



Enhancing the Effectiveness of Governance to Achieve Further Improvement of Corporate Value

“ How would you evaluate the Company’s governance system and management? ”

Shibuya Although I have attended the Board of Directors’ meeting only once, I have an impression that the meeting has an open atmosphere that encourages free and vigorous discussions, so members were engaged in very lively exchange of views.

Oida That’s right. Partly because many of us have served as outside directors of the Company for a long time, we can make recommendations based on our understanding of the Company as well as our own experiences. Internal officers, including the President, who chairs the board meeting, always seriously listen to recommendations from outside directors. As such, unreserved discussions take place at meetings of the Board of Directors.

Shimizu Since we can obtain accurate answers to every question, I presume that careful preparations are made for board meetings.

Nomura The Company has devised the ways of providing us with information in advance of the meetings. I think this indicates that the Company wants to ensure that outside directors understand the content of the meetings. This also reflects the Company’s recognition that if we have deeper understanding, it should lead to more in-depth discussions.

Oida In addition, the Company has secured the diversity of outside directors by appointing individuals of various age groups and genders. These members include a manager, lawyer, accountant, and other professionals having diverse skills in their respective fields.

Shimizu I have been engaged in overseas business at an automotive parts manufacturer for nearly 60 years. Taking advantage of this background, I can make many suggestions to the Company, which attentively listens to these suggestions.

Nomura I dare say about the issues with the Board of Directors, there may be room for enhancing its function to ensure that a board meeting will not be just a “venue for approval” but be a “venue for discussion.” For example, I regret that we could have

engaged more deeply in the formulation of the Medium- to Long-term Management Targets “SUMINOE GROUP WAY 2022-2024-2027” (hereinafter SGW). Next time and onward, I hope that we outside directors will be deeply involved in formulating such targets from the initial stage.

Oida Regarding information provision in advance of the meeting, I would like to request that such information be given to us at an earlier time. Especially for important subjects, I would appreciate it if we could have an opportunity to receive prior explanation through an online meeting or other means. In the present situation, it is difficult to say that enough time is secured to well consider such subjects before the meeting. To enable us to participate in the discussions after deepening our understanding of the contents, I hope some improvements will be made.

Nomura In terms of understanding of the Company’s businesses, it was greatly helpful to be able to visit the Nara Factory after its reorganization in fiscal year ended May 2023. In a manufacturing setting, what is important is to increase production efficiency while implementing thoroughly safe operation. Through the aforementioned visit, I realized that the Group factory has a high level of safety awareness. I hope that the Company will continue to offer us opportunities to observe manufacturing sites firsthand.

Oida We are given regular opportunities to better understand the Group. By actually seeing products and production sites, we can get a clearer image and engage in discussions in greater detail. I know that some other companies hold events other than the board of directors’ meetings for exchanging views between the president and outside directors. In many cases, such events are designed to help both the president and outside directors to comprehend each other’s views on various matters, including matters that are difficult to discuss when internal officers are present—for example, each other’s level of understanding governance and ways of recognizing the business environment and the medium- to long-term strategies.

Shibuya It is true that, during the Board of Directors’ meetings, occasionally we only have time to plainly express our ideas. However, at informal sessions other than board meetings, we can further deepen discussions without being concerned about reaching a conclusion. It is therefore desirable for the Company to increase such opportunities in the future.

“ What do you think will be the future challenges for the Company? ”

Shimizu As pointed out when the effectiveness evaluation was made for fiscal year ended May 2023, I think that the Company’s

efforts to establish and implement a succession plan are only half done. The Company must define the skills required for a successor and create a foundation for nurturing personnel who have these skills, on a long-term basis.

Oida Some have the idea of developing professionals by letting employees accumulate experience in a single business segment. However, I believe that it is important to broaden employees’ perspectives, by having them experience working at a Group company in Japan or overseas when they are in their 40s or so, to enable them to obtain skills and knowledge that differ from those they have acquired through their previous work.

Shimizu With factories located around the world, the Company is engaged in production and sales on a global scale. At the same time, the Company has been vigorous in conducting overseas investment. To comprehensively manage these strategies over a long period, it is necessary to formulate human resources strategies, including a succession plan taking into account aging members of the Board of Directors.

Shibuya I think that the key is to have as many successor candidates as possible. As for qualities and skills, generally there are minimum requirements for successors. However, corporate business strategies will vary according to the times. I recommend the Company having many candidates to create room for selecting the right person at the right time. In addition, if the Company has nurtured diverse candidates, it will be able to establish a Board of Directors comprising individuals with a broad range of knowledge and skills.

Nomura In terms of accumulating experience, it may be a good idea to have executive employees make a presentation on a discussion theme at a meeting of the Board of Directors. Although the number of participating employees should be limited, candidates for future managers can witness what kind of discussions are being held among officers. After receiving explanations about the theme, these candidates will work together with directors to answer our questions. Such activities will provide them with an opportunity to build experience and a mindset to become a member of the next management.

“ What do you expect of the Company in the future? ”

Shibuya My impression is that although the Interior Fittings and Automotive Textile businesses tend to be vulnerable to economic swings, the Company runs relatively stable businesses with a firm base of operations. On the other hand, I think there is a limit to

Round-Table Discussion among Outside Directors

expanding its market share in Japan. I expect to see further development of overseas businesses, on which the Company has already focused its efforts. In addition, I hope that overseas businesses will be utilized for human resources development. When I was transferred to a company in a foreign country, I keenly realized that I had to take on greater duties and responsibilities on my own than I did in Japan. I believe that experience in working overseas offers a great opportunity for personal growth of employees.

