

Corporate governance

JTEKT continuously strives to enhance corporate governance in order to fulfill its corporate social responsibility and increase its corporate value.

Promotion structure

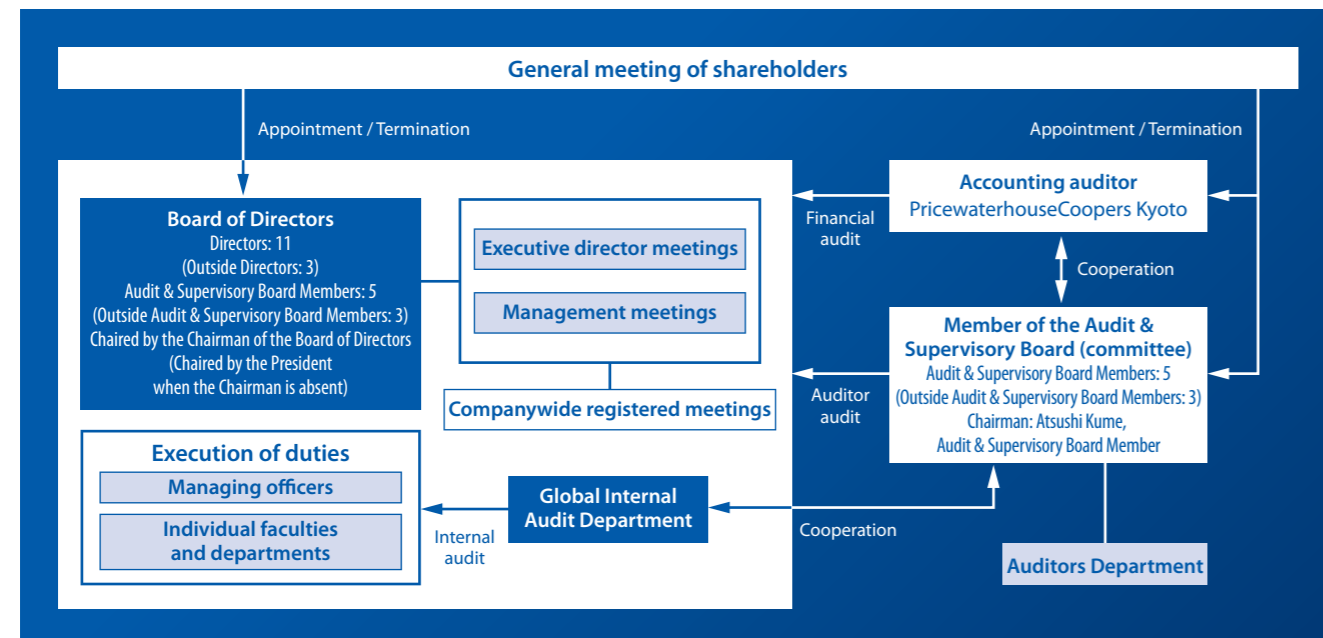
At JTEKT, the Board of Directors meets every month to make management decisions on important matters and supervise directors' performance of duties. Furthermore, two independent directors from outside the company were appointed to strengthen the supervising function of the Board of Directors. In addition, subcommittees under the Board of Directors, such as executive director meetings, management meetings, and companywide registered meetings, are held to fulfill deliberations on individual matters and supervise the performance of duties by managing officers. As a way of monitoring management, we have adopted an auditing system to inspect directors' performance of duties, which

consists of five members of the Audit & Supervisory Board, three of whom are outside members.

Internal audits are conducted by the independent Global Internal Audit Department, which inspects the validity and lawfulness of overall operations and procedures. Members of the Audit & Supervisory Board, the accounting auditor, and the Global Internal Audit Department liaise together and hold conferences regularly and as necessary.

In addition, we maintain and operate an internal control system in line with both the Companies Act and the Financial Instruments and Exchange Act.

Corporate Governance System



16 times

Board of Directors

Makes decisions about important matters within management, and supervises directors' performance of duties.

24 times

Executive director meetings

Supplements the Board of Directors, deliberates important matters within management, and determines fundamental policies.

24 times

Management meetings

Supplements the Board of Directors, and manages the progress of policies within the performance of duties. In addition, these meetings enable problem points and issues with performance of duties to be shared extensively among directors and officers.

15 times

Audit & Supervisory Board

Inspects the appropriateness of methods and results of audits of the directors' performance of duties, and of audits performed by the accounting auditor.

