

Interview with Our Newly Appointed Outside Director

Outside Director
Nomination and Compensation Committee
Member/Special Committee Member

Sayoko Izumoto



Sayoko Izumoto has been newly appointed as an Outside Director for our Company at the Annual General Meeting of Shareholders held in June 2023. In her capacity as a Certified Public Accountant, Director Izumoto has actively engaged in corporate accounting for many years, and more recently, she has served as an auditor and director in multiple companies. We have strong expectations that she will utilize her high-level expertise in finance, accounting, and compliance to provide management supervision and advice to our Company as an Outside Director. Furthermore, as our first female director, we have high hopes that she will contribute to enhancing our corporate value from a new perspective.

Below, we asked Director Izumoto about her impressions of our Company and her future activities.

— **You have attended two Board of Directors meetings prior to this interview. What are your impressions?**

I gained the impression that everyone plays an active part in exchanging views, perhaps because the Company has only six Directors, which is relatively few. Audit and Supervisory Committee Members also actively pose questions and share their opinions from a managerial perspective. On the other hand, however, the small number of Directors might be keeping members from actively articulating opposing views.

— **In what ways do you think your experience will benefit the Company?**

As I am a Certified Public Accountant, my expertise lies in auditing. However, since being appointed as a Director who is not an Audit and Supervisory Committee Member, I am still considering what is expected of me. I can hardly speak from a managerial perspective, because I am not experienced as a corporate manager. A manager speaks with good business acumen based not only on numbers but also on detailed attention to all corners of the company. Since I am not a master of this business acumen, I wish to first contribute what I can to strengthening corporate governance.

Incidentally, my first assignment upon joining an audit firm was TOKYO KEIKI. Later, I had another opportunity to participate in the Company's audit work, so I am not totally unfamiliar with its business. However, times have changed considerably, and as the Company now engages in various new businesses, I hope to offer my input from a renewed perspective.

As an accountant, I ordinarily handle past figures and do not often make judgments about future investments. Nevertheless, investing also requires an analysis of past numbers, so I believe I can apply my experience in this regard. The Company now has many new buds of businesses and is at the stage where it must ascertain how far they can be grown. It will need to make choices, and in this process I hope to offer my views based on an analysis of numbers.

— **An important role of an Outside Director is to communicate messages from the standpoint of someone who does not possess the Company's DNA.**

I agree, and that is why I intend to ask simple questions and transmit simple messages, even if they may be puzzling to people in the Company. For example, the expression "use such-and-such in the current business as a starting point,"

which appears repeatedly in conference materials, gives me the impression that the Company dwells on existing production methods and markets. Understandably, each company has its traditions, which make it a challenge to take bold steps forward. However, precisely because it is a challenge, I feel it is time for a meaningful move ahead.

Whether an investment will bear fruit is difficult to determine particularly during the development stage. It is easy to look twice before leaping and to call it off at the hint of an inherent risk. Ultimately, the decision to move forward or not rests on the corporate manager's intuition. However, rather than the president bearing the burden alone, I think it is important for any board of directors to exchange views among the members and present ideas on which the president can base his decision.

There was a time at a different company when some of outside board members opposed a proposal to sell off the business. I, as an individual, also voiced my opposition. Consequently, the president withdrew the proposal, saying, "Since so many people are against the proposal, let's not sell the business after all." In such a situation, I am uncertain how much input an outside board member could or should provide, but I believe presidents feel they could more easily decide if matters are thoroughly discussed by the board of directors.

— Ms. Izumoto Izumoto, as the Company's first female director, we look forward to hearing your views from a new perspective.

Here is another example of something I experienced at another company. In a warehouse tour I went on with another female outside director, we came across a pile of returned goods. We asked what the company does with these returns and were told they are all incinerated and discarded. Alarmed that burning them would emit a considerable amount of CO₂ and waste resources, we proposed that the company explore other alternatives, such as devising resale routes or creating a scheme to separate materials for recycling. While companies must necessarily consider transaction conditions and how to secure efficiency and profit, we, as women and consumers who are typically more sensitive to environmental issues, could not readily ignore the situation.