Nomura There may be examples of young employees who are successfully working in Japan after having improved their business skills through experience in working at an overseas Group company.

Shimizu Well, the reverse situation is also conceivable. We can imagine that employees of an overseas Group company come to Japan. While accumulating working experience in our country, they will learn about the Group's spirit, which will be brought into their countries when they return home. In June 2023, a new Group Philosophy and logo were formulated. Taking this opportunity, the Group's spirit, along with its new Philosophy and logo, should be known to all Group employees not only in Japan but also in overseas countries.

Oida As measures to prevent the loss of opportunity due to shortages of qualified personnel, I can cite M&A, let alone in-house human resources development. I recommend the Company to continue to proactively conduct M&A when required for its businesses.

Shibuya To attract superior human resources, it is important to enhance name recognition. As compared with B-to-C companies, B-to-B enterprises, including the Company, tend to be less known to the general public. For this reason, we should disseminate the Group Philosophy and other various kinds of information to outside the Company. I think that such initiatives will also be instrumental in securing human resources and revitalizing the Company.

Shimizu I agree. Young employees these days will be highly motivated to work if they see the Company resolving social issues

and contributing to society. I thus hope that the Company will more widely demonstrate the fact that it is fulfilling its social responsibilities.

“ What kind of initiatives would you like to work on toward further enhancement of corporate value? ”

Shibuya I'm sure that the Group is built on a solid foundation and has excellent products and human resources. In order for the Group to continue to produce products that are conducive to society, human capital, particularly its "diversity," is the essential element. Since we don't know where growth opportunities lie in the future, I believe it is extremely important to hire and secure diverse human resources to seize such opportunities.

Oida At present, the greatest challenge for the Company is to achieve "a market capitalization of tradable shares of at least 10 billion yen" to meet the continued listing criteria for the Prime Market. I strongly recommend the Company to focus its efforts on M&A initiatives as its growth opportunities in order to increase investor expectations for the Company. As a certified public accountant, I will make financial suggestions.

Shimizu The Company's subsidiary in the United States, Suminoe Textile of America Corporation (STA), has been in the red for many years. However, it has finally become almost certain to achieve profitability. After visiting STA for an on-site inspection, I had an impression that its deficits may be caused by inaccurate cost accounting. If income is stabilized, external impact due to fluctuations in foreign exchange rates or other factors can be absorbed to some extent. Although its cost management has now been improved, I will continue to pay close attention to the U.S subsidiary to prevent it from returning to the same state.

Nomura Needless to say, single-year income is important, and profitable management should be continued. On the other hand, I would like to emphasize the importance of having long-term perspectives. The SGW targets have been established for the purpose of the Company's growth. With this in mind, all of top management and all employees should take action. Together with other outside directors, I will strive to help the Company make right business decisions for sustainable growth while always being aware of this fiscal year's objectives in working toward the SGW.



Messages from Outside Corporate Auditors



Atsuhiro Sonoda
Outside Corporate Auditor

Performing audits to safeguard investor interests from the standpoint of a financial expert

Ever since I joined Takashimaya Co., Ltd., I have experienced various duties, primarily in the accounting and financial fields. In February 2023, I obtained a tax accountant license. I understand that my roles are to check the legitimacy of decisions made by the Company, to bring out the strengths of each business to improve management, and to monitor whether investor interests are realized or not.

Since the Company has many Group companies in Japan and overseas, one of its crucial challenges is to establish a governance system at each Group company. I believe that it is vital that Group auditors share governance-related issues of each company and hold discussions to find radical solutions in terms of Group governance at their liaison meetings, held several times a year. These auditors should also work to increase opportunities to provide advice from the investor's perspective.

Meanwhile, considering overseas business expansion aimed at further growth, it is indispensable to secure human resources with higher skills regarding global strategies. Much of the Group's income derives from the United States and ASEAN countries. In this sense, I consider it important to find and appoint appropriate individuals who can advance opinions about management from a global perspective, from among local executives of major overseas Group companies. Since I myself frequently make contact with investors, I will contribute to the Company as an "activist auditor" to improve shareholder value from the viewpoint of investors.



Takafumi Katayama
Outside Corporate Auditor

Contributing to further improvement in transparency, capitalizing on my expertise cultivated through textiles-related businesses

For many years, I have been engaged in trading of fiber raw materials and textile products at Marubeni Corporation while overseeing sales strategy formation, governance improvement and internal control of Marubeni Group companies. I have also conducted business management as President of a major Marubeni Group company. As an independent outside auditor, I believe that I can be actively involved in better management and administration of the Company.

The Company secures sufficient coordination between the full-time corporate auditor and the accounting auditor, as I can see them exchanging candid views and sharing information. Currently, I am working in coordination with the Internal Auditing Department via the full-time corporate auditor. Going forward, I hope I will be able to have more opportunities to talk with the Department members. I can fully appreciate the appropriateness of the Board members' business execution. I think, however, if outside directors have a deeper understanding of the Company's activities, it will lead to more constructive discussions at board meetings. I would also like to point out an issue regarding the development status of governance policies of respective Group companies in Japan and abroad. It is important to establish a governance policy at a certain level or above that is applicable across the Group while respecting the autonomy of each company.

To enhance the Company's corporate value, I will continue endeavoring to further increase the effectiveness of governance and ensure full compliance with laws and regulations. Moreover, I will work to improve transparency so that the Company will grow as an enterprise that earns greater respect in society.