Companywide registered meetings

The Board of Directors, executive director meetings, and management meetings delegate authority to companywide registered meetings to examine the policies and direction of the company through specialized and sufficient deliberations from the standpoint of duty performance.

Progress toward governance enhancements until now

JTEKT recognizes that corporate governance enhancements for the purposes of management soundness, transparency, speediness, and efficiency are important management issues. We strive for heightened management transparency and full accountability to

all our stakeholders. In addition, we formulated guidelines in response to the Corporate Governance Code and work to reform and strengthen our corporate structure through proper implementation of these guidelines.

Main Governance Reform Initiatives

Date	Measures	Objectives
June 2005	Introduction of executive officer system	To separate management supervisory and execution functions
May 2006	Publication of Corporate Governance Report	To compile, organize, and disclose important information on corporate governance
Jan. 2008	Establishment of Global Internal Audit Department	To conduct overall operational audits, including management and procedural validity and legal compliance
Feb. 2009	Establishment of CSR Promotion Committee	To regularly assess the status of CSR activity promotion
June 2013	Appointment of foreign executive officer	To ensure diversity among company officers
June 2015	Appointment of two outside directors	To strengthen management supervisory functions
Feb. 2016	Establishment of Executive Officer Personnel Appointment Review Meeting (Comprising representative directors and outside directors)	To ensure appropriateness of executive officer appointments
June 2016	Establishment of Executive Remuneration Meeting (Comprising representative directors and outside directors)	To ensure fairness and appropriateness of executive remuneration decisions
March 2017	Establishment of Council for Enhancement of Corporate Value	To deliberate new value creation targeting sustainable growth
Oct. 2017	Establishment of Risk Management Department	To systematically manage, avoid, and mitigate risks
June 2018	Increased number of outside directors by one, to a total of three	To further strengthen management supervisory functions
June 2019	Appointment of a female outside member of the Audit & Supervisory Board	To further ensure diversity among company officers

Outside directors

JTEKT appoints outside directors who fulfill requirements for outside directors and possess experience and insight within their field. They are also selected based on the excellence of their character and viewpoints, and for their high ethical standards, perspectives, and knowledge in accordance with the JTEKT policy

for appointing directors.

Furthermore, JTEKT conducts the appointment of outside members of the Audit & Supervisory Board from a perspective of audit neutrality and objectivity. These members are also selected based on their experience and viewpoints, as shown below.

Appointment of Outside Directors and Outside Members of the Audit & Supervisory Board

Position	Name	Main reasons (experience, insight, etc.) for appointment	Independent Director	Attendance record in fiscal 2018 (attended/held)	
				Board of Directors	Audit & Supervisory Board
Director	Takao Miyatani	Abundant experience and a high level of insight regarding <i>monozukuri</i> (building excellent products), obtained as a manager within the manufacturing industry and chairman of a trade organization	○	16/16	—
Director	Iwao Okamoto	Held key positions within the Ministry of Economy, Trade and Industry (METI) and for an incorporated foundation, obtaining ample experience and a high level of insight regarding industry and economic activities within Japan and overseas	○	16/16	—
Director	Takeshi Uchiyamada	Rich experience and deep insight relating to <i>monozukuri</i> as a manufacturing business executive	—	12/13 (After appointment)	—
Member of the Audit & Supervisory Board	Takashi Yoshida	Considerable knowledge relating to financial and accounting matters as a certified public accountant	○	13/13 (After appointment)	11/11 (After appointment)
Member of the Audit & Supervisory Board	Hiroyuki Wakabayashi	Rich experience and broad insight relating to corporate governance as a manufacturing business executive	—	12/13 (After appointment)	9/11 (After appointment)
Member of the Audit & Supervisory Board	Yumiko Sakurai	Considerable knowledge relating to finance and accounting	○	— (Appointed in June 2019)	— (Appointed in June 2019)

Remuneration for directors and members of the Audit & Supervisory Board

Remuneration for directors consists of monthly amounts and bonuses, and is conducted through a remuneration system that reflects work responsibilities and performance, and is linked to company performance. Bonuses are composed of STI¹ and LTI² and evaluated based on single-year consolidated operating income, sales growth rate, and profitability ratio according to the Medium-term Business Plan. Individual bonuses are examined at the Executive Remuneration Meeting, consisting of representative directors and independent outside directors, and determined through a resolution by the Board of Directors.

