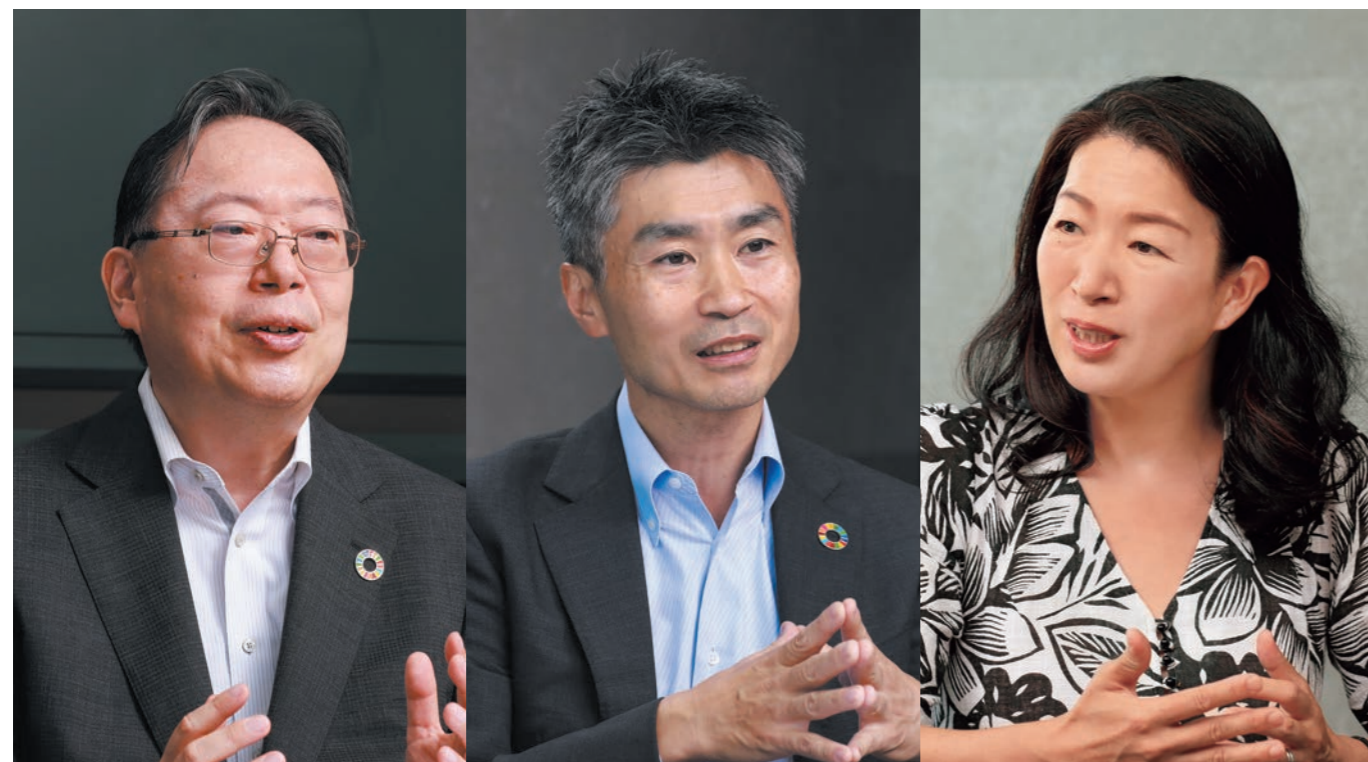


## Round table discussion between outside directors



**Makoto Sato**

Outside Director  
(Member of Audit and Supervisory Committee)

**Daisuke Koizumi**

Outside Director  
(Member of Audit and Supervisory Committee)

**Waka Abe**

Outside Director

## How governance should be formulated for the growth of ITFOR?



**Masahito Motoyama**

Facilitator

Director  
(Full-time member of Audit and Supervisory Committee)

### 1 Strength and issues of ITFOR that outside directors see

**Motoyama:** Here, we have Ms. Waka Abe, who has been an outside director of ITFOR since 2021, and Mr. Daisuke Koizumi and Mr. Makoto Sato, who have been outside directors and members of the Audit and Supervisory Committee since 2015. Thank you all for taking time from your busy schedule to come here. Today, Motoyama, Director and full-time member of Audit and Supervisory Committee, will take the role of the facilitator.