The Company may not have been consciously attuned to the female point of view until now because it is a BtoB company and not a BtoC company, which directly

interacts with consumers. Hereafter, however, it will need the flexibility to examine its new businesses from various angles. In addition to the female perspective, it would also be effective to incorporate the perspectives of diverse individuals, including people from different countries and those with experience working in other companies.

With regard to women's employment, the Company is considering increasing the number of female managers, and it is exciting to anticipate how this will change the corporate climate. Initially, however, it is necessary to create an open environment where every female employee can speak her mind and know she will be heard. Without such an environment, women offered the position of section manager or department manager will be apt to refuse such a heavy responsibility. As there are still few case examples today, it may be interesting to hold inter-company exchanges to foster diversity, or to implement unique and impactful training programs, bearing in mind that diversity training has meaning only if it is attended by both men and women.

The Company has a diligent corporate culture, and everyone takes pride in their technical skills, which I think can flourish even more by devising a new mechanism. However, conventional practices in the Company may pose a limitation. I am convinced that new ideas will grow if people with diverse perspectives join the Company and offer insights into approaches and methods that have not previously been explored. The Company has a wealth of valuable assets that it should leverage even more, and as a Director, I hope to propose discussions on this issue.



Governance: Corporate Governance

By improving our corporate value through the realization of our Management Philosophy, and by increasing shared benefit with our stakeholders in the long term, the TOKYO KEIKI group hopes that our shareholders will feel confident in long-term ownership of our shares. Toward this end, we continuously pursue and work to enhance excellent corporate governance.

Concepts of corporate governance

Along with an understanding of the importance of corporate ethics, we recognize that achieving health, transparency, efficiency, and highly agile corporate management is the key point of corporate management systems for the sustainable growth and development of a company and the increase in its long-term corporate value as it responds swiftly to rapid changes in society and the environment—that is, it is the key point of corporate governance. We are enhancing our corporate governance in line with the following basic approaches.

■ Relationship with shareholders and other stakeholders

1. We will respect the rights of shareholders.

2. We will ensure the equality of shareholders.

3. We will build positive and smooth relationships with our shareholders and many other stakeholders.

4. We will properly disclose company information and ensure transparency in our corporate management.

In April 2022, we transitioned to the Prime Market as our new market segment on the Tokyo Stock Exchange. To provide a high level of governance appropriate to a company listed on the Prime Market, we will continue working to strengthen initiatives and enhance our sustainable growth as well as our medium- to long-term corporate value by solving diverse social issues.

System of corporate governance

Organizational structure

As the organizational structure of our Company under the Companies Act, we have adopted the form of a company with an Audit and Supervisory Committee. We have an Audit and Supervisory Committee in which Outside Directors with independence and neutrality make up a majority of members, and delegate a substantial portion of the Board of Directors' authority for business execution to Directors. Doing so allows us to separate the oversight and execution of business and engage in speedy decision-making.

Basic policy on the composition of the Board of Directors

Representative Directors, Management Executives (President & CEO, Vice President & Executive Officer, Senior Executive Officer, Senior Managing Executive Officer), and Directors who are not Audit and Supervisory Committee and its Members are appointed with comprehensive consideration of the balance of the Board of Directors overall and whether candidates possess the knowledge, experience, and capabilities required to satisfy diversity.

Candidates for Directors who are Audit and Supervisory Committee Members are appointed based on comprehensive judgment of whether the candidates possess sufficient knowledge to properly perform the duties of Audit and Supervisory Committee Members. In particular, we include one or more persons who possess sufficient financial and accounting knowledge.

We also strive to appoint Outside Directors with independence and neutrality to at least one third of Director positions.

Concepts concerning the functions of the Board of Directors and independence

Outside Directors are Directors who are personally and financially independent from the Company and who fulfill the requirements for independent officers established by the Tokyo Stock Exchange, as well as the requirements for outside directors set forth in the Companies Act. Outside Directors make efforts to achieve excellent corporate governance by providing counsel from perspectives differing from those of other Directors. As necessary, they may request submission of internal company materials or explanation and reporting of internal company information from other Directors, Executive Officers, or employees.