Remuneration for members of the Audit & Supervisory Board consists of monthly payments, and does not include bonus payments. This system for remuneration is not greatly influenced

by company performance and is therefore ensured independence from management.

Monthly amounts of remuneration for directors and other remuneration are set within the upper limit for total remunerations based on the decision of the Annual Meeting of Shareholders held on June 27, 2012. Monthly amounts of remuneration for each director are decided by the Board of Directors, and monthly amounts of remuneration for each member of the Audit & Supervisory Board are decided through consultation with the members.

1. Short-term incentive: Remuneration system that rewards single-year performance and achievements
2. Long-term incentive: Remuneration system that rewards performance and achievements over the medium to long term

Total Amount of Corporate Officer Remuneration (Fiscal 2018)

Category	Number of allowances	Amount of remuneration, etc.
Directors	15	¥556 million
Members of the Audit & Supervisory Board	8	¥99 million
Total	23	¥656 million

- The amount of remuneration, etc., during the tenure of the three directors and four members of Audit & Supervisory Board who retired at the end of the 118th Annual Meeting of Shareholders held on June 27, 2018, including the number of employees paid.
- The total amount of remuneration on the left includes the following amount of expenses treated as executive bonuses during the fiscal year.
Directors 9 ¥163 million
- On the left, the total amount of remuneration for outside directors was ¥33 million (three people).
- On the left, the total amount of remuneration for outside members of the Audit & Supervisory Board was ¥22 million (five people).

Evaluating the efficacy of the Board of Directors

The Board of Directors, in which multiple outside directors participate, engages in lively discussions based on diverse knowledge and abundant experience. JTEKT strives to conduct the Board of Directors in a way that facilitates timely decision-making.

With regard to the analysis and evaluation of the efficacy of the Board of Directors, the Members of Audit & Supervisory Board monitor the “efficacy of important meetings, including the Board of Directors” and the Board of Directors Secretariat implements a “survey on the efficacy of the Board of Directors” (once per year) targeting members of the Board of Directors and the Audit & Supervisory Board and conducts quantitative evaluations with regard to the “roles and responsibilities of the Board of Directors”

and the “systems and operations that support the efficacy of the Board of Directors.”

In fiscal 2018, in an effort to improve efficacy, JTEKT added management themes other than those cases introduced at Board of Directors’ meetings and shared this information with the aim of enhancing the function of the Liaison Meeting for Outside Directors and Members of the Audit & Supervisory Board, leading to livelier discussions at Board of Directors’ meetings. In terms of Board of Directors’ meeting operations, while we are cognizant of the need for certain improvements, overall the meetings are generally functioning properly and we have determined that the efficacy of the Board of Directors overall is maintained.

Analysis and Evaluation Process

- Audit of “efficacy of important meetings, including the Board of Directors” by the Members of Audit & Supervisory Board
→ Improvements to the management meeting are reported.
- Implementation of “survey on the efficacy of the Board of Directors” by the Board and Directors Secretariat (once per year)
→ If any improvements are necessary, review the meeting structure and management as appropriate.

Overview of Evaluation Results

In fiscal 2018, although it was recognized that there was a need for improvement regarding the pre-distribution timing and simplification of materials, the overall function was generally appropriate and the Board of Directors was evaluated as being effective overall.

System for ensuring appropriate operations within the JTEKT Group

In order to share its principles with regard to management, JTEKT disseminates its approach to corporate social responsibility and corporate activities standards to subsidiaries both in Japan and overseas. In addition, we clarify systems and roles of relevant departments to subsidiary management, guiding and cultivating

subsidiaries from both business and function perspectives.

With regard to major subsidiaries, the Board of Directors formulates basic policies on internal control system maintenance and is instructed to periodically confirm the operating status of these systems.

Overview of the Operating Status of the Abovementioned Systems

- JTEKT conducts activities to promote the JTEKT WAY formulated in April 2016 and shares these values globally.
- Individual issues related to the management and business activities of subsidiaries are managed and supervised appropriately through the utilization of advance consultations and reporting systems in accordance with their importance, as well as consent and approval procedures conducted through the Board of Directors.
- JTEKT holds social gatherings with the heads of major domestic affiliated companies, domestic affiliated company meetings, and global management meetings, confirms the medium-term business plans of subsidiaries and other management issues, and provides appropriate guidance.
- Prior consultation and reporting system criteria for subsidiaries to obtain prior approval and provide reports to the company on important matters are revised as necessary to reflect improvements.
- Important individual management issues concerning subsidiaries are deliberated and reported to management meetings by business and functional headquarters.
- JTEKT is working to further strengthen subsidiary management by accelerating initiatives targeting management issues at those subsidiaries.

