: General provisions

Article 1 (Purpose)

The Fundamental Policy for Corporate Governance (hereinafter referred to as the “Fundamental Policy”) stipulates the fundamental policy for corporate governance at Shima Seiki MFG, Ltd., (hereinafter referred to as the “Company”) for the purpose of maintaining the Company’s continuous growth and improving its medium-to-long-term corporate value.

Article 2 (Fundamental points of view for corporate governance)

Based on the corporate philosophy “Ever Onward – Limitless Progress,” the Company intends to increase the trust of shareholders and other stakeholders, maintain the Company’s continuous growth, and improve medium-to-long-term corporate value. For that reason, as one of our most important tasks, we will ensure management soundness, transparency, and efficiency, and we will take the initiative to enhance corporate governance.

Corporate Philosophy

Ever Onward — Limitless progress

We strive to become an indispensable company to society through sustainable business development. We do this under the motto of “Ever Onward” with “Love,” “Creativity,” and “Passion” as our mantra.

Love: We contribute to society through our creative craftsmanship, which is friendly to both people and the environment. We strive to contribute to society through love for our work, people, country, community and the earth.

Creativity: We aim to create world's firsts through our finely honed sensitivity and sense of creativity.

Passion: We tackle new challenges with passion and chart our own future course by putting our all into our products and services.

Chapter 2: Ensuring shareholder rights and equality

Article 3 (Ensuring shareholder rights)

The Company is sufficiently aware of the importance of shareholder rights and will obey all laws and ordinances with regard to appropriate handling so that shareholder rights and equality will be substantially ensured. In addition, the Company will fully consider the exercise of rights as allowed for minority shareholders.

Article 4 (General meetings of shareholders)

The Company is aware that the general meeting of shareholders is the Company's highest decision-making body and will thus strive to maintain an environment where shareholders have a sufficient period for properly exercising those rights.

- (1) In principle, the date for a general meeting of shareholders will be set by avoiding dates when many companies hold shareholders' meetings in order to have as many shareholders as possible attend the general meeting of shareholders and to thereby bring about constructive dialogs with shareholders.
- (2) For the information considered necessary for shareholders to appropriately exercise their rights at a general meeting of shareholders, we will strive to enhance the provision of information through the notification of the convocation of the general meeting of shareholders, reference documents, and business reports. In addition, in order for shareholders to have sufficient time to consider all issues for debate at a general meeting of shareholders, we will send the notification of the convocation approximately three weeks before the date of the general meeting of shareholders. Before sending the notification, we will disclose the agenda on the Company's website.
- (3) In order for institutional investors and shareholders from other countries to conveniently exercise their rights, we will use an electronic method or platform for the electronic exercise of voting rights and provide an English translation of the notification of the convocation of the general meeting of shareholders.
- (4) For an issue for debate that was proposed by the Company and that received a considerable number of opposing votes at a general meeting of shareholders, the Board of Directors will analyze the reasons for the opposition and the reasons for the many opposing votes, and consideration will be given as to whether or not it is necessary to conduct future dialogs with shareholders or other handling.

Article 5 (Capital policy)

1. The Company is aware of the capital policy as an important management task and will strive to practice efficient management with regard to earning power and capital efficiency

and aim to strengthen a sound financial structure and continue investment for the purpose of growth.

2. For returns to shareholders, the fundamental policy is to provide stable dividends over a long period through sustained development of business, while comprehensively considering share price levels, the capital situation, and the market environment. The Company will strive to improve capital efficiency through the acquisition of its own shares.

Article 6 (Cross-shareholdings)

1. In the event that it will contribute to the Company's continuous growth and improve its medium-to-long-term corporate value through business-related importance and maintain, strengthen, and link transaction relationships, the Company will possess shares of its transaction partners. For stocks and securities for which the significance of possession is not necessarily sufficient, we will curtail such possession.
2. For individual cross-shareholdings each year, the Board of Directors will comprehensively consider the risks of possessing those cross-shareholdings and advantages by maintaining, strengthening, and linking transaction relationships, use a medium-to-long-term perspective to verify the rationality of possessing cross-shareholdings, and make decisions about maintaining or curtailing possession. In addition, for the exercise of voting rights related to cross-shareholdings, the Board of Directors will carefully examine the issues for debate, make a judgment about whether or not it will improve shareholder value, and then appropriately exercise those voting rights.

Article 7 (Transactions with related parties)

1. In the event the Company will conduct a transaction with a director of the Company, a corporation that a director of the Company substantially controls, or with a principal shareholder, the Company shall submit the matter to the Board of Directors in advance for approval and then report the results of that transaction as necessary.
2. For transactions with related parties, appropriate disclosure will be made by following laws and ordinances.