First, I would like to hear from you, outside directors, about your opinions on the strength of ITFOR, as well as challenges that we need to take for the growth of the Company into the future.

**Abe:** I think that the major strength of ITFOR is that it has customers that are local governments and financial institutions in almost all prefectures of Japan. On the other hand, what I wonder from the perspective of my experiences of handling company information and IR is that ITFOR is not recognized well despite its overwhelming market share. I think this is

one of the issues. Although the Company makes some public relations activities through media such as newspapers, it does not appeal much to younger generations using SNS and other tools. I think this may be of some handicap in recruitment.

**Koizumi:** I consider the strength of ITFOR from a little different perspective. In order for Japan to regain its global position after this so called "lost three decades," it is important to generate added values by improving overall productivity and efficiency. ITFOR is exactly a company that solves this social problem by providing solutions that improve productivity and efficiency. In this respect, I think ITFOR matches the current situation of Japan and can provide what Japan needs. On the other hand, the issue is that the Company is not exerting its full competence despite its high potential. Individual employees are excellent. However, coordination between different departments is not enough due to the divisional organizational structure, and business effort stays in partial optimization where total optimization should be sought. I think these are challenges the Company should tackle into the future.

**Sato:** The strengths and issues that you two pointed out captures the current status of ITFOR correctly. In addition to them, I think the most significant strength of the Company is the ability to earn net cash flow. The Company is very strong in that respect compared with companies in the same industry and of the same size. And, the other side of this strength is that investors are watching how we will use the cash that we are earning. The Company have affiliated other companies by M&A and invested in new businesses as necessary in the past. But, investment for future growth is not commensurate with the Company's ability to earn cash. We have discussed opportunities that we captured, but there were cases that we did not reach the final decision of investment. We may need to return the portion that we cannot use to shareholders and investors. I think considering the best way of using the accumulated cash is an issue.

**Motoyama:** Thank you all for variable opinions. I am also concerned about the public recognition of the Company and cross-divisional coordination, which you pointed out, and I mention them in meetings from time to time. Also, as Mr. Sato pointed out, the Company should consider building a bridge to the next land instead of just knocking the existing stone bridge to test it and eventually not crossing it.

**Koizumi:** There are people who can capture business chances and who cannot, and this also applies to corporations. For example, there are many postal drop boxes across the nation, but you will not know where there are around you unless you pay attention to them. More specifically, you will not become aware of them until you write a letter and try to send it. That is to say, intention and attention are important to capture chances.

**Abe:** The strength of ITFOR is long-standing trust relationship with local governments and financial institutions. This relationship enables us to find their needs in workplaces. I think we can enhance room for growth by capturing business chances and leveraging Group-wide resources of ITFOR including overseas partners to provide new values to customers.

**Sato:** I think the keyword is "rural regions." Actually, there is a business that we created based on the solid relationship with a local financial

institution. New needs are always emerging in everyday life of people in societies that exist behind our customers. I think we can create seeds of new business by finding those needs through our customers.

### 2 Evaluation of the governance of ITFOR and issues

**Koizumi:** The evaluation result overview of the effectiveness of the Board of Directors is reported every year in June. In the result of fiscal 2023, for example, items that were highly valued included sufficient deliberation to formulate the business strategy and business plan paying attention to earning capability and capital efficiency, the system of compensation for Directors, and the system of providing proper information necessary for Directors to conduct their duties. On the other hand, items pointed out as issues every year are engagement in the formulation and navigation of the plan for fostering successors and the timing and content of prior explanation of the agenda before each meeting of the Board of Directors. I think prompt improvement should be made for these items.