Audit and Supervisory Committee Members bear the role of working to establish an effective corporate governance system by overseeing and auditing the execution of duties by Directors. The Audit and Supervisory Committee composed of those members conducts verification of the content of reports received from Directors, Executive Officers, employees, Accounting Auditors, and other parties, as well as investigation of the status of the Company's business and assets. The Committee enacts necessary measures in a timely manner, including the provision of counsel, recommendations, and other opinions to Directors and suspension of the actions of Directors.

Composition of the Board of Directors

The Board of Directors has three Outside Directors among its six Directors (including three Directors who are Audit and Supervisory Committee Members). Outside Directors consist of two Directors who are Audit and Supervisory Committee Members and one female Director who is not an Audit and

Supervisory Committee Member. From Outside Directors, the Board receives candid comments from an external perspective and opinions of benefit to the Company's management based on the individuals' abundant experience. By doing so, we are making efforts to enhance the impartiality of our management and strengthen functions for the oversight of decision-making and execution of duties by business executives. Delegating important decisions on business execution to the Representative Director, President & CEO in accordance with the provisions of the Articles of Incorporation and resolutions by the Board of Directors enables swift decision-making in management and agile business execution, and allows the Board of Directors to focus on the oversight of business executives.

Related Committees

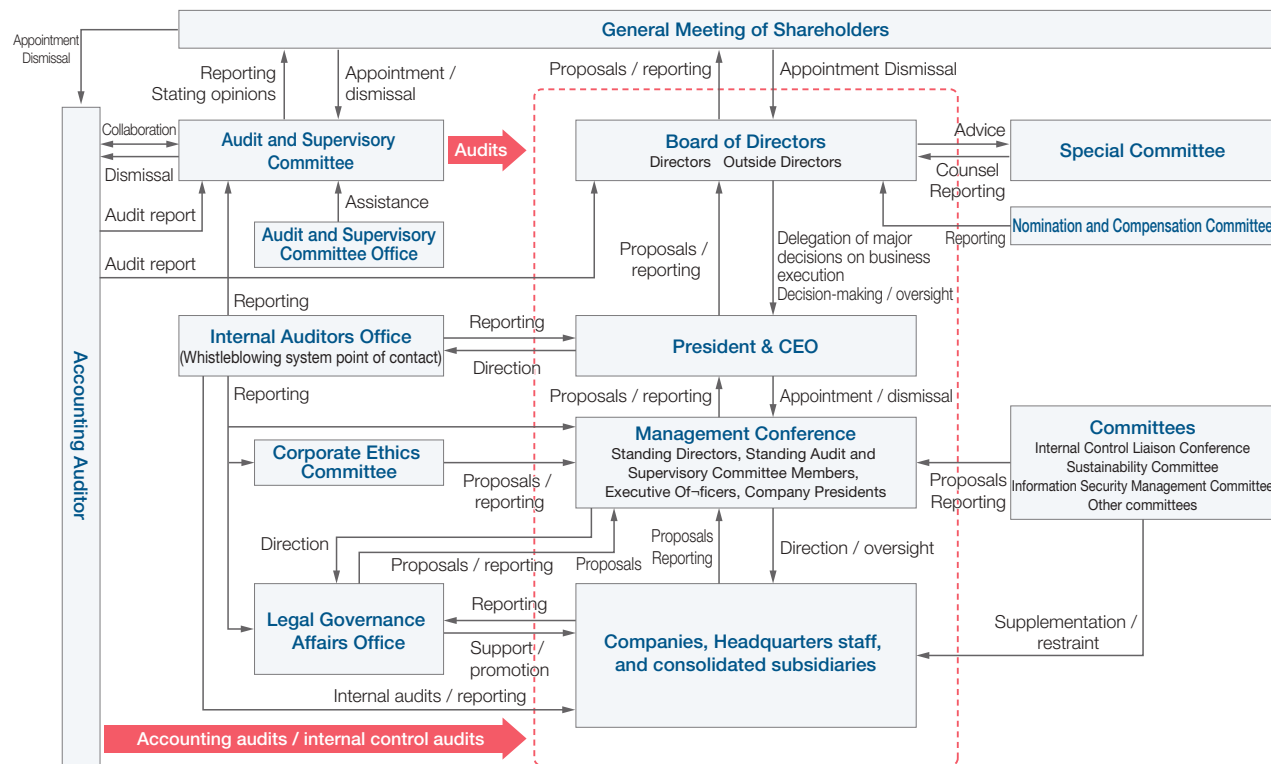
The Audit and Supervisory Committee is composed of two Outside Directors and one Internal Director. The Internal Director, as Standing Audit and Supervisory Committee Member, serves as Chair of the Committee. We have also established the Audit and Supervisory Committee Office, with one dedicated staff person and one staff person concurrently holding another position. This office supports auditing work and smooth execution of duties by the Audit and Supervisory Committee.