Chapter 3: Appropriate cooperation with stakeholders

Article 8 (Code of conduct)

Based on the philosophy stated in Article 2, the Company will build even better relationships with stakeholders, provide appropriate cooperation. In order to ensure that each individual within the Company acts based on sound judgment with a strong sense of ethics as a member of society, we will stipulate and comply with the Shima Seiki Group Cord of

Conduct.

Article 9 (Sustainability)

1. The Company aims for manufacturing that is friendly to both people and the environment. As a global corporation, the Company will contribute to the realization of a sustainable society through the development and provision of products and services that consider the environment.
2. For environmental preservation activities, we will establish a committee of experts, promote business activities in consideration of the environment, stipulate guidelines for environmental actions, and ensure that each individual employee is always aware of environmental preservation while working.

Article 10 (Ensuring diversity)

Because diverse values and specializations are essential for strengthening management skills and continuous growth, the people in the Company will mutually respect diverse human resources, irrespective of nationality, gender, and age. In addition, the Company will strive to promote diversity and foster an organizational climate where it is possible to truly experience job satisfaction and growth.

Article 11 (Whistleblowing system)

For cases in which a violation of the law or other important fact related to compliance is discovered, the Company will maintain and appropriately operate a system in which reporting or whistleblowing is possible through the Corporate Ethics Helpline, in addition to the ordinary reporting route, as part of the internal control system. Any person reporting such violations shall be protected from disadvantageous handling or retaliation because of such whistleblowing reports.

Article 12 (Role as the asset owner for corporate pension)

The Company will adopt a defined-benefit corporate pension system, and in relation to management and the operation of corporate pensions will consign management to multiple investment organizations that have declared acceptance of stewardship activities. For the selection of places of investment in the operation of pension assets and the exercise of voting rights for that selection, we will follow the judgment criteria of the consigned investment organizations and ensure that conflicts of interest do not arise between corporate pension beneficiaries and the Company. In addition, in order to strive for appropriate management of corporate pensions, we will work to improve the quality of the people in charge through external training sessions. In addition, the Company will also

regularly obtain reports on the soundness of the operation from the consigned investment organizations, appropriately monitor the related departments, and confirm the state of the operation.

Chapter 4: Corporate governance system

Article 13 (Organizational design)

1. As an organizational design based on the Companies Act, the Company will have an Audit and Supervisory Committee, the Board of Directors will make the important decisions on management and the supervision of work execution, and the Company will strive to further strengthen the auditing and supervision functions by ensuring that the directors who are Audit and Supervisory Committee members have voting rights on the Board of Directors.
2. The Company will introduce an executive officer system, work to expedite business management, and improve efficiency by separating management's supervision functions from work execution functions.
3. As an advisory body to the Board of Directors, the Company will have a Nomination and Remuneration Committee wherein at least half of the members are outside directors. Additionally, the Company will strive to further enhance corporate governance by ensuring transparency, fairness, and objectivity for matters related to the directors' election, dismissal, and plans for successors and for matters related to remuneration and other treatment.

Article 14 (Composition of the Board of Directors)

1. In accordance with the Articles of Incorporation, the Board of Directors will consist of up to ten directors (excluding directors who are Audit and Supervisory Committee members) and up to five directors who are Audit and Supervisory Committee members. In addition, in principle, at least one-third of the directors shall be independent outside directors.
2. The Board of Directors will consist of people with diverse knowledge, experience, and skill in order to ensure the appropriate diversity and scale, including the expertise, skills, gender, and global aspects that are necessary for the Board of Directors as a whole.

Article 15 (Roles and obligations of the Board of Directors)

1. In order to promote the Company's continuous growth, improve medium-to-long-term corporate value, and strive to improve earning power and capital efficiency, the Board of Directors will establish a philosophy and then make decisions about the management strategies and management plans to create and operate an appropriate system and

structure for corporate governance. Furthermore, the Board of Directors will supervise the execution of duties by directors and executive officers, in addition to making decisions for matters stipulated under current laws, ordinances, and the Articles of Incorporation and other important matters for management.

2. For the supervision and decisions of Article 15.1, the Board of Directors will use a strong code of ethics from an independent and objective position to sincerely conduct its work, actively declare opinions, and thoroughly conduct constructive discussions.

Article 16 (Operation of meetings of the Board of Directors)

1. The Board of Directors' secretariat will send the issues submitted for discussion and related materials with a sufficient amount of time before the date of any meeting and will provide advance explanations as necessary, so that the people who will attend the Board of Directors' meeting will be able to prepare in advance.
2. The annual schedule for meetings of the Board of Directors and the issues that are expected to be submitted for discussion will be decided in advance, and the directors will be notified.
3. Meetings of the Board of Directors will be held once each month, in principle, and extraordinary meetings will be convened as necessary.

