

Toward the Further Evolution of Corporate Governance— A Roundtable Discussion with Members of the Audit & Supervisory Committee



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We asked four of Hirata's outside directors, who also serve as Audit & Supervisory Committee members, about their feelings regarding initiatives and issues one year after the transition to a company with audit and supervisory committee organizational design.

Motoda In June 2023, Hirata Corporation transitioned from a company with audit and supervisory board organizational design to a company with audit and supervisory committee organizational design. The purpose of the transition, which was also explained during the Shareholders' Meeting, was to strengthen the supervisory function of the Board of Directors and further enhance corporate governance by appointing members of the Audit & Supervisory Committee, who are responsible for auditing the execution of duties by the directors.

Imamura To add from a legal perspective, the key point of transitioning to a company with audit and supervisory committee organizational design was to make it possible for Audit & Supervisory Committee members to exercise voting rights at Board of Directors' meetings. However, in the case of Hirata, active input has been provided by auditors even before this transition, and the directors and executive officers, including the president, have sincerely considered

our opinions and engaged in lively discussions. I have the impression that the organizational form has finally caught up with what was already taking place. Do any of you feel this way as well?

Endo I agree with what Mr. Imamura said. Since before the transition, we have actively exchanged opinions with the president, internal and external directors, executive officers, and auditing firms through monthly opinion exchange meetings and other means. We have been constantly promoting improvements in the development and operation of internal controls, etc., and have also focused on collaboration with the Internal Audit Department and disclosure of the details of our activities, and have designed a sophisticated governance system. We are gradually gaining commitment from the executive side to such efforts. In that sense, although there have certainly been no substantially large changes, I feel that the roles and responsibilities that we should fulfill have increased more than ever in the sense that we have the right to vote on the Board of Directors and the right to express opinions on the nomination and compensation of executive directors.

Okabe I agree. Having a long career as a certified public accountant, I recognize that my primary responsibility is to demonstrate expertise in finance and accounting as outlined in the skills matrix. However, I make it a point to actively engage and offer suggestions with the broad vision of "making Hirata a better company," moving beyond finance and accounting.



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From an external perspective, in order to make useful proposals on how to efficiently utilize Hirata Corporation's people, goods, and money to increase corporate value, it is first necessary to have a deep understanding of Hirata Corporation. Since 2022, I have been serving as either an Audit & Supervisory Board member or Audit & Supervisory Committee member. Since my length of tenure of office is relatively short among these members, I accompany staff during internal audits to deepen my understanding of the Company. Accompanying audit staff provides me with opportunities to speak directly with managers of business divisions and employees on the front lines, allowing me to learn about what they are thinking about, the issues being faced, and other actual conditions. Based on this kind of information that is acquired directly at work sites, I can clearly see what constitutes a bottleneck by taking a bird's-eye view of Hirata Corporation's business, and feel capable of making improvement proposals.

Motoda I think this is a great approach that you have taken. Generally speaking, it is rare for outside directors to accompany staff during internal audits. This high degree of collaboration is one of the unique features of the Company's governance. Mr. Imamura and I have been serving as either Audit & Supervisory Board members or Audit & Supervisory Committee members of the Company for about 10 years. We saw that Audit & Supervisory Board members were already actively raising various issues and providing opinions and recommendations at Board of Directors' meetings. The president and executive officers have directly considered the opinions and recommendations of the Audit & Supervisory Board members and have utilized them for management decision-making. In other words, such a governance system had been in place even before there were efforts in the world to strengthen corporate governance, such as making it mandatory to appoint outside directors.

Furthermore, even after the transition to a company with audit and supervisory committee organizational design, we aim to conduct audits on how the Company approaches risks by deepening cooperation with the Internal Audit Department to establish a comprehensive audit system. Since the Company has affiliates in North America, Europe, Southeast Asia, China, Taiwan and other parts of the

world, strengthening the Group governance system is an urgent issue. In fiscal 2023, the Company formulated the Basic Group Governance Policy as a premise to respond to this issue, and a future governance schedule and issues to be examined were sorted out. In addition, after the aforementioned transition, full-time Audit & Supervisory Committee members participate in Nomination and Compensation Advisory Committee meetings as observers. During meetings, they also observe discussions on a succession plan to confirm the fairness and objectivity of the review process. We strive to disclose these initiatives specifically in the Audit Status section of the Annual Securities Report.

Imamura I think that recognizing external disclosure of audit activities as an issue for some time allowed the Company to make steady progress in this area during fiscal 2023. In addition, I feel that strengthening the Group governance system is an issue that cannot be quickly resolved. Rather than indicating many issues, I think it is important to narrow down issues to those that need to be prioritized, engage in deeper discussions, and provide comprehensive support to the executive side to bolster governance.

Okabe I feel the same way. In the future, as Hirata Corporation further expands overseas and takes on the challenge of new businesses, various risks are expected to emerge. However, instead of stopping these efforts due to risks, I would like the Audit & Supervisory Committee to work with management to think about how to reduce risks and issue a signal to go forward, while successfully controlling risks and giving encouragement to management and the executive side.

Endo I agree. I feel that all of the people who have served as members of the Audit & Supervisory Board/Audit & Supervisory Committee, including myself, consider Hirata Corporation to be an attractive company and have a strong desire to make it even better, support it, and serve in a role that is useful for the Company. As Mr. Motoda mentioned earlier, the fact that Audit & Supervisory Board members have been actively engaged in activities for nearly 10 years may be a driving force.



Imamura As you said, I feel that Hirata Corporation is a company that I want to support. I have been serving as either an Audit & Supervisory Board member or Audit & Supervisory Committee member for many years, and I am always impressed by the high level of technological capabilities, the underlying passion for manufacturing, the spirit of taking on challenges from Kumamoto to the world, and above all, the goodness of people. Especially in the midst of a labor shortage, when I look at the attitude of employees who are dedicated to working hard, I naturally think "What can I do to help?"

We value our attitude to respond quickly and flexibly to customer requests by leveraging our "human qualities." On the other hand, we recognize the importance of careful risk management in the event of a change in plans in the design or manufacturing process.

In order to ensure that the workload on employees is not uneven, we are focusing on thorough labor management by appropriately allocating resources and managing loads. In order to achieve a balance between improving customer satisfaction and ensuring a healthy working environment for employees, we are thoroughly committed to concluding agreements at the appropriate time. We communicate these initiatives directly to employees in cooperation with the Board of Directors and through in-house newsletters and other means.

Okabe From a financial perspective, it is necessary to further strengthen financial risk management while valuing relationships with customers. Specifically, the Company aims to improve its profit margin by thoroughly managing cash flows and inventories appropriately and determining the optimal level of risk. Also, I believe that by creating an awareness of key indicators such as cost of capital and return on invested capital (ROIC) on the front lines, we will be able to realize management with an awareness of return on capital.

Furthermore, the Company is focusing on ensuring a healthy working environment for employees by taking appropriate measures to address labor management issues. As orders and sales continue to grow, I think that it is important to solidify the Company's management base and pursue sustainable growth by implementing these measures.

Motoda Improving the profit margin, as mentioned by Ms. Okabe, will be an important point to address in the next Medium-Term Management Plan. As you are aware, although orders and sales are currently on an upward trend, operating profit and operating profit ratio are expected to be lower than the indicators in the current Medium-Term Management Plan. The fact that the Company was able to secure production capacity to meet demand in growing markets through plant expansions is a major achievement of the current Medium-Term Management Plan. Therefore, I believe that shareholders and investors will demand that we focus on how to increase profit margins and implement our strategies going forward. As an outside director, I would like to engage more in discussions on management strategy than in the past.



Endo I agree with what Mr. Motoda said. As a member of the Audit & Supervisory Committee, in addition to risk management based on audits, I would like to participate more actively in management discussions and contribute to "proactive governance" that enhances the effectiveness of the Board of Directors. Also, I personally fear that, given the pressure to respond to the growing demand that we are currently facing, it will be difficult for the Company to fully consider its long-term goals and road maps for achieving them. Therefore, when formulating the next Medium-Term Management Plan, I would like to discuss how to increase Hirata Corporation's corporate value from a long-term perspective. Since the Company's Audit & Supervisory Committee has a well-balanced mix of members with different specialties and backgrounds, I am confident that, if each member of the Audit & Supervisory Committee makes the most of their knowledge, it will be possible to become an audit and supervisory committee that contributes to the enhancement of corporate value.

Okabe As outside directors, we are expected to participate in discussions with an awareness of the perspectives of all stakeholders, including shareholders and investors, employees, customers, suppliers, and local communities. Specifically, when the Board of Directors makes management-related decisions, I think that by constantly paying attention to whether the process leading to that decision is fair and the decision itself is one that stakeholders will accept, and creating lively discussions, we can create a sense of urgency among the Board of Directors in a positive way. With the expectation that Hirata Corporation will use its advanced technological strengths to embody the Management Philosophy expressed by *Jin-Gi-Kou-Ken* and contribute to manufacturing around the world, let's continue to make efforts to enhance the corporate value of Hirata Corporation.