

## A Talk between Our Outside Directors



**Ryoko Ueda**  
Outside Director

**Naokuni Motoda**  
Outside Director  
Full-time Audit & Supervisory  
Committee member

### We will work to enhance the medium- to long-term corporate value of the Company through fulfilling our responsibility as directors.

Outside Director and Full-time Audit and Supervisory Committee Member Naokuni Motoda, who has been participating in the management of the Company since his appointment as a full-time Audit & Supervisory Board member (outside Audit & Supervisory Board member) in 2015 and Outside Director Ryoko Ueda, who has been involved in the revision of the Japanese Stewardship Code and Corporate Governance Code as an academic expert, exchanged views on corporate governance to enhance the Company's corporate value over the medium to long term.

### Completion of the First Year of the Medium-Term Management Plan

**Motoda** During the first year of the Medium-Term Management Plan, which started in fiscal 2022, orders received were at a record high. However, I believe there are issues with the Company's operating profit and operating profit ratio. Our Medium-Term Management Plan is a three-year plan, but in order to achieve sustainable growth, it is always necessary to formulate management strategies that look 10 to 20 years into the future. While it is natural to be particular about achieving the numerical targets of the Medium-Term Management Plan, it is also necessary to deepen discussions on the Company's vision for the future with an eye to the future. Through these efforts, I believe that the achievement of the numerical targets of the current Medium-Term Management Plan will become more realistic, so I think it is important for the Board of Directors to discuss it from a medium- to long-term perspective.

Also, in the process of promoting the Medium-Term Management Plan, I think there are some issues in reviewing the progress of the plan. It is necessary to review not

only the degree of achievement of numerical targets but also whether various measures are functioning effectively. As an Audit and Supervisory Committee member, I have already made recommendations on this point, and progress management is being improved.

**Ueda** I agree. It is important for the Board of Directors to thoroughly discuss the vision for the future and share it internally. The Medium-Term Management Plan sets three-year targets for realizing our vision for the future. There are many companies that simply follow the numbers in the plan, achieving first-year targets, but, because they will not achieve targets in the second year, do everything in the third year, which is the last year of the plan. This means that accomplishing the plan is the objective. Clarifying what kind of company we want to be and what kind of presence we want to have in society in the future will change the way we manage our business. First of all, I think it is important to clarify the Company's vision for the future.

### Full Implementation of Sustainability Management

**Ueda** The Sustainability Promotion Committee, a Companywide committee, which started full-scale operation in fiscal 2023, has set targets for each materiality issue identified and has been materializing action plans to achieve those targets.

However, the demands and expectations of society are drastically changing more than we think, so we need to be flexible enough to keep up to date with the latest information. I believe that our current form of sustainability management is at the stage of raising the quality of our initiatives with a unique corporate identity while being fully aware of external feedback.



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The Sustainability Promotion Committee, which meets regularly and in which I participate as an observer, has specific discussions with an awareness of the issues. In the future, as an outside director, I would like to evaluate efforts, taking into account the perspectives of external stakeholders such as shareholders and investors, and disseminate them externally as necessary.

**Motoda** The Sustainability Promotion Committee is composed of five working groups, each dedicated to a

specific theme, which raise a variety of issues and report on progress toward resolving each issue.

Prior to the establishment of the Sustainability Promotion Committee, the Audit & Supervisory Board (now the Audit and Supervisory Committee) had proposed specific initiatives for issues such as human capital, risk management, and compliance. These initiatives are being embodied in the activities of the various working groups of this committee. I feel that management centered on sustainability has begun to move in a systematic manner.

**Ueda** We must proactively expand information disclosure regarding the recognition of sustainability issues and the progress and results of our initiatives. As the next step, it is necessary to set specific KPIs to trace the degree of achievement of targets and the progress of initiatives for each materiality and to formulate a concrete road map for implementation.

In the future, discussions on these issues, which are indispensable for improving our corporate value, will take shape, but in setting them, we need not only an internal perspective but also an objective viewpoint from outside the Company. As an outside director, I would like to be fully involved and supportive of these discussions.

### Toward Strengthening Human Capital

**Motoda** As one of the important themes of the Sustainability Promotion Committee, various initiatives to strengthen human capital are being considered and promoted. However, I believe that an accurate understanding of the current status of human resources with what abilities and to what extent they are available within our Group is necessary for carrying out those initiatives. The specific direction in which human resource investment is headed is closely related to management strategy. This means that if the management strategy for the future is clarified, the required human resources will be determined. I am aware that the extent to which management strategy and human resource strategy are aligned is an important theme for the Board of Directors.

