

We will supervise management with a sense of urgency to ensure the sustainable enhancement of corporate value

The Niterrra Group has formulated the Mid-term Management Plan 2030 and has begun taking action toward further growth. An internal director and three outside directors discussed challenges to improving the effectiveness of governance.



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Evaluating governance reforms to date

Isobe First, I would like to discuss strengthening governance from the perspective of an internal Full-time Audit and Supervisory Committee member. To date, our Group has identified investor expectations for stronger governance, held repeated discussions, and studied advanced initiatives implemented by other companies to steadily establish a governance framework. In addition, we conduct an annual evaluation of the effectiveness of the Board of Directors and use the results to drive ongoing improvements. We recognize the importance of taking opinions seriously and making appropriate decisions about whether to incorporate them. What are your thoughts as outside directors?

Nagatomi As you are aware and as I mentioned in our roundtable discussion last year, the governance framework is taking shape through the reforms implemented to date. We are approaching the

final stage, and our efforts are progressing steadily. For example, over the past year, we have seen great results with actions such as establishing the Board of Directors Department and enhancing off-site meetings. To enhance the effectiveness of governance, we have implemented various measures, and these are gradually bearing fruit. That is where we are at with Group governance.

Ahadjian It is true that our Group's governance has taken another next step forward over the past year. Looking ahead to the future of the Group, the fact that internal and outside directors are now able to share a deeper understanding than ever before of what is required is a significant step forward. At the Board of Directors meetings, there has been a stronger willingness to listen to the opinions of outside directors, and we are hearing many honest remarks showing interest in our comments and engaging in dialogue. We are now able to discuss future strategies from various perspectives, and this is leading to the creation of useful ideas. Although there are still challenges in balancing detailed discussions with broader big-

picture dialogue, we have seen clear improvement. In particular, during discussions on the formulation of the Mid-term Management Plan 2030 (MMP 2030), we have had a lively exchange of opinions bringing together perspectives from both inside and outside the Company.

Uchiyama It has been one year since I was appointed as an outside director, and I believe that there is a very strong desire to improve governance among both internal and outside directors. The Board of Directors Secretariat is also working very enthusiastically. If I were to pick one topic of discussion, it would be the approach to the chair roles of the Board of Directors and Nomination and Remuneration Committees. Although this does not necessarily mean that an outside director should serve as chair, there are companies that appoint outside directors to that position in order to enhance the quality of discussions. Therefore, I believe it would be worthwhile to revisit the Company's approach to this matter.



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Evaluating the effectiveness of the Board of Directors

Isobe One of the measures adopted after evaluating the effectiveness of the Board of Directors was to implement pre-meeting briefings prior to Board of Directors meetings. Before discussing complex agenda items at Board of Directors meetings, we now hold briefings several days in advance to provide outside directors with necessary background information. I believe this has enabled us to have deeper discussions at Board of Directors meetings, but what are your thoughts?

Uchiyama While there are other companies that have introduced pre-meeting briefings, I have heard that there are those that do not actually require discussion of those agenda items explained in advance at the actual Board of Directors meetings. This type of climate does not exist at Niterra, and the Board of Directors is always operating in a way that furthers discussion. These accumulated efforts are an important element in enhancing the effectiveness of the Board of Directors.

Ahmadjian This was a great opportunity, and it deepened discussions at the Board of Directors meetings. However, there is still room for improving its implementation. For example, it might be helpful to consider setting aside a separate time for questions and answers for items that individual outside directors may not fully understand or wish to know more about.

Nagatomi It is true that it has only been a short while since the pre-meeting briefings were introduced, so the benefits and implementation method are yet to be proven. Although there is a way to confirm separately if there are any questions, a formal system for that has not yet been established, and I believe this remains a challenge going forward.