The Company has also established a Nomination and Compensation Committee under the Board of Directors to deliberate on proposals for director appointment

and compensation. This Committee is chaired by Representative Director, President & CEO Tsuyoshi Ando, with Outside Directors Nanpei Yanagawa, Takashi Nakamura, and Sayoko Izumoto as members.

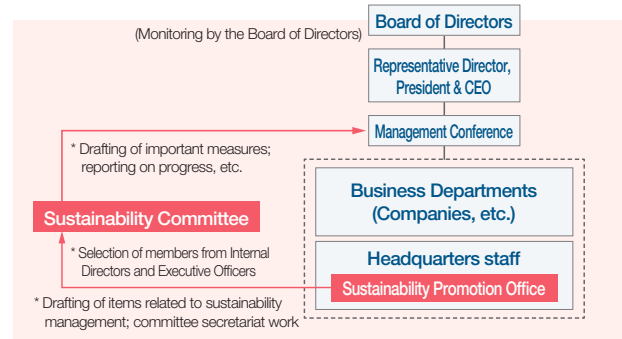
As a decision-making body for execution of management by the President & CEO, we have established a Management Conference to deliberate company-wide basic management strategy and its execution. The Management Conference is composed of Standing Directors, Executive Officers, and Company Presidents. The Corporate Ethics Committee, chaired by the Chief Legal Governance Officer, is composed of corporate ethics managers in the Group. It manages corporate ethics activities across the Group, enforces corporate ethics education for directors and employees, and works to prevent violations. We have also established a whistleblowing system as a means of directly providing information on legally suspect actions, and ensure that no disadvantage befalls whistleblowers.

The Special Committee is composed of experts including one or more university professors, attorneys, and certified public accountants who have no interest with the Company. Our Large-scale Purchase Rules (an anti-takeover defense measure), which clearly and specifically indicate procedures that takeover proposers should take prior to executing specific acts of purchase, in principle require judgment by the Special Committee on decisions regarding whether to implement specific measures, to exclude arbitrary decisions by the Company's Board of Directors.



Moreover, to promote sustainability management by which our Group seeks to improve the sustainability of our business through consideration of the sustainability of the environment, society, and economy, we established the Sustainability Promotion Office and the Sustainability Committee in June 2021. At the center of our Group, the Sustainability Promotion Office plans and promotes measures involving sustainability management. The Sustainability Committee is chaired by the President & CEO and selects members from Internal Directors and Executive Officers. It functions as a meeting body that discusses and shares sustainability management-related policies and measures, and executes decisions without delay across

the Group. It also makes proposals on key measures and issues progress reports to the Management Conference and the Board of Directors.



Evaluation of effectiveness

Implementation guidelines for evaluations of the effectiveness of the Board of Directors during the reporting period

We carry out evaluations of effectiveness on the basis of Article 31 of our Corporate Governance Guidelines, which states, “The Board of Directors will, to evaluate its effectiveness, conduct self-evaluation at the end of each fiscal year with a focus on whether the execution of duties by the Board of Directors was performed in accordance with these Guidelines, and will analyze and evaluate the results. An outline of the results of the analysis and evaluation will also be disclosed as appropriate.” We disclose the results in our Corporate Governance Report and Annual Securities Report.