Article 17 (Composition of the Audit and Supervisory Committee)

1. In accordance with the Articles of Incorporation, the Audit and Supervisory Committee will consist of up to five directors who are Audit and Supervisory Committee members, and a majority of those directors must be outside directors. It will also be possible to elect standing Audit and Supervisory Committee members by a resolution adopted by the Audit and Supervisory Committee.
2. Meetings of the Audit and Supervisory Committee will be held once each month, in principle, and will also be held whenever necessary.

Article 18 (Roles and obligations of the Audit and Supervisory Committee)

1. As a body with the authority to investigate the work and accounting, the Audit and Supervisory Committee will conduct audits of the execution of directors' duties and create audit reports.
2. In order to ensure appropriate audits by the accounting auditors, the Audit and Supervisory Committee will decide on the issues for debate in relation to the election, dismissal, and non-reappointment of accounting auditors.
3. The Audit and Supervisory Committee will determine the Audit and Supervisory Committee's opinions about the election, dismissal, resignation, and remuneration for

directors other than Audit and Supervisory Committee members.

4. For the purpose of effective audits, Audit and Supervisory Committee members can regularly exchange opinions with representative directors, accounting auditors, and the Internal Audit Office, respectively.

Article 19 (Election and dismissal of directors)

1. The candidates for election as directors (excluding directors who are Audit and Supervisory Committee members) shall be people who have the knowledge, experience, skills, and expertise to effectively carry out the roles and obligations of directors so that the Board of Directors will be comprised in a form that is balanced in terms of proper diversity and scale. In addition, directors who are independent outside director candidates shall include people who fulfill the Tokyo Stock Exchange's independence criteria and the Company's criteria for the independence of outside directors (refer to Attachment1) and who have management experience. Furthermore, director candidates for election to the Audit and Supervisory Committee members shall be people who can bring diversity to the Audit and Supervisory Committee and shall include people who have appropriate knowledge related to finance and accounting.
2. For the nomination of director candidates, representative directors, and directors with titles, the Nomination and Remuneration Committee will conduct deliberation, a report of the findings of that deliberation will be obtained, and a decision will be made by a resolution adopted by the Board of Directors. For director candidates who are Audit and Supervisory Committee members, agreement by the Audit and Supervisory Committee shall be obtained.
3. When a director, representative director, or director with a title has violated a law, ordinance, or the Articles of Incorporation, or any other reason has arisen that may damage the Company's corporate value, the Nomination and Remuneration Committee shall discuss the dismissal from the position or dismissal from employment.

Article 20 (Directors' remuneration)

1. Remuneration for directors (excluding directors who are Audit and Supervisory Committee members) will be in accordance with each director's role and responsibilities, and a remuneration system that increases directors' incentives will be used for the purpose of maintaining the Company's continuous growth and improving its medium-to-long-term corporate value. Directors' remuneration based on that system will be the basic remuneration, director bonuses shall be linked to the business results of the relevant business year as short-term incentives, and share remuneration shall be included as medium-to-long-term incentives.

2. Outside directors' remuneration will be only basic remuneration from the perspectives of such directors' roles and independence.
3. Directors who are Audit and Supervisory Committee members will receive only basic remuneration in light of the directors' roles.
4. In order to increase transparency and objectivity with regard to the remuneration of directors, the Nomination and Remuneration Committee will conduct deliberation, a report of the findings of that deliberation will be obtained, and then a decision will be made.
5. For remuneration of directors who are Audit and Supervisory Committee members, each person's remuneration will be determined after discussions by the committee and consideration of the person's duties and whether the person works full time or part time.

Article 21 (Board of Directors' evaluation of effectiveness)

In order to further increase the effectiveness of the Board of Directors, once each year the Board of Directors will refer to the self-evaluation conducted by each director and conduct an analysis and evaluation related to the effectiveness of the Board of Directors as a whole, and then the Board will disclose a summary of those results.

Article 22 (Training for directors)

In order for directors to appropriately carry out the expected roles and obligations, the Board of Directors will encourage the directors to appropriately acquire and update the necessary knowledge. The Board of Directors will provide training opportunities and mediation and support for the necessary expenses for those purposes. In addition, outside directors will be provided with opportunities for explanation of business content and exchanges of opinions so that they gain a deeper understanding of the Company's business.

Article 23 (Acquisition of information, and support system)

1. Directors will actively work to collect information in order to effectively carry out their roles and obligations.
2. The Board of Directors will have a secretariat, proper members will be assigned, and support for the provision of the necessary information will be provided.
3. Directors will, as necessary, provide support so that advice can be obtained from external experts, such as outside attorneys.

Article 24 (Accounting auditors)

1. By having the accounting auditors audit the accounting documents, the Company will be aware that it bears an important role for ensuring transparency and shareholders' trust in

the Company's management, and it will appropriately cooperate in order to ensure proper audits.