**Ueda** On the other hand, we as directors must always think about how we can keep employees motivated and working with a positive mindset.

Especially among the younger generation, the feelings of belonging to the Company and workstyle needs are becoming more diverse. Only by respecting such diversity and motivating employees to continue working will they realize growth and make a greater contribution to the Company.

I think that it is important for us to always consider what a corporate culture and work environment should be like in which individuals and organizations can grow sustainably.

### Contributing to the Enhancement of Corporate Value through Appropriate Risk Management

**Motoda** Various risks are always present in the execution of all business operations. Through my many years at a financial institution, I have learned various forms of risk management and have experienced many successes and failures.

As a member of the Audit and Supervisory Committee of the Company, I would like to make use of the correct approach to risk management that I have experienced in discussions at Board of Directors' meetings and in my daily

activities. It is essential to hedge the risk of loss in advance. On the other hand, there are situations in which drastic risk taking is necessary by management judgment in order to increase corporate value.

I would like to contribute to the sustainable enhancement of corporate value by utilizing my knowledge to support the Board of Directors' prompt and decisive decision-making from both risk-hedging and risk-taking perspectives.

### Strengthening Governance for Sustained Corporate Value Enhancement.

**Motoda** In June 2023, in accordance with the transition to a Company with an Audit and Supervisory Committee organizational design, we established a new basic policy for fiscal 2023 in the form of the Audit and Supervisory Committee. One of our stated goals is to establish a high-quality Group governance system that lives up to the trust of society. In the past, we made recommendations on strengthening governance every year, and in fiscal 2023, Group governance remains a priority audit item for the Audit and Supervisory Committee. The way we manage our business in a rapidly changing business environment is to establish a high-quality Group governance system. I am confident that this will lead to the sustainable development of the Company and the enhancement of corporate value.

**Ueda** As a member of the Japanese government's panel of experts, I am involved in the revision of the Corporate Governance Code, and I believe that the main purpose of strengthening corporate governance is to sustainably increase corporate value from a medium- to long-term perspective. Although corporate value is fundamentally based on shareholder value, we must also enhance corporate value for all stakeholders. We feel that the Company has a good balance between those two types of value. While being very conscious of corporate value for shareholders and investors, the Company's management also emphasizes consideration for its customers, suppliers, employees, and local communities. The executive side is making efforts to further enhance corporate value, and through my duties as a director, I would like to support management while maintaining an awareness of all stakeholders.

### What the Transition to a Company with an Audit and Supervisory Committee Organizational Design Has Brought About

**Motoda** Before the introduction of the Corporate Governance Code and the outside director system, each Audit & Supervisory Board Member actively asked questions and made recommendations at meetings of the Board of Directors. This culture has continued to this day, and even after the transition to a Company with an Audit and Supervisory Committee organizational design, directors who are Audit and Supervisory Committee members actively speak during meetings of the Board of Directors. We have conducted not only legal audits but also audits on appropriateness since the days of the Audit & Supervisory Board, and our basic role has not changed even after said transition.

As a result of the formation of the Audit and Supervisory Committee, Audit and Supervisory Committee members have received new voting rights in the Board of Directors. In addition, I have been granted the legal authority and responsibility of expressing opinions on the nomination and remuneration of directors at the Shareholders' Meeting, so I believe that I must participate more responsibly in decision-making.

Supervisory Committee members will have new voting rights at the Board of Directors and will be able to contribute to strengthening governance beyond the conventional framework. I also believe that the addition of legal authority and responsibility has established more clearly the position and role of Audit and Supervisory Committee members in management.

We do not have a mindset of "I can only say so much because I am an Audit and Supervisory Committee member." In addition, each Audit and Supervisory Committee member possesses a high level of expertise, so I believe that we have a very well-balanced structure. The opinions of the Board of Directors as a whole, including Audit and Supervisory Committee members, are always respected based on mutual trust and respect, and relationships are fostered that allow free and open exchange of opinions. By all means, I would like to play a role in contributing to the sustainable growth of the Company and the enhancement of corporate value over the medium to long term, while valuing such relationships.

**Ueda** Whether a Audit & Supervisory Board or a Audit and Supervisory Committee, the important thing is whether it fulfills its substantive functions and roles. What surprised me when I was appointed as outside director of the Company is that Audit & Supervisory Board members made very in-depth comments on the execution of the Company and that the execution side was taking these comments very seriously and applying them to their initiatives, rather than simply saying that they had listened to them.

With the transition to a Company with an Audit and Supervisory Committee organizational design, Audit and