Risk management

Basic Approach Enhancing corporate value and meeting the expectations of society

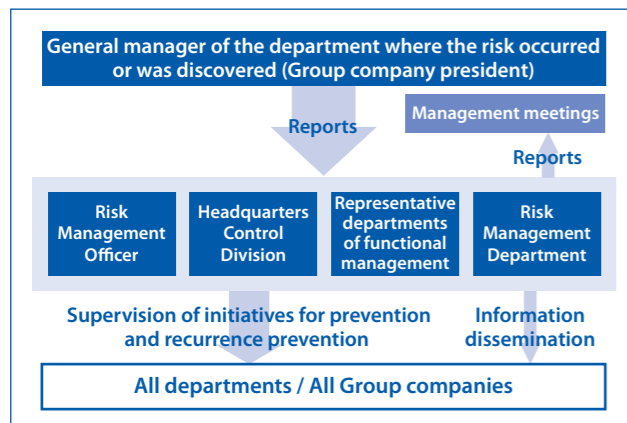
To maintain and strengthen fundamentals (corporate foundation) while responding quickly to changes in the management environment and sustainably enhancing corporate value, we are working to improve our risk management promotion system that ascertains, evaluates, and appropriately promotes measures with respect to critical risks faced by the entire JTEKT Group.

Promotion system

The companywide Council for Enhancement of Corporate Value regularly reviews risks, including those in the external environment, having the potential to affect business activities, society, and the environment. In October 2017, we established a new system in which the Compliance Officer (CO) was transitioned into the Risk Management Officer (RO) in order to strengthen our risk prevention efforts. In addition to deploying risk management in each department and Group company, risk management will be integrated into activities related to corporate governance and compliance to enhance the efficacy and efficiency of activities aimed at controlling risks globally.

Clarification of risk appraisals and response

At JTEKT, we allocate risk management departments for each risk item. The Risk Management Department promotes the formulation of response plans and polices to prevent and reduce the manifestation of risks through the Risk Management Working Group, which is an organization directly under the supervision of the Council for Enhancement of Corporate Value.



Thorough adherence to immediate reporting

From fiscal 2015, we broadened the scope of our immediate reporting system, which requires prompt reporting after identifying compliance issues and even with regard to non-compliance risks, and ensure that operational rules are in place to quickly issue initial reports after risks are uncovered.

Strengthening risk perspectives in each division

For each division to autonomously handle risks, the annual execution plan formulated on a division level incorporates response to potential risks that may inhibit the fulfillment of the said plan and this promotes prevention of risk manifestation and remedial measures by each division independently.

Compliance

Basic Approach All employees exhibit correct judgment and conduct in line with corporate ethics.

JTEKT positions compliance as the premise and foundation of corporate value, therefore it is essential to realizing our corporate philosophy. Believing that compliance is not merely about observing laws but also fulfilling our social responsibility in accordance with corporate ethics, JTEKT has established the Ethics Code for Directors and Officers, the Compliance Rules, and other guidelines.

Training and awareness activities

JTEKT conducts ongoing training and awareness-raising activities targeting its directors, employees, and all Group companies regarding how compliance is deeply intertwined with its operations. We conduct annual workshops targeting our key corporate compliance officers (directors, auditors, managing officers, etc.). The theme for our fiscal 2018 workshop was the prevention of systematic fraud such as the falsification of quality data. We provided participants with the opportunity to refresh their awareness on these issues through a lecture by outside lawyers and other experts. Moreover, every July is declared "Risk Management Strengthening Month," during which the president sends out a message to all JTEKT employees, including those at JTEKT Group companies, and compliance training materials are distributed for e-learning and workplace reference in an effort to support compliance activities in each workplace. Even within internal training planned by our HR Department, we address compliance issues so that each employee can take the necessary precautions suitable to their rank and job type.

Antimonopoly law, corruption prevention

In light of global trends placing importance on fairness in trading and the current situation in terms of stricter regulations and enforcement, JTEKT places particular importance on compliance with antimonopoly laws, competition laws in each country, and laws relating to corruption and bribery with JTEKT and its Group companies, products, and business transactions.