Initiatives to address issues raised in our evaluation of the 91st term

In our evaluation of our 91st term (fiscal 2021, ended in March 2022), regarding deliberations on management and business strategies, which have been an issue in the past, it was indicated that the Board of Directors, in addition to confirming the basic guidelines of the business plan, which has been done every year, will deepen its involvement in recent issues related to sustainability management, among others, as a concrete measure in the 92nd term (fiscal 2022, ended in March 2023) to address issues in the 91st term.

As a result, during the 92nd term, the Board of Directors was involved in coordinating the strategic direction of the company, including the Sustainability Policy and the Human Capital Basic Policy, and was able to engage in extended discussions with the executive side of the business.

Results of evaluation of the 92nd term

We conducted a questionnaire survey aimed at all directors, including Audit and Supervisory Committee Members, to

evaluate the effectiveness of the Board of Directors in the 92nd term. Preparation, distribution, tabulation, and analysis of the anonymous response sheets were conducted by the Legal Governance Affairs Office, which serves as the secretariat for evaluation of effectiveness. The answer sheet consists of 17 questions covering areas of the Board of Directors’ composition, operation, deliberation, support structure, relationships with stakeholders, and the degree of contribution of individual directors.

At the Board of Directors meeting held in May 2023, the Chief Legal Governance Officer reported on the aggregation of responses and the findings of analysis, and members discussed current circumstances and recognition of issues.

On the basis of the results, it was determined that the Board of Directors of the company has shown some improvement with respect to the issues that were identified and that, in general, the Board of Directors is appropriately fulfilling its responsibilities and its effectiveness is being ensured. However, we also affirmed that there was still room for improvement in the areas of the setting of Board of Directors’ deliberation matters, and in the provision of information related to the same. These issues are shared with the Board of Directors. Looking ahead, we will establish a concrete action plan for these issues and reconfirm progress and results in the next effectiveness evaluation.

The Company will endeavor to further improve the effectiveness of the Board of Directors by conducting appropriate evaluations every year, through resolution of issues recognized in effectiveness evaluations and continuous review of implementation guidelines for evaluation.

Policy for appointment of directors

Policy for appointing Internal Directors who are not Audit and Supervisory Committee Members

In accordance with guidelines outlining seven requirements, the Company appoints Internal Directors who are not Audit and Supervisory Committee Members from among Executive Officers and employees, etc. who have the strong will, abundant experience, high level of insight, and high level of expertise needed to carry out the duties of a director.

Policy for appointing Internal Directors who are Audit and Supervisory Committee Members

In accordance with guidelines outlining six requirements, the Company appoints Internal Directors who are Audit and Supervisory Committee Members from among current (or incumbent) Audit and Supervisory Committee Members, Executive Officers, and employees, etc. who have the strong will, abundant experience, high level of insight, and high level of expertise needed to carry out the duties of a director. We particularly emphasize a deep understanding of matters such as finance, accounting, and internal control, as well as sufficient experience and expert knowledge.

Policy for appointment of Outside Directors

In accordance with guidelines outlining seven requirements, the Company appoints Outside Directors from among persons who possess abundant experience, a high level of insight, and a high level of expertise; persons who possess a practical perspective as an outside company manager or other position; and persons who possess an objective and expert perspective based on a high level of knowledge of global conditions and socio-economic trends.

Skills matrix

In order to verify whether the TOKYO KEIKI Group is furnished with the management capabilities needed to resolve the Group's challenges, we have outlined in the following table the knowledge and expertise (skills) possessed by all of our Directors in various fields based on two perspectives: items required for the management of a listed company, and matters required per our business activities. The determination of each Director's skills took into consideration their accomplishments as Directors and Executive Officers in each field as well as their past professional experience.