Uchiyama The minutes and archives are relatively well maintained, and consideration has been given to creating an environment and preparations to enable even newly appointed directors to participate in discussions. However, there is

the challenge of the difference in awareness between the executive side and the outside directors. On the executive side, there still remains a mindset oriented toward the management board focused on discussing decisions related to business execution. On the other hand, outside directors are seeking discussions with a mindset focused on the monitoring board that emphasizes the perspectives of supervision and oversight. Although, over the past year, there have been more opportunities at Board of Directors meetings for executives to provide explanations and discuss matters from a strategic and forward-looking perspective in response to questions and comments from outside directors, it would be even better if they consistently approached issues from a higher-level perspective.

Ahmadjian That is a very important issue. This is true for Japanese companies in general, but the executive officers and other executives should not just focus on their own business execution, but should also give consideration to strategies that take into account the future vision and company-wide perspective.

Nagatomi That is understandable. The Audit and Supervisory Committee is also thoroughly analyzing and verifying this, including how to bridge the gap in awareness. Looking at the amount of time spent on discussions at Board of Directors meetings, I believe sufficient time is being allocated to discussing future business strategies and governance issues. I agree that the function of the Board of Directors has been steadily improving.

Isobe On another note, as a new initiative toward enhancing the effectiveness of the Board of Directors, last year we began having everyone provide written feedback and comments on the discussions at the end of each meeting. The idea is to increase the frequency of effectiveness evaluations and speed up feedback. This initiative reflects the opinions of all outside directors, and we are glad that we introduced it.

Uchiyama Annual effectiveness evaluations tend to be influenced by the atmosphere at the most recent Board of Directors meeting. This new initiative is a very effective way to ensure proper evaluation.

Discussions at Board of Directors meetings toward formulating the Mid-term Management Plan 2030

Isobe In FY2024, we formulated and discussed the MMP 2030, and board members had repeated discussions about the direction in which the Group should move in the mid- to long-term. Outside Board of Directors meetings, we also organized off-site meetings on

a nearly monthly basis for all directors. The discussions about the MMP 2030 occurred during its formulation process, and opinions from outside directors have also been fully reflected in this plan.

Ahmadjian Discussions of the MMP 2030 deepened at each off-site meeting, which proved very useful. The content has improved with each discussion, and I appreciate it as a highly transparent means of communication that effectively incorporates the voices of the outside directors.

Nagatomi Off-site meetings are a necessary preparation opportunity for deepening discussion on important issues that come before the Board of Directors. They are also beginning to function as a forum for discussing the future and long-term strategies of the Group.

Uchiyama We live at a time where it is difficult to see even five years into the future. While formulating a Mid-term Management Plan itself is surely meaningful, in times of such uncertainty, it would be beneficial to foster talent who can view the Company from a company-wide perspective, where future executive candidates engage in discussions about the Company's future five or ten years from now during the formulation process. In terms of enhancing the effectiveness of the Board of Directors, it may be important not only to improve the quality of its operations, but also develop talent that can contribute to the sustained growth of such businesses.

Ahmadjian Dialogue with outside directors during the formulation process of the Mid-term Management Plan will serve as training for executive officers who will assume leadership roles in the future, and this is extremely important for the future of the Company.

Selecting directors for the succession plan

Isobe The Audit and Supervisory Committee members attend Nomination Committee meetings as observers. Naturally, they provide opinions as necessary, but fundamentally, they oversee the appropriateness of the succession plan process and the transparency and fairness of the selection of directors and executive



Fumiko Nagatomi



Kenji Isobe



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Christina L. Ahmadjian

officers. From that perspective, I appreciate that our succession plan is proceeding appropriately in line with the plan set forth at the beginning of the fiscal year.

Uchiyama In the past, we had opportunities to hold lunch meetings that bring together future executive candidates. Although the Audit and Supervisory Committee members attend the Nomination Committee meetings as observers, we are

given the opportunity to learn more about the character of the individuals being discussed, and this consideration demonstrates the Company's commitment to succession planning.

Ahmadjian Lunch meetings with the executive candidates began last year and have been a very meaningful experience. Although there are various challenges to developing the next-generation executives, the fact that these initiatives have not yet been institutionalized or systemized is an issue. For example, even for lunch meetings, it needs to be clarified who will attend and how often they will be held. In particular, I believe the process for formulating the succession plan should be further institutionalized and systemized.