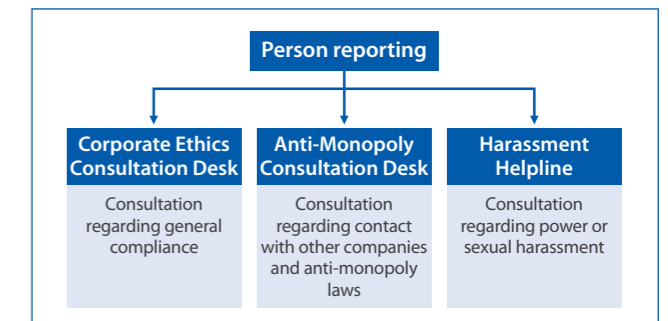
Compliance inspections

At JTEKT, we conduct regular inspections targeting all internal departments and JTEKT Group companies to assess the management status regarding compliance affecting our operations.

Internal reporting consultation desks

To enable a fine-tuned response to each consultation case, JTEKT has established the Corporate Ethics Consultation Desk and several other consultation desks aimed at the prevention, early detection, and recurrence prevention of scandals. Consultation desks have been individually established in JTEKT Group companies.

Role of the Internal Reporting Consultation Desks



No. of Internal Reports Made in the Past Five Years

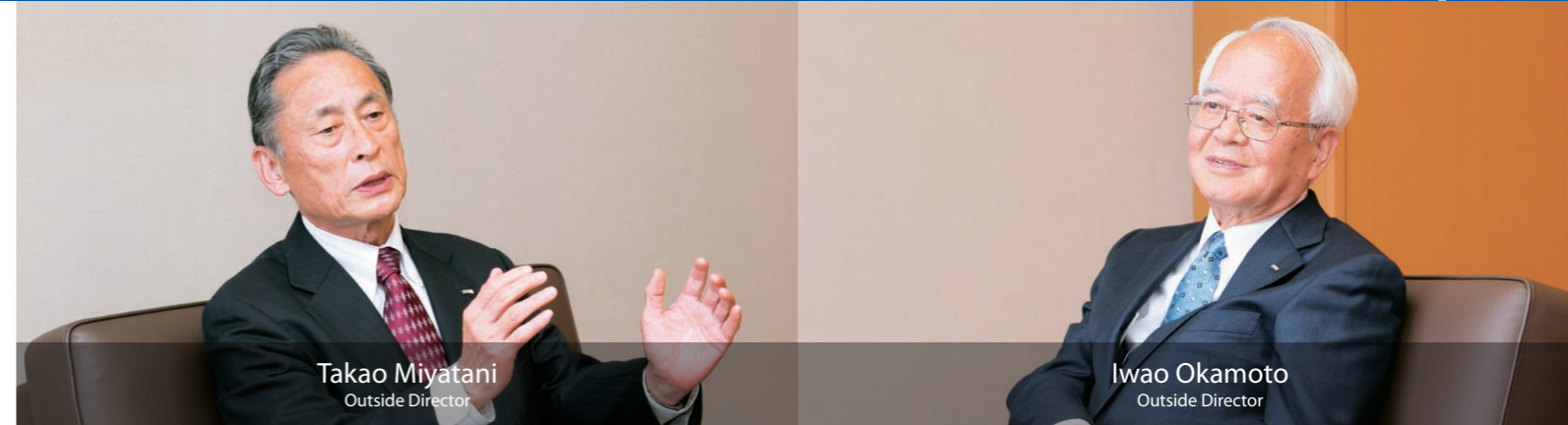
FY	2014	2015	2016	2017	2018
No. of reports	51	51	45	50	49

Initiative for appropriate tax payments

The JTEKT Group believes that the appropriate payment of taxes in the countries and regions where it does business is important in order to support corporate value and realize its corporate philosophy. Based on this belief, we adhere to each relevant country's and region's laws concerning tax payment and uphold this spirit of compliance.

Toward JTEKT's sustained growth

We interviewed two outside directors for their views regarding what initiatives should be implemented to ensure the JTEKT Group achieves sustainable improvement of its corporate value on a global basis.



Takao Miyatani
Outside Director

Iwao Okamoto
Outside Director

JTEKT's governance is *genchi genbutsu* (go and see for yourself).

Miyatani: Recently in particular I get the impression that President Agata is displaying strong leadership. What stands out to me is his speaking directly to employees through his visits to inspect plants and meet with affiliated companies as well as the repeated messages he has made to all staff via the company newsletter and other channels. Furthermore, I think it is excellent to see that not only a medium-term business plan has been formulated but also the Beyond Medium-term Business Plan, which focuses on the company that JTEKT wants to be in 2030.

