

Supporting the Transformation of the Business Portfolio to Realize the Long-term Vision



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The Role of Outside Directors and the Current Governance System

Yasui Let me first mention that we transitioned to a Company with an Audit and Supervisory Committee two years ago. I see the Board of Directors as being in the process of transitioning from a so-called “management board” primarily responsible for make decisions on the execution of business function, to a “monitoring board” designed to provide a supervisory function. There are still many issues to be resolved

before the Board of Directors can fully function as a monitoring board. On the other hand, it has made effective efforts towards the realization of its supervisory function. This includes the establishment of offsite meetings where directors can freely express their opinions outside the Board of Directors. It also includes the holding of pre-meeting briefings on agenda items in order to enhance the quality of discussions at the Board of Directors meetings.

Nagatomi Our governance has evolved in response to the changing times. After all of the reforms to date, I believe that our governance

framework is essentially complete. I feel that what we need to do moving forward is to raise awareness and increase the sophistication of our operational system. In the future, we will need to make improvements, such as deciding in advance what matters require substantive discussion, setting these forth in our annual plans, and ensuring they are discussed.

Improving the Effectiveness of the Board of Directors

Yasui Naturally, many things have changed in the two years since the transition to a Company with an Audit and Supervisory Committee. That said, the established practice of reporting and discussing the nitty and gritty of business execution still continues to some extent. I think our current challenge is to increase discussion of issues requiring a broader and more medium to long term perspective, such as management strategy. For example, I think we should actively leverage our offsite meetings even more than we do now.

Ahmadjian I think the operation of the Board of Directors has definitely improved. I believe that a highly effective Board of Directors demonstrates its supervisory function by intensively discussing topics that have been narrowed down in advance. I feel our Board of Directors has increasingly pared down topics of discussion to just the most important themes, such as new businesses, the next Medium-term Management Plan, human capital, and business successions. That is a big step forward compared to a year ago. I look forward to engaging in extensive discussions on important themes, including monitoring progress on the Medium-term Management Plan.

Nagatomi While discussion of macro-level management is important, some agenda items require timely decision-making, so it is important to balance this with discussion of medium to long term management.

Yasui Regarding matters to be discussed at Board of Directors meetings, as shown by the results of evaluating the Board's effectiveness, I feel that there is a gap in mindset between inside and

* This roundtable discussion was held in May 2024. Kanemaru Yasui resigned on June 25, 2024.



outside directors. For example, inside directors approach discussion of individual business after having ascertained the costs of its products and finalized an elaborate sales strategy based on that information. In contrast, outside directors approach this same discussion from a general management perspective, haven taken social trends into account. I believe conducting discussions in a way both sides can agree is something we will have to work on.

Nagatomi I think that reconciling the differences in mindset is not something that can be done overnight. Bridging this gap requires that the executives who prepare and explain the agenda items have both managerial and executive perspectives, so it is important to invest time in the development of these human resources. Before Board of Directors meetings, our outside directors are given an opportunity to receive a briefing on matters to be discussed. Plenty of time is set aside for the executives to explain the agenda items they have proposed to us. I feel that confirming the underlying points in advance allows for meaningful discussions during the Board of Directors meeting, which leads to improved effectiveness of the Board. Furthermore, I believe that when questions and opinions are raised by outside directors from various perspectives, it serves as a training opportunity for the executives to understand the management's viewpoint.



Stronger Support for Outside Directors

Ahmadjian As a manufacturing company, I think it is very important to understand the efforts being made on site. Our recent plant tour was a very meaningful experience for me, as I was able to get a sense of the actual work environment by talking with employees working hard there. I feel that having a system in place which allows for dialogue with employees on site, if desired, is highly commendable.

Yasui We are very excited about the new organization, the Board of Directors Department, which was established in April 2024. My expectation is that it will function to control agenda items that come before the Board of Directors. I believe it is important to organize the agenda and apply a thorough filter before discussions at the Board of Directors meeting, ensuring that the points to be discussed are set from a monitoring perspective rather than just the management's viewpoint.

Nagatomi The Board of Directors Department was only recently established, so it is yet to be seen exactly what effect it will have. However, I see the clarification of its responsibilities and authority as the supporting organization of the Board of Directors as a significant step forward. I especially appreciate this as an outside director, since it makes it easier for me to give opinions and suggest improvements.

