

Five Principles for Board of Directors to Enhance "Growth Power"

- Excerpt from the CG Guidance for Enhancement of "Growth Power" -

In order to enhance "Growth Power," i.e. to improve "medium- to long-term and sustainable profitability and capital efficiency," it is essential for corporate management to develop a value creation story (*) and, based on that, execute business portfolio strategy and investment for growth (such as capital expenditure, R&D spending, investment in human resources, IP or other intangible assets).

(*) A story towards the realization of long-term vision, regarding the enhancement of long-term corporate value through establishment of the business model and the resolution of societal challenges

To achieve this, it is important to establish effective corporate governance systems in which the board of directors and the CEO along with the management team, fulfill their respective roles, as well as to engage in dialogue with shareholders and investors.

In pursuing such corporate management, the board is encouraged to act based on the Five Principles for Board of Directors to enhance "Growth Power", described below, and it is also desirable for the CEO and the management team to take appropriate actions.

Additionally, directors need to establish a board that contributes to the enhancement of "Growth Power" by ensuring that actions based on these principles are continuously taken, while conducting evaluations and assessment through evaluations of the board effectiveness.

Even executive directors, who belong to the management team, are encouraged to take actions based on these principles in the boardroom.

Principle 1: Development of Value Creation Story

The board is expected to develop a value creation story that builds on the company's competitive advantages.

- Discuss the proposed value creation story developed by the management team, considering the following points, provide feedback to the management team, and encourage further consideration by the management team as necessary.
 - Whether the content is linked to the company's strengths (including potential ones).
 - Whether societal challenges and the company's stakeholders have been considered.
 - Whether multiple scenarios based on a proper analysis of long-term changes in the business environment have been considered.
 - Whether medium- to long-term capital efficiency and growth potential have been considered.
- Based on the changes in the business environment, continuously refine the value creation story in collaboration with the management team while engaging in dialogue with shareholders and investors as needed.

«Actions to be taken by the management team»

- ✓ **Develop the value creation story, focusing on the overall optimization perspective that leverages the group's strengths.**
- ✓ **Engage in discussions not only from the profit-and-loss (P&L) perspective but also from the balance sheet (BS) and cash flow (CF) perspectives.**

Principle 2: Promotion of Appropriate Risk-Taking by the Management Team

The board is expected to promote an appropriate risk-taking by the management team, such as the execution of business portfolio strategy and investments for growth, aimed at pursuing the value creation story.

- If the management team's actions toward pursuing the value creation story are insufficient, confirm the reasons and then encourage further actions.
- Regarding the execution of business portfolio strategy and investments for growth, ensure that sufficient considerations are made, monitor the progress and results, and prevent excessive risk-taking.

« Actions to be taken by the management team »

- ✓ **Execute business portfolio strategy and investment for growth while considering the capital efficiency and the growth potential of the businesses to pursue the value creation story.**

Principle 3: Promotion of Medium- to Long-term Oriented Management

While being mindful not to be short-term oriented, the board is expected to promote the management team to adopt a medium- to long-term perspective and pursue growth-oriented management.

- **Considering the feedback from the capital markets, make sure that the management team has not made trade-offs that sacrifice medium- to long-term growth for short-term achievements and if such a situation arises, encourage corrective actions.**

« Actions to be taken by the management team »

- ✓ **Avoid an excessive focus on short-term achievements and execute operations with a medium- to long-term perspective based on the value creation story.**
- ✓ **Consider executing shareholder returns, taking into account shareholders' interests that generated from medium- to long-term growth.**

Principle 4: Ensuring an Appropriate Decision-Making Process and Structure

While being mindful to avoid micromanagement, the board is expected to encourage the management team to ensure that the decision-making process and structure contribute to its timely and decisive decision-making.

- **Review the management team's decision-making process and structure, and if they are insufficient for developing and pursuing the value creation story, encourage the management team to improve the structure and systems.**
- **Avoid micromanagement that hinders the creativity of the management team and causes ambiguity in responsibility, and take actions being mindful of the roles expected for the board.**

« Actions to be taken by the management team »

- ✓ **Build a robust management team for the development and pursuit of the value creation story.**
- ✓ **Establish systems that enable discussions from diverse perspectives and decision-making that account for changes in the business environment while avoiding sticking to biases in the company.**

Principle 5: Ensuring Effectiveness in Nomination and Compensation

The board is expected to appoint the most suitable CEO and establish an optimal compensation policy, and to determine whether to reappoint the CEO based on annual evaluation of the CEO in light of the contents of Principles 1 to 4.

- **Develop a succession plan to appoint the most suitable CEO and establish a compensation policy aimed at pursuing the value creation story, while dividing roles with the management team.**
- **Annually evaluate the CEO to assess whether he/she is delivering the expected performance, including the progress of medium- to long-term initiatives.**
- **Thoroughly consider who would be the most suitable person to appoint as the CEO, taking into account the company's vision, the business environment, and the results of the evaluation of the current CEO.**

« Actions to be taken by the management team »

- ✓ **Establish a system for appointment and development of suitable CEO candidates for the company's top management.**
- ✓ **Execute businesses aimed at pursuing the value creation story while appropriately reporting progress to the board.**
- ✓ **Execute businesses for the following years taking into account the result of the evaluation by the board.**