Nagatomi I agree. I also believe there are still some challenges there. This is probably the first time that the Company has implemented the succession planning process in a systematic manner. The Company may still be at the stage of building the system through repeated trial and error and learning from each experience. However, the progress being made is shared with transparency and objectivity, and I recognize that there are no particular issues at this stage.

Evaluating the Audit and Supervisory Committee

Nagatomi The activities of the Audit and Supervisory Committee are carried out through a process in which priority audit items are identified at the beginning of the year, activities are implemented based on those items, and the results are evaluated at the end of the year. The analysis and evaluation of the effectiveness of the

Board of Directors is an important mission of the Audit and Supervisory Committee. In addition, in light of discussions on the need to evaluate the effectiveness of the Audit and Supervisory Committee, in FY2025, we began conducting self-assessment surveys to reflect on our own activities.

Ahmadjian I believe that evaluating the effectiveness of the Audit and Supervisory Committee is important, and the framework of sharing the evaluation results to the Board of Directors is also very good. The process of the Board of Directors and the Audit and Supervisory Committee providing mutual feedback is improving a little each time. In addition, communication in the three-way audit between the Internal Audit Department, the accounting auditor, and the Audit and Supervisory Committee has also improved significantly. The sharing of issues among the three parties has reached a new level.

Uchiyama The Internal Audit Department is made up of about 20 employees, which is more than that of domestic companies of the same size. The activities of the Audit and Supervisory Committee are largely supported by the efforts of the Internal Audit Department, and there is a constant exchange of opinions. In addition, as Audit and Supervisory Committee members, we spend a lot of time interviewing corporate officers. During the interviews, we verify their awareness of issues and how they have addressed those issues. These efforts lead to quality comments at Board of Directors meetings.

Isobe The process of evaluating the effectiveness of the Audit and Supervisory Committee, which was mentioned earlier as an issue, begins with a self-assessment, followed by an exchange of opinions among the four outside directors based on the results. Among these, one opinion expressed by the outside directors was to accelerate the confirmation of the progress of key audit items, and another was to conduct on-site audits of business divisions facing risks. Going forward, we need to focus on these areas while continuing to conduct organizational audits as usual.

Recognizing the roles of directors going forward

Isobe A frequent observation from both internal and outside directors, particularly from outside directors, is the lowered sense of urgency due to strong business performance. While the current business performance continues to reach new record highs, we received various observations, including the challenges faced by

companies acquired through M&A and delays in the launch of new businesses. This is the biggest challenge facing the Group. Looking ahead, I believe we need to incorporate efforts to address this issue into the activity planning of the Audit and Supervisory Committee.

Nagatomi I will also make the same observation. Although there is a sense of urgency in launching new businesses, it seems like we are becoming short-sighted and not making any progress. While M&A will likely be used increasingly as a measure to address these challenges, the Audit and Supervisory Committee is highly aware of governance issues regarding acquired companies. We want to be fully prepared now in anticipation of when the need arises.

Ahmadjian As Mr. Uchiyama mentioned earlier, the rising uncertainty is a very big challenge for the Group. Although our business performance has been strong to date, we do not know when it will enter a downturn due to changes in the external environment. We need to constantly verify the validity of our planning process and make course corrections. It is also important to develop talent that can address this uncertainty. It is my personal mission to take a critical look at the business environment and ensure that management maintains an appropriate sense of urgency.

Uchiyama Currently, my biggest concern is how to manage companies acquired through M&A and whether it will enhance the corporate value of the Group. As we were elected by shareholders at the ordinary general meeting of shareholders, it is naturally important for us to supervise management in a way that rewards shareholders. However, to sustainably enhance corporate value, we must also give consideration to diverse stakeholders. As an outside director, I will give due consideration to enhancing shareholder value while closely monitoring management to meet the expectations of a wide range of stakeholders.



Hideyo Uchiyama

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