2. Confirmation of audit plans will be conducted between the Audit and Supervisory Committee and the accounting auditors, reports about the audit results of the Company and its consolidated subsidiaries will be obtained regularly, mutual information exchanges by requesting reports will be conducted as necessary, and efforts will be made to closely collaborate to improve the effectiveness and efficiency of audits.

Chapter 5: Appropriate information disclosure, and dialogs with shareholders

Article 25 (Enhancement of information disclosure)

In order to ensure the trust of shareholders and other stakeholders, the Company will appropriately disclose financial and nonfinancial information based on laws and ordinances, and for information other than as required by laws and ordinances, we will provide timely and fair disclosure of information that the Company judges useful for stakeholders.

Article 26 (Constructive dialogs with shareholders and investors)

The Company promotes constructive dialogs with shareholders and investors based on the disclosure policy in order to maintain continuous growth and improve medium-to-long-term corporate value.

- (1) The Company's spokespeople related to IR will be the Company president, the director in charge of accounting and finance, the person responsible for information disclosure (the director in charge of general affairs and personnel), and the person in charge of IR.
- (2) The General Affairs and Personnel Department, which is the department in charge of IR, will appropriately cooperate with the Accounting and Finance Department, promote IR activities based on collaboration with related departments, and support the management team's dialogs with shareholders and investors.
- (3) For IR activities, the Company will provide individual meetings and conference calls with shareholders and investors, financial results briefings (after end-of-term and second-quarter announcement of financial results) for analysts and investors, and company information sessions for individual investors. In addition, we will dispatch information that is easy to understand by using various forms, such as the homepage and disclosure materials, and strive to promote dialogs with shareholders and investors.
- (4) For opinions and requests that were ascertained through dialogs, we will strive to provide feedback to the management team and related departments and share information as necessary.
- (5) For insider information, appropriate management will be conducted based on regulations

to prevent insider trading.

Chapter 6: Establishment, revision, and abolition

Article 27 (Establishment, revision, and abolition)

Establishment, revision, and abolition of the Fundamental Policy require a resolution adopted by the Board of Directors.

(Supplementary provisions)

1. Enacted on January 29, 2021

Attachment 1: Criteria Concerning the Independence of Outside Directors

In order to maintain a high level of independence from the Company, the Company's outside directors shall fulfill all of the requirements below.

1. The person is not or was not, either currently or in the past ten years, a business executor^(Note 1) of the Company or an affiliated company of the Company (hereinafter referred to as the "Company Group").
2. The person does not or did not, either currently or in the past three years, fall under any of the conditions below.
 - (1) A person who uses the Company Group as a main transaction party^(Note 2) or that person's business executor
 - (2) A main transaction partner of the Company Group^(Note 3) or that person's business executor
 - (3) A major shareholder (a person who directly or indirectly possesses 10% or more of all of the voting rights) of the Company or that person's business executor
 - (4) A business executor of a party for which the Company Group is a major shareholder (directly or indirectly possesses 10% or more of all of the voting rights)
 - (5) A consultant, certified public accountant or other accounting expert, or attorney or other legal expert who obtains a large amount of money or other assets^(Note 4) other than director remuneration from the Company Group (In the event that the party obtaining the relevant assets is a corporation or a union, this refers to a person who belongs to that organization.)
 - (6) A person who receives donations in the form of a large amount of money or other assets^(Note 4) from the Company Group or that person's business executor
 - (7) When the Company Group's business executor has taken a position as an external director at another company, that other company's business executor
 - (8) In the event a person who falls under one of the items of (1) through (7) above is an important person, that person's spouse or relative within the second degree
 - (9) A spouse or relative within the second degree of a director (excluding outside directors) of the Company Group or a person who executes important work, such as a person in charge of a department
3. The person does not have other circumstances for which it will be rationally judged that the person cannot perform duties as an independent outside director.

^(Note 1) A business executor refers to a person who executes work, such as a corporation or other organization's managing director, executive officer, executive director, employee who executes work, or another similar executive or employee.

^(Note 2) A person who uses the Company Group as a main transaction partner refers to a

person for which the amount of transactions with the Company Group exceeds either an annual amount of JPY 100,000,000 or 2% of its consolidated sales.

(Note 3) A main transaction partner of the Company Group refers to a person for whom the amount of transactions with the Company Group exceeds either an annual amount of JPY 100,000,000 or 2% of the Company Group's consolidated sales or a person who is providing financing to the Company Group for an amount that exceeds 2% of the Company Group's total amount of consolidated assets.

(Note 4) A large amount of money or other assets refers to the total amount of that value exceeding an annual amount of JPY 10,000,000 in a case of an individual or 2% of annual sales in a case of an organization.