Okamoto: In recent years, we have seen a succession of renowned Japanese companies involved in misconduct. Looking at the press coverage of these incidents, a lack of free and open discussion and communication is often cited as a cause. At JTEKT, in contrast, at the management level and within plants and business units, there is active communication and I get the impression that there is a very positive atmosphere. In addition, clarifying its philosophy and vision and having these permeate through the company are also what I consider to be the admirable and strong points of JTEKT.

The other day I visited a plant as part of an inspection team. Young team leaders at the plant confidently gave presentations on improvement activities and on new businesses. Even here, the staff displayed a clear recognition of their mission within the vision that JTEKT is aiming for. I saw that company policies were being cascaded through the organization and it gave me the impression that this was the foundation of sound governance at JTEKT.

Miyatani: The concept of *genchi genbutsu* has been instilled from long ago at Toyota Group companies. While it seems obvious to discuss an issue while witnessing it firsthand, but as a company grows in size it becomes more difficult for senior management to fully understand the situation at the front lines. If you go and see for yourself, it is simple to spot excess inventories, defects, and the like, so I would like the company to continue to place value on such activities going forward. In addition, staff at the front lines should escalate even uncomfortable issues to senior management and not keep them to themselves or attempt to hide them. Companies that are able to do this are strong ones.

President Agata receives direct feedback from young leaders on current conditions and *kaizen* (continuous improvement) initiatives

related to safety, quality, waste, CO₂ emissions, and the like during these plant inspections. He himself has sharp insights, asks questions, and encourages commendable initiatives be implemented at other plants in the Group. I think this is a highly valuable activity for a manufacturer to be doing.

Leveraging core technologies and expressing JTEKT's strengths

Okamoto: JTEKT's strengths are its diverse range of core technologies, spanning bearings to machine tools, controllers, and electronics. That said, it is important to properly pass down these core technologies, particularly as we are on the cusp of a generational change. In addition, I believe JTEKT should take up the challenge of developing new technologies and business models for the future since we are now facing a transformation in the automotive industry that occurs only once in a century.

Miyatani: Today, innovation using IoT, big data, AI, robotics, and the like is occurring at tremendous speed around the world. For JTEKT to continue growing briskly both in its domestic and global markets, I believe it is extremely important for it to create a business to provide its customers with new solutions by skillfully combining its proprietary technologies for making things efficiently with such leading-edge technologies as IoT and AI.

Furthermore, I also feel JTEKT should not try to do everything on its own when conducting new businesses, but strengthen its capabilities in open innovation and partner with specialists in various fields to create value. Amid change in the market structure, I believe it is necessary to invest dynamically in new areas that promise growth and develop these businesses with a sense of urgency.

Issues facing JTEKT as a global company

Okamoto: I believe JTEKT is at the stage now where it can continue to grow its business in the world's major markets as a global player. It is therefore more important than before to have finely tuned antennae to capture trends and sudden changes in each of the markets it serves. In this regard, I believe the talent pool across the company needs to be strengthened with professionals in each market who are adept at doing business together with local people who have their own unique history, culture, and customs.

In addition, I look forward to the proactive assignment of personnel such that staff with deep roots in each field can play a more important role in JTEKT. By doing so I expect the JTEKT family around the world will work as one and give full expression to its strengths.

Miyatani: Recently, there has been active personnel exchanges within JTEKT, such as giving managers experience as the presidents of overseas affiliates and then bringing them back to Japan to lead as plant managers. I consider this to be an incredibly effective way to develop talent.

Okamoto: Many of JTEKT's executives have experience working abroad. I see them being at ease in conversing with local staff and thinking about issues together. That said, I think more can be done in this area, and continuing to strengthen the pool of talent working around the world remains an important issue.

Mission as an outside director

Miyatani: There are many companies both in Japan and worldwide that display exemplary management. I consider it my mission to provide stimulus to JTEKT's management team by talking to its executives about what I have learned about such companies through reading books and adding in my own experience as an executive.

Okamoto: Free trade has been the basic driver of the global economy up to now. However, the environment bears watching closely for the time being as there may be a change that incorporates geopolitical elements. I will work closely with the executive team at JTEKT and relevant parties to exchange views on the global economy and its attendant risks while making use of the experience I have gained over the course of my career. I would like to continue contributing to the growth of the JTEKT Group, primarily in the areas of governance and risk management.