Skills matrix

As of June 29, 2023

Name (Position)	Nomination and Compensation Committee	1	2	3	4	5	6	7	8	9	10	11	12	13
		Corporate management	Marketing / sales	Finance	IT / digital technology	HR / labor / HR development	Legal affairs / risk management	Global experience	Production systems	Quality management	R&D / technology development	ESG / Sustainability management	Compliance / governance	M&As
Tsuyoshi ANDO (Representative Director, President & CEO)	●	●	●		●		●	●			●		●	●
Yukihiko SUZUKI (Director & Executive Officer)					●		●		●	●	●	●		
Sayoko IZUMOTO (Outside Director)	●			●									●	
Takahiro KASHIMA (Director & Audit & Supervisory Committee Member [full-time])		●		●	●								●	
Nanpei YANAGAWA (Outside Director & Audit & Supervisory Committee Member)	●	●	●	●			●	●					●	
Takashi NAKAMURA (Outside Director & Audit & Supervisory Committee Member)	●	●		●	●	●							●	

Note: Directors who possess relevant national qualifications: Sayoko IZUMOTO (Certified Public Accountant)

Compensation system for directors

Basic policies

Compensation for directors who are not Audit and Supervisory Committee Members is composed of monthly fixed compensation (basic compensation), performance-linked compensation, and transfer-restricted stock compensation, with the aim of reflecting business performance and sharing

the values of shareholders. However, Outside Directors who are not Audit and Supervisory Committee Members receive only monthly fixed compensation. For all compensation amounts, proposals prepared by the Representative Director, President & CEO are submitted to the Nomination and Compensation Committee. The Representative Director,

President & CEO then receives a Memorandum on Director Compensation from the Committee and, based on this, finally determines and proposes compensation amounts that are resolved by the Board of Directors.

Compensation for Audit & Supervisory Committee Members, consisting of only basic compensation in the form of monthly fixed compensation, is determined through deliberation by Audit and Supervisory Committee Members on the basis of members' roles, duties, and categorization of standing or non-standing status, within the total amount determined at the General Meeting of Shareholders.

Monthly fixed compensation

The Representative Director, President & CEO will set a monthly fixed compensation proposal for each director who is not an Audit and Supervisory Committee Member, making reference to necessary information on director compensation allowing comparison with our Company, obtained through sources including surveys on trends in director compensation. After monthly fixed compensation is determined, amounts may be reduced in consideration of matters including the Company's business situation.

Performance-linked compensation

The Representative Director, President & CEO will determine whether performance-linked compensation will be paid, through discussions with the Representative Director in

accordance with criteria for the payment of performance-linked compensation as set forth in the Rules for Directors' Compensation. Criteria for the payment of performance-linked compensation include positive operating profit, a given level of profit attributable to owners of parent, payment of dividends not below initial projections, and ROE that does not fall below initial projections by a given percentage.

Transfer-restricted stock compensation

The Company sets and pays monetary compensation credits in an amount equal to an individual's monthly fixed compensation converted to a yearly amount, multiplied by a coefficient based on position. Each eligible director receives an allocation of transfer-restricted stock through the granting of all monetary compensation credits as in-kind contribution. The paid-in amount of the transfer-restricted stock is determined by the Company's Board of Directors within an extent that is not overly advantageous to the receiving directors, based on the closing price of the Company's common shares on the Tokyo Stock Exchange on the business day prior to resolution by the Board of Directors concerning issuance or disposal of the stock (or, if no transactions took place on said business day, the closing price on the most recent trading day).

Similar transfer-restricted stock is also allocated to the Executive Officers of the Company and Representative Directors of subsidiaries of the Company.

Amount of compensation by officer category

Officer category	Total amount of compensation, etc. (million yen)	Total amount by type of compensation, etc. (million yen)			Number of eligible officers
		Basic compensation	Transfer-restricted stock compensation ^(Note 2)	Performance-linked compensation	
Directors who are not Audit and Supervisory Committee Members (excluding Outside Directors)	71	51	10	10	4
Directors who are Audit and Supervisory Committee Members (excluding Outside Directors)	17	17	—	—	1
Outside Directors ^(Note 1)	10	10	—	—	2

- Notes
1. The total amount of compensation, etc. for Outside Directors is the amount of compensation for Outside Audit and Supervisory Committee Members.
 2. The total amount of compensation, etc. is the amount of monetary compensation credits paid under the transfer-restricted stock compensation system.
 3. The total amount of the above compensation, etc. for Directors does not include amounts equivalent to the employee salaries of Directors who serve concurrently as employees.