My personal view is that we have good Board of Directors meetings with very high transparency, disclosure of various information, and free and vigorous discussions. Boards of Directors of some companies have lost substance with few statements from Directors and without active exchange of opinions.

**Sato:** Expectation from stakeholders on ITFOR have changed largely in these years, with gradually rising criteria and hurdles in the evaluation of enterprises. Responding to this trend, the governance system of the Company has also improved gradually in the right direction.

However, there is no end to the strengthening and improvement of governance and there are some issues left unsolved. Looking back on this year, there were occasions when I felt that information sharing is slow especially for important items that need to be discussed in the Board of Directors. We, outside directors, will also express opinions about the speed of information sharing to improve it.

**Motoyama:** I am also concerned about the speed of information sharing, and I have wanted to hear your opinions. In the event of emergency, it is important to share information quickly and decide on measures and the initial response. What I regret is that we haven't yet sped it up using tools such as online conference.

**Abe:** When I became a member of the Business Executive Committee, I thought there were still a lot of issues in the speed and efficiency of decision making. The transparency of the Board of Directors is high as Mr. Sato says, but on the other hand, I think more authority should be transferred to the executive side. I think we can accelerate business operations if we let departments make decisions on certain levels operations.

**Motoyama:** As you pointed out, some of the business procedures are still carried out on paper and the implementation of electronic workflows is still underway. These are considered as issues also inside the Company. The Company formulated a growth strategy with a target



year of 2033. I think we have to go ahead with in-house reform toward that goal.

**Koizumi:** One way is to have employees collect data on the time spent on the current job and the time invested for the future. A longer time spent for the future means greater growth potential of the company. Also, there is a company that has introduced an AI-enabled tool that measures the effect of meetings and makes remarks such as there is redundancy or there are many errors. If you can streamline everyday meetings and business flows using a first-line tool, employees can spend more time for the future to enhance the growth opportunities of their company.

## 3

### Activities of Audit and Supervisory Committee and Nomination and Compensation Committee

**Motoyama:** ITFOR formulated the Audit and Supervisory Committee in 2015 and the Nomination and Compensation Committee in 2021. Could you explain their major activities in fiscal 2023?

→ See P.66 [ Organization chart of corporate governance ]

**Sato:** The Audit and Supervisory Committee runs meetings one to three times a month with the cooperation of the Internal Audit Office and advises from the audit corporation that is the accounting auditor of the Company.

There are differences between before and after the COVID-19 pandemic. Before the COVID-19 pandemic, we had many opportunities to talk with people of the Internal Audit Office including face-to-face conversation. But recently, online conferences have increased significantly, so that we have less opportunities to exchange information on everyday small things, although we discuss things to be discussed. I have talked to Mr. Motoyama about this, but I think we should have more face-to-face discussions.

**Koizumi:** I have been thinking small talk is very important, as Mr. Sato has felt, considering that the Audit and Supervisory Committee observes properness and adequateness of internal control and business operation of the ITFOR group. This reminds me of the butterfly effect—a small change resulting in large differences. That is to say, small thing mentioned in a conversation sometimes prompts us to find a risk or make investigation, leading to the prevention of risks from materializing. Providing a time frame for free talk may be effective even in an online conference.

**Motoyama:** I think that is a very important perspective. We will work on this problem with speed.

**Sato:** As for the Nomination and Compensation Committee, Mr. Koizumi and I were concerned about the way the compensation for Director was determined, which was a black box at that time. So, we proposed that the Nomination and Compensation Committee should be organized. We proposed that the committee should also discuss the introduction of ideas such as performance-linked compensation and promotion of employees to Directors. I think it is a very good thing that we now have a place for such discussions. Meetings are currently held

several times a year, but I think we may need to consider increasing the frequency of meetings.

**Koizumi:** The governance code stipulates that the compensation for top management should be an incentive that reflects medium- to long-term company performance and risks and encourages them to exercise sound entrepreneurship. The Nomination and Compensation Committee of the Company deliberates the skills matrix of Executive Officers, candidates of Directors, and performance evaluation for promotion, and the committee also started deliberation on a performance-linked stock compensation system last fiscal year. These efforts are improving the compensation system every year toward a desired form.