Ahmadjian Moving forward, it would be beneficial to expect the provision of information related to industries closely related to our Group's businesses, as well as the latest updates on corporate sustainability. This would contribute to the activation of discussions and enhance the overall engagement. In order for outside directors to contribute from their own perspectives to the exercise of the Board of Directors' supervisory function and the activation of medium to long-term discussions, it is important to have a broader range of background information, including industry trends and the initiatives of other companies, in addition to our Company's information. To do that, we need a wide variety of background information regarding not only the Company, but also industry trends, as well as initiatives by other companies. I believe that this is still an area where our Company is lacking. Providing such information would not only contribute to the training of outside directors but also address a common challenge for Japanese companies as a whole.



Deepening Discussions at the Nomination and Remuneration Committees

Yasui The Nomination Committee may need to have ongoing discussions about the items in the current skill matrix in terms of what other skills the Board of Directors will need in the future. However, this is a work in progress.

Nagatomi As for remuneration for officers, we recognize that the remuneration determination process is proceeding according to the rules, using appropriate calculation methods. Measures have been taken to provide some flexibility based on the Company's performance and fluctuations in the total amounts paid. Some basic policies are in place, and there are systems to assure fairness based on the situation at any given time. As such, I do not see there being any particular problems in this area.

Ahmadjian Medium and long term incentives (LTI) account for rather small percentages of performance-linked remuneration, so this may need to be reviewed. Non-financial indicators include the ratio of non-ICE business revenue and the rate of CO₂ emissions reduction. However, whether the current compensation system is sufficient as an incentive to expand new businesses requires further in-depth discussions.



Realizing the Long-term Vision and Expectations for the Future

Ahmadjian It is important to discuss how to enhance profitability and capital efficiency, such as promoting ROIC management. However, the Board of Directors should also engage in deeper discussion of medium to long term issues, namely how to engage in new businesses, and how to develop them into key revenue drivers.

We have yet to make sufficient progress toward achieving the revenue targets for non-ICE businesses set forth in the Medium-term Management Plan. We need to deepen the discussion of this issue. I also believe we need more discussion of the “super big picture” we should envision based on the four business fields to focus on set forth in the Long-term Management Plan.

Yasui I agree. The slogan of the Medium-term Management Plan is “Break to change. Change to create.” This is intended to convey the importance of transforming our business portfolio. However, we have not yet disclosed specific details regarding which areas and products we will pursue to achieve these objectives. Without changing the corporate culture and climate that has developed through years of cultivating relationships of trust with customers in the ICE business, it will be hard to take the leap into a new business.

It will also not be easy to achieve the high profit margins of the ICE

business in a new business. Therefore, we will need to develop non-ICE businesses with an entirely different approach to indicator management.

I believe it will be important to change our corporate culture and climate by investing in human capital with an eye to the future, and by raising awareness of sustainability management throughout the Group.

Ahmadjian In order for Japanese manufacturing companies like our Group to thrive in the new era, I believe it is crucial to listen attentively to ideas that challenge past conventions, even if they have not been extensively discussed internally before. I sense that the management team has an attitude of calmly analyzing the situation, a sincere willingness to learn in order to find solutions, and a desire to take on new challenges. They look directly at each issue, and always have an improvement to suggest. They are also willing to listen to my opinions as an outside director and engage in dialogue with me. I believe that having such an open mind and willingness to learn will lead to the transformation of the Company, so I hope that stakeholders will have high expectations for the future of the Group.

In addition to fulfilling my roles and responsibilities as an outside director, I would also like to help invigorate discussion at the Board of

Directors through comments that stimulate my fellow directors and give them a sense of urgency.

Nagatomi The Group has a good corporate culture. The organization has a sense of unity, as well as a corporate culture of uniting towards a common goal. For a corporate group like ours to implement such a major transformation, the top management needs to clearly demonstrate the direction to be pursued and provide strong guidance to the entire group. I hope our stakeholders will keep a close eye on leadership of the management team, who are vigorously leading the way toward change.

Yasui As an outside director attending the Board of Directors meetings, one thing I appreciate is that our Group is earnestly conducting business while considering various stakeholders. What must be avoided, however, is to be so considerate of stakeholders that we lose sight of the destination.

We must decide what to break and what to create to realize our vision. By making these decisions, we can keep improving our corporate value over time. I hope that our stakeholders will watch the Group with great expectation as we set goals and move forward on a solid path.