**Abe:** I think the committee is carrying out superb deliberation with very high transparency. On the other hand, we have too many parameters as the result of seeking accuracy, and this makes compensation decisions practically very difficult. As we are currently trying to improve this issue, we may be able to improve transparency and objectivity by segregating elements that cannot and will not be quantified.

**Motoyama:** I am very grateful to you all for operating different committees with transparency. As Mr. Sato pointed out, I think now is the time to move ahead to the next stage. Let's provide our opinions so that committee members can have prior consideration on the key agenda items and the frequency of meetings.

## 4

### Ways of governance for the growth of ITFOR into the future

**Sato:** The period of the new medium-term management plan started from fiscal 2024. In the formulation of this medium-term business plan, we first described the future of the Company ten years ahead, and then backcast from there to formulate the plan. I think this is a very good way. Also, we involved middle management and younger people in many discussions because we will not be in the Board ten years after. The medium-term business plan formulated in this way clearly describes how we want the Company to become in ten years and what we will do for the coming three years to achieve that. I think that we should first work to accomplish this medium-term business plan, and our effort will lead to the continuous growth of the Company into the future.

Also, I want that we, outside directors, and inside Directors will maintain a sense of tension in a good way. This may sound harsh a little, but outside directors must have the role of checking, and inside Directors must work to grow the Company under the division of different management roles and mutual checking.

**Koizumi:** I think managing a company is similar to driving a car. In the management environment, there are sudden events such as a sharp curve and cliff. In such events, we slow down by applying the brakes at the appropriate timing. Governance has the function similar to brakes in the first place. But governance also needs to have the function of the accelerator because you cannot drive a car with only brakes. I think it is very important to ensure that the brakes and accelerator can be applied adequately.

With compliance, laws, and regulations getting increasingly severe and common practices ever changing, I think it is very important that the Directors and members of the Audit and Supervisory Committee have adequate knowledge. A place for constantly studying and sharing information on matters changing constantly is very important for governance.

**Abe:** Continuing with the metaphor of Mr. Koizumi, you cannot drive a car suddenly; you must practice. If future Directors, do not learn what the Board of Directors does, they may get stranded. We can hand over our roles to candidates of Directors seamlessly if they learn about the Board of Directors and the core part of management in an early stage.

## 5

### Things expected of ITFOR

**Motoyama:** Today, your diverse opinions and comments made this opportunity very valuable and meaningful. Finally, can I hear what you expect from ITFOR?

**Koizumi:** I am researching companies in which employees are said to be happy, and to date, I visited such companies in 63 countries. According to Professor Ed Diener of the University of Illinois, companies with high levels of employees' happiness exert productivity that is 31% higher, sales that is 37% higher, and the creativity or innovation that is

three times higher compared with companies with low levels of happiness. In the interviews of employees of happy companies that I visited, all interviewees were smiling and said that they were happy when they went to work on Monday. Actually, companies with happy employees have lower turnover rates and their business performances are rising. I wish ITFOR will also become a company in which employees take their duties as their own projects with joy.

**Abe:** I think so, too. I think that solutions that ITFOR offer are valuable businesses that cannot be replaced by AI or other high technologies. And, because the industry that the Company belongs to does not require much capital investment, the important thing is how we will foster talents. The Company is working to enhance employees' well-being and improve work environment with the strong leadership of President Sato. I also feel happy when I see these activities.

**Sato:** With solid business bases in different regions and the ability to network local people, ITFOR will continue to be a company necessary for society in this era of population decline of this nation, in which enterprises are having a hard time surviving. The most important thing for stockholders including shareholders, investors, and employees is continuing to be a company that is necessary for society. I myself as a Director must consider this point deeply and seriously, and wish the Company will grow larger responding to social expectation, and will have 100th anniversary after about 50 years from now.

**Motoyama:** Thank you all for joining